



IETA Views on Auctioning

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Principles for Allocation

- Purpose of allocation is to distribute carbon scarcity to the economy
 - As equitably, predictably and efficiently as possible
- Institution of property rights to carbon creates fungible value, but no new wealth
- Allocation process itself should not pre-determine market outcomes



Arguments Used in Favour of Auction

- Simplicity – IF designed right
- Equal access to allowances
- Engages emitters in the ETS
- Transparency
- Aligns with 'polluter pays principle'
- Addresses concerns over 'windfall' profits
- Removes "politics" from allocation



Arguments Used Against Auction

- Appears as a tax unless costs passed on
- Payment up front places significant financial burden on companies
- Removes funds for investment from business
- Is government better at investment decisions ?
- Complexity of an auction that needs to be harmonized ?
- Could be vulnerable to
 - Manipulation and speculation
 - Price spikes and collapses
- Might have undesired effects on energy mix (security of supply)



IF there is to be auctioning it should

- Be open, transparent and simple
- The bulk of the proceeds must be recycled
- Long-term regulatory predictability
- Be periodic, timetabled and coordinated
- Cause no large distributive effects
- Be harmonised
- Be implemented gradually
- Take into account need for new investment



Conclusions

- Recycling of revenues should not be used to introduce new market distortions, but should be used to remove existing ones
- If introduced, auctioning must be introduced gradually, taking into account the level of development, especially scope, of the global GHG markets and concerns over competition