

## **Consultation launched 3 June 2009 by the European Commission on Auctioning of EUA's and EUAA's.**

### **Comments by Danish Ministries of Climate and Energy, Finance, Taxation and Foreign Affairs.**

6<sup>th</sup> July 2009.

#### Background

An inter-ministerial working group has discussed the consultation document "Technical Aspects of EU Emission Allowances Auctions" published by the Commission 3rd June 2009. Due to the short time frame combined with summer holidays, a formal Government clearing has not been possible. Neither was it possible to carry through a formal stakeholder consultation.

The following comments must be read in this context. More specific comments and more firm position statements may be submitted later.

We have chosen to submit our response in form of a paper, where the questions are handled in groups.

#### Comments.

As a general principle, Denmark emphasizes the need to balance revenue considerations on one side against easy, cheap, transparent and equal access to allowances for ETS companies on the other side.

- One of the main issues is the number of auctioning platforms and the degree of harmonisation - if more than one (Q 68, 69 and 85). Denmark can support one centralized platform in principle. If more than one platform emerges, these must be as harmonised as much as possible. A totally decentralized model seems to entail serious risk of Member States playing against each other and non-discrimination being lost.
- Early auctions (Q 1, 15 and 76): Denmark supports early actions in principle, as they would tend to reduce risk for ETS companies. Exactly how early would have to be adjusted to what is possible in practice. The regulation will be ready mid-2010. It will take time to establish auctioning platform(s), and the first auctions need to be announced some time in advance. EUAA's should be available for aviation in 2012. The regulation should be consistent with this (transitional) time problem.
- Spot/futures (Q 2, 3, 4 and 77): No position on this subject at this point in time. The question of futures is linked to the questions on early auctions.
- Frequency of auctions. (Q 5, 7, 9, 10, 13, 16, 78 and 79): Too frequent auctions would put unnecessary administrative burdens on ETS companies, especially SME's and small emitters. Too infrequent auctions would create uncertainties and bottlenecks. A suitable compromise appears to be monthly or quarterly auctions with approximately the same number of allowances for sale at each auction. Aviation allowances may be auctioned at lower frequency due to the lower volume. Force majeure allowances could be auctioned in the following auction. Denmark does not have strong opinions on the auction time slot as long as it is kept within normal business hours.
- Optimal auction size (Q 6 and 8): See previous bullet.

- Avoiding auctioning at specific dates (Q 11 and 12): Keep free of public holidays and weekends as far as possible.
- Auction method (Q 17, 18, 19, 20, 21, 22, 23, 24, 25, 80, 81 and 83): Denmark can support uniform price auctions. This seems to balance revenue considerations against equity, especially in relation to SME's and small emitters.
- Direct/indirect bidding (Q 42, 43, 44, 45, 46 og 48): There should be no restrictions on who can bid as long as bidders comply with terms for pre-registration.
- Use of exchanges (Q 47): Should be allowed as long as compliance with regulation is secured.
- SME's and small emitters: (Q 50, 51, 52 and 53): Non-competitive bidding appears to be an unnecessary complication. Rather, the general regulation should be simple enough for SME's and small emitters to participate easily (cf. Q 49 and 54).
- Risk, collateral, fees, clearing and delivery (Q 33, 34, 35, 36, 37, 38 and 39): Denmark has currently no position on these subjects except that rules should be harmonized.
- Information (Q 14, 26, 27, 28, 29, 30, 31, 32, 55, 56, 57, 58, 59, 60 and 82): The Commission's proposal (cf. Q 58) on publication after auctions appears reasonable. Currently no position on the other issues.
- Requirements on auctioneers (Q 71): The Commission's proposal appears reasonable.
- Fees (Q 72): Fees should be kept low and comparable to fees on the secondary market.
- Auction monitor (Q 61 and 62): An auction monitor appears as a necessary institution to secure equal access to auctions and avoid abuse (cf. Q 63). An auction monitor would also help to create confidence in auctions in general.
- Enforcement and sanctions (Q 64, 65, 66, 67, 74 and 75): In principle, Denmark supports harmonised enforcement rules and sanctions. However, a general scrutiny reservation is raised with respect to sanctions (depending on the nature of these).
- Aviation allowances (Q 76-86): There appears to be no need for special rules for auctioning of aviation allowances, except when this is a direct consequence of the difference between EUAA's and EUA's and the lower volume of EUAA's.
- Transition period (Q 70): As a general principle, establishment of a transition period is undesirable, as this could be used as an excuse to make a second-best regulation from the outset.