Flexible auction supply of allowances:

Main outcomes of expert meeting on 2 October 2013

The Commission hosted on 2 October 2013 an expert meeting on an additional option, which emerged from the consultation on the options for structural measures to strengthen the EU Emissions Trading System (ETS), of a reserve mechanism to render the auction supply of emission allowances more flexible. The agenda was focused five questions, which were defined in a way to encourage a structured debate.

Welcome remarks were given by the Commission and an introductory presentation by a representative of Tschach Solutions/ICIS. The panel of experts was comprised of experts from industry, power generation, finance, research, market analysis, non-governmental organisations and Member States. They participated in their personal capacity.

The conclusions were as follows:

A rule-based approach that makes auction supply more flexible is seen as part of the necessary structural reform of the EU ETS. The general view was that the objective behind more flexible auction supply is to improve efficiency in the market. More precisely, the participants often referred to inter-temporal efficiency, to address the current situation where the diluted short-term carbon price signal is expected to be followed by an unnecessarily higher price in the mid- and long-term, and possible higher cost in total. There was some hesitation about the mechanism, primarily because of possible data constraints to set the triggers at appropriate levels.

Three types of triggers were discussed: volume-based (e.g. based on surplus), output-based (e.g. based on GDP) or price-based. There seems to be a clear preference for volume-based triggers, specifically based on thresholds related to the cumulative surplus of allowances. Unlike output-based triggers, they can capture changes both in output as well as due to impact of other policies delivering abatement (renewables and energy-efficiency). The triggers should not be based on the carbon price.

In terms of data, the mechanism should be based on actual historical data, such as verified emissions, and not on forecasts.

Another important conclusion was that the mechanism should not be overly complicated in general.

What is clear is that the trigger values should ensure that the mechanism applies in cases of large market imbalances only, and not whenever there is a minor surplus in the market.

Regular review of the triggers is needed, but not too often to ensure market certainty. Two concrete periods that were mentioned were every 5 years or once per 8-year trading period.

The mechanism should avoid unnecessarily further destabilising the market by following large changes in the demand by large changes in the supply. Hence, there should be limits on the amount of adjustment that is possible in a year.

There seems to be a general preference for having the same "mirror" rules apply for putting allowances into the reserve and releasing them from the reserve. Nevertheless, some participants acknowledged that there may also be good alternative approaches.