



Allocation: Free allocation and auctioning Experiences from the EU

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Content

- Allocation options
- Phase I (2005-2007)
- Phase II (2008-2012)
- Phase III (2013-18/20?)



Allocation

- The basic questions are ...
 - ... how many allowances ...
 - ... go to whom ...
 - ... how and when?
- Options for allocating allowances
 - Free allocation
 - Benchmarking
 - Grandfathering
 - Compensation
 - Auctioning
 - Selling at fixed price



Allocation in the EU ETS

- Macro level: Directive sets criteria (Annex 3)
 - Phase II: Trend of European Commissions to harmonise allocation - an already de facto harmonisation on macro level
 - Phase III: process launched for future of EU ETS
- Micro level: Directive sets maximum level for auctioning - other details to be decided by Member States
 - Phase I: 5% of total allocation
 - Phase II: 10% of total allocation
 - Phase III: ?



Micro-level Allocation

Phase 1

- Free allocation: 99.88%
- **Auctioning** share: 0.12% of total ET-budget in EU ETS (Ireland and Hungary)
- Main method: **Grandfathering** (historic emissions)
 - base periods between 1997 to 2003 (or averages)
 - exemptions / case of hardship and exclusion of the lowest year's emissions
 - almost all MS use growth factors (not Germany)

Phase 2

- Free allocation: 96%
- **Auctioning** share: about 4% (more countries)
- Main method: **Grandfathering**
 - historic emissions including 2005 in base period
 - less exemptions any more
 - differentiation between power sector allocation and other industry (power sector is cut down to reduce windfall profits)



Micro-level Allocations (cont.)

Phase 1

- Other methods: **Benchmarking**
 - Allocation based on average specific emissions in Denmark, LT, NL, FR, DE (choice!) (benchmarking)
- Special provisions for Cogeneration and other clean technologies, for process-related emissions, early action

Phase 2

- **Benchmarking** only in some countries (UK, Belgium, Spain, Germany) for incumbants
- Often growth factors and efficiency factors are included in formula and compliance factor to match micro and macro allocation
- Sectoral differentiations between energy (power) and industry sectors common to address „windfall profits“
- Special rules for Cogeneration and process-related emissions as in phase I.
- Less use of early action (only some of new MS)



New Entrants

Phase 1

- New entrants get free allowances from New Entrant Reserves
- Sweden only country in which new firms in energy sector must buy allowances
- Some Member States base allocation on Benchmarking:
 - Best available Technology (BAT) multiplied by specific emissions for homogeneous products and projected output
 - fuel and technology specific BAT-Benchmarks e.g. Germany.
- ex-post adjustment based on actual output data → from EU Commissions prohibited (Germany sues against decision and wins)

Phase 2

- Same as phase 1
- Same as phase 1
- Same as phase 1.
- Benchmarks are multiplied by standard load factors or projected output in some „new MS“, no ex-post adjustments anymore!



New Entrants (cont.)

Phase 1

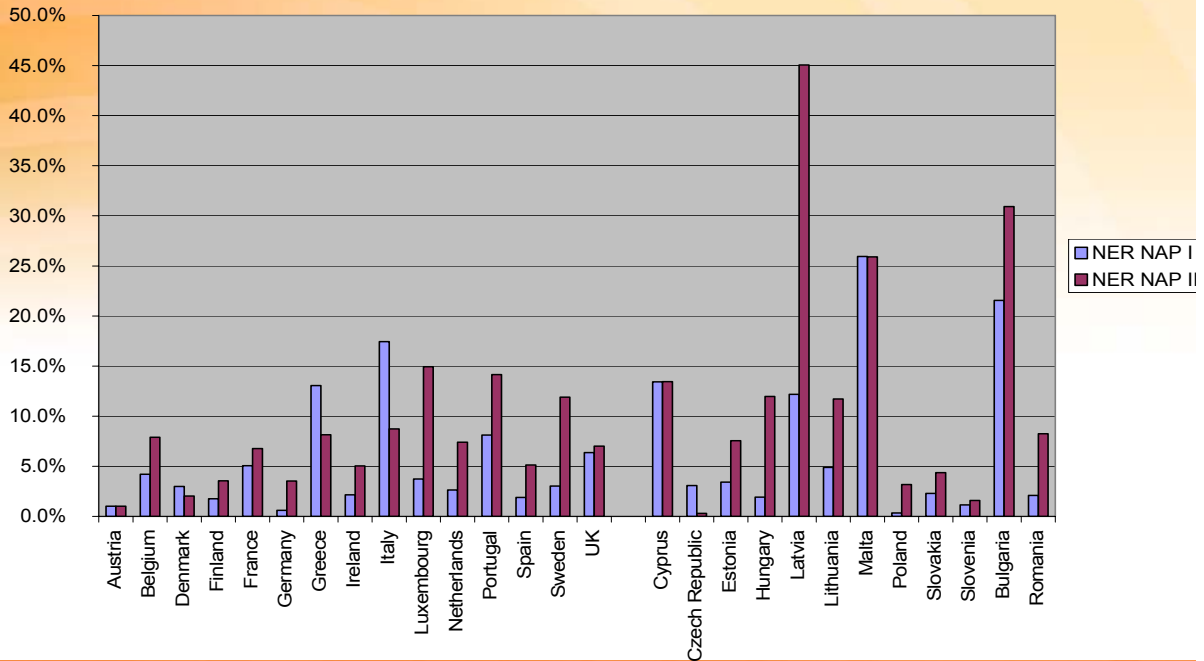
- Usually exclusion of compliance factor (not in Spain)
- New Entrant reserves vary substantially in size
- Reserve too small:
 - most MS allocate on first come-first served basis
 - others buy on the market e.g. Finland, Luxembourg, France, Germany
- Reserve too large:
 - Sell/auction excess on the market (Austria, UK, Ireland),
 - take out of the market (Germany)

Phase 2

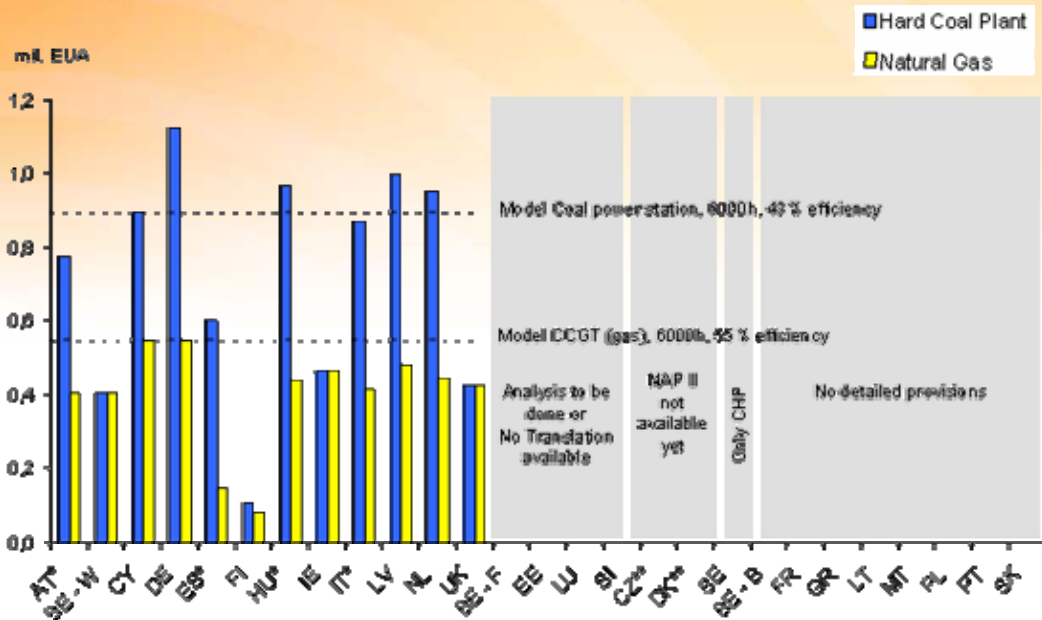
- Same but some more countries use compliance factors (e.g. UK)
- Same as in Phase 1
- Same as in Phase 1 but more countries buy on the market (e.g. Austria)
- Same as in Phase 1
 - but some countries will bank excess permits
 - Germany will sell permits



New Entrant Reserves



Comparison of new entrant allocation





Lessons learned

- The devil is in the detail and a fair free allocation is not possible!
- Any late changes will have unintended implications somewhere else -> suit against Commission's decision in regard to ex-post rules
- Allocation decisions take much more time than expected which causes uncertainty in the market:
 - Too many options in Germany (around 60)
 - Many request for reviews / legal cases
 - Case of hardship needs extensive investigations
- Free allocation leads to massive windfall profits
- Auctioning
 - Phase II: 4 % of EUAs,
 - higher compared to Phase I (0.12%) but far from 10% (maximum set by Directive)
- New Entrants
 - Free allocation based on benchmarks and standardised load factors but substantial differences across Member States for similar plants!
 - New entrant reserves (144 Mill. EUAs p.a. compared to expected shortage 244 Mill. EUAs)
- Trend of EU Commission to harmonise rules (already de facto harmonisation on macro level for Phase II), process launched for future of EU ETS (Phase III)... more auctioning likely

