



Ministry of Infrastructure and the
Environment

Flexibility in the ESD and non-ETS-sectors CEPS November 16

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18 November 2015



Is flexibility necessary?

- Council Conclusions
- Distribution not cost-effective: based on relative GDP per capita.
- Only targets for richer MS relatively adjusted to reflect cost-effectiveness in a fair and balanced manner.

- AEA transfers between Member States should be supported and encouraged to increase cost-effectiveness of the collective EU effort.
- For this transfer 3 conditions should be met:
 - A market for transferring AEA's;
 - Guaranteed supply of AEA's availability to transfer;
 - A simple system



Circumstances a MS will (or will not) sell or buy?

- Why sell?
 - Financial contribution to government budget
 - AEAs have no value if not used or with limited banking within period 2020-2030
- Why not sell?
 - Uncertainty with regard to achieving own target
- Why buy?
 - Cheaper than domestic reduction options (short term)
- Why not buy?
 - Political resistance against transfer of budget to other MS
 - Domestic reductions more cost-effective (long term)
 - Who pays the bill (government or private actors)?



Auctioning

- Mandatory to guarantee a minimum level of supply
- limited % of the total EU budget of AEAs
- (bi)annual basis
- provide a market price and increase transparency with regard to supply and demand.
- lower the barriers for Member States to engage in further AEA transfers through:
 - bilateral trade or other transactions
 - voluntarily adding surplus budget to the annual auction supply



How could auctioning work in practice?

- Set aside a small part (e.g. 1% per year) of total budget of AEAs in order to sell at an annual auction
- Use experience with auctioning ETS allowances
- Type of auction can be like ETS auction using the same infrastructure
 - uniform price
 - closed bid
 - single round
- Transfer of budget in the European Registry
- Use reserve price to avoid low price (based on ETS price)
- If auction is cancelled, budget will be distributed among MS
- price at the auction can help kick-start further (bilateral) trade



Example : Situation before auction

- MS A has budget of 100 Mton (-1% set aside = 1 Mton) = 99Mton
- MS B has budget of 300 Mton (-1% set aside = 3 Mton)=297Mton
- MS C has budget of 500 Mton (-1% set aside = 5 Mton)=495Mton
- MS D has budget of 100 Mton (-1% set aside = 1 Mton)= 99Mton

- Total set aside available for auction is 10 Mton

- Minimum price is €10 per ton
- Auction with uniform price, closed bid and single round
- MS can put in one auction different bids with different volumes at different prices



Example (2) auction is successful

Auction

- MS A bids for 5 Mton for €50 per ton
- MS B bids for 0 Mton
- MS C bids for 10 Mton for €30 per ton
- MS D bids for 1 Mton for €100 per ton

At auction price of €30 per ton 10 Mton is sold;

- MS A pays €120 million ($1 \times 30 - 5 \times 30$) and receives 5 Mton (104Mton)
- MS B receives €90 million (3×30) and receives 0 Mton (297Mton)
- MS C receives €30 million ($5 \times 30 - 4 \times 30$) and receives 4 Mton (499Mton)
- MS D pays €0 ($1 \times 30 - 1 \times 30$) and receives 1 Mton



Example (3) auction is cancelled

Auction 2

- MS A bids for 5 Mton for €50 per ton
- MS B bids for 0 Mton
- MS C bids for 2 Mton for €30 per ton
- MS D bids for 1 Mton for €100 per ton

Auction is cancelled because total bids (8Mton) is lower than 10 Mton

- MS A receives 1 Mton
- MS B receives 3 Mton
- MS C receives 5 Mton
- MS D receives 1 Mton

Alternatives possible



What does it mean for MS?

- Small part (e.g. 1%) of total EU budget of AEAs is not distributed among MS, MS have the option to add excess budget to the auction
- Auction revenues distributed according to MS share in the total EU AEA pool
- Great diversity among MS with regard to costs of measures; auction price will be somewhere in the middle
- MS who face high costs of measures can avoid these by buying cheaper AEAs at the auction
- For MS where costs of measures are relatively low, the auction revenues outweigh the costs of national measures
- Everyone wins