



AUCTIONING

Auctioning of Emission Allowances in Germany Periodical Report: Early Auctions and Auctioning in Aviation 2012

IMPRESSUM

German Emissions Trading Authority (DEHSt)
at the Federal Environment Agency
Bismarckplatz 1
14193 Berlin

Phone: +49 (0) 30 8903 5050

Fax: +49 (0) 30 8903 5010

Internet: www.dehst.de/EN

E-mail: emissionstrading@dehst.de

Status: 12/2012

Responsible Editors: Section E 2.3

CONTENT

- Early Auctions and Aviation Allowances Auctions in 20125
- 1 Current Developments6
- 2 Market Surveillance Report by the HÜSt6
- 3 Auctioning the 3rd TP and Aviation.....7
- 4 Bidder Participation.....7
- 5 Auctions and the Secondary Market9
 - 5.1 Trading Volume and the Secondary Market.....9
 - 5.2 Clearing prices and price development on the secondary market.....9



EARLY AUCTIONS AND AVIATION ALLOWANCES AUCTIONS IN 2012

The European Commission, together with the EU Member States, decided in July 2011 to auction emission allowances allocated to 2013 and 2014 early in 2012 (so-called early auctions). The aim was to enable a smooth transition between the trading periods. The early auctions included 120 million emission allowances for stationary activities of which approximately 23.5 million allowances were allotted to the Federal Republic of Germany.

Between October and December 2012 the auctions were held weekly on the European Energy Exchange (EEX) spot market in Leipzig (see Info Box below). Thus the early auctions of the third trading period were conducted in parallel with the ongoing German auctions of the second trading period on the EEX. The German Emissions Trading Authority (DEHSt) at the Federal Environment Agency has commissioned the KfW banking group to act as the auctioneer for allowances on behalf of the Federal Government. Further updated information on the third trading period auctions can be downloaded from the [EEX website](#). Reports on the second trading period auction results are available on the [DEHSt auction website](#). The regular reports on auctioning in the third trading period will also be available on this website.

Info Box: German early auctions of the third trading period („Early Auctions“) and 2012 aviation allowances (EUAA) auctions

Between October and December 2012, 23.531 million emission allowances of the third trading period (EUA) were auctioned at the EEX on a weekly basis. In addition, 2.5 million EUAAs for aviation were auctioned this year in emissions trading. The [Auction calendar 2012](#) is available from the EEX website. The following overview provides the core data of the two auction segments:

Auction segment	„Early auctions“
Auction product	EUA third trading period spot contracts
Period	26.10.2012 to 14.12.2012
Auction frequency	Weekly (Fridays, 09:00 to 11:00 hours)
Auction volume per auction	3 million EUAs (2.531 million EUAs on 14.12.2012)
Bid volume	500 EUA
Auction mode	Single-round, uniform-price procedure with a closed order book
Auction segment	Aviation emission allowances
Auction product	EUAA 2012 spot contracts
Auction date	31.10.2012 (09:00-11:00 hours)
Auction volume	2.5 million EUAAs on 31.10.2012
Bid volume	500 EUAA
Auction mode	Single-round, uniform-price procedure with a closed order book

1 CURRENT DEVELOPMENTS

EEX has published the 2013 auction calendar:

In agreement with the European Commission and the participating Member States (for the European common platform) and with the German authorities (for the German platform), EEX published the 2013 auction calendar for the third trading period of EU emission allowances (EUAs) on 11/12/2012. Detailed information is available from the [Auction calendar 2013](#).

The following overview provides the core data of the German auctions at the EEX in 2013:

Auction segment	Regular auction of the third trading period
Auction product	EUA third trading period spot contracts
Period	11.01.2013 to 13.12.2013
Auction frequency	Weekly (Fridays, 09:00 to 11:00 hours)
Auction volume per auction	4.02 million EUAs (2.01 million EUAs in August; 3.67 million EUAs on 13.12.2013)
Bid volume	500 EUA
Auction mode	Single-round, uniform-price procedure with a closed order book

The European Commission has announced the deferral of emissions trading for international flights:

The European Commission has proposed a temporary deferral of duties under the European Emissions Trading System for flights between the EU and third countries from 2010 to 2012 ([Information from the EU Commission](#)) to support current negotiations in the International Civil Aviation Organisation (ICAO) on global measures to reduce aviation emissions. The Council and the European Parliament have to decide on the proposal using the co-decision procedure. Requirements for monitoring, reporting and surrendering remain valid for flights within the European Economic Area.

If no agreement on a global market-based mitigation measure for aviation is achieved by autumn 2013 (date of the next ICAO General Assembly), the obligations will apply from the 2013 reporting year as before. Auctions scheduled for 2012 were therefore suspended at short notice and will be rescheduled probably in the first quarter of 2013. This shift was inter alia necessary to be able to adequately calculate the new (or adapted) volumes arising from the Commission's proposal and await a decision on the proposal.

2 MARKET SURVEILLANCE REPORT BY THE HÜST

In order to guarantee above-board market activities on the EEX free of manipulation, continuous surveillance is conducted by an independent Market Surveillance Office (Handelsüberwachungsstelle, HÜSt), as required under German law. HÜSt reports to the DEHSt on the results of its surveillance activities through regular internal reports. HÜSt reported on auctions in the October to December period of 2012 as follows (excerpt):

“The emission allowances auction took place at the EEX on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety in October, November and December of 2012 according to the defined procedure and without any disturbances. For this period, the Market Surveillance of the EEX could not detect any irregularities and especially no behaviour of bidders that was targeted at manipulating the auction price.”

3 AUCTIONING THE 3RD TP AND AVIATION

From October to December 2012, a total of 23,531,000 emission allowances (EUA) of the third trading period with a total value of €166,178,670 were auctioned. This resulted in a volume-weighted average price per allowance of €7.06. The following table provides an overview of the most important auction indicators on individual dates during the reporting period.

Tabelle 1: Early auctions - Overview 2012

Date	Contract	Volume	Cover ratio	Bidders	Bidders successful	Price	Revenue
26/10/2012	EUA spot 3rd TP	3,000,000	7.67	15	8	€7.54	€22,620,000
02/11/2012	EUA spot 3rd TP	3,000,000	4.83	15	4	€7.96	€23,880,000
09/11/2012	EUA spot 3rd TP	3,000,000	3.63	16	5	€8.20	€24,600,000
16/11/2012	EUA spot 3rd TP	3,000,000	1.69	17	13	€6.75	€20,250,000
23/11/2012	EUA spot 3rd TP	3,000,000	3.07	15	8	€6.75	€20,250,000
30/11/2012	EUA spot 3rd TP	3,000,000	2.60	13	7	€6.23	€18,690,000
07/12/2012	EUA spot 3rd TP	3,000,000	3.51	12	5	€6.42	€19,260,000
14/12/2012	EUA spot 3rd TP	2,531,000	2.29	10	7	€6.57	€16,628,670
Total		23,531,000	3.69*	14.1	7.1	€7.06*	€166,178,670

Source: EEX, DEHSt

*Volume-weighted average

In addition, 2.5 million emission allowances were auctioned for aviation (EUAA) in October for a total of 17,525,000 euros.

Tabelle 2: Auctioning of 2012 EUAAs

Date	Contract	Volume	Cover ratio	Bidders	Bidders successful	Price	Revenue
31/10/2012	EUAA spot 2012	2,500,000	1.82	6	5	€7.01	€17,525,000

Source: EEX, DEHSt

4 BIDDER PARTICIPATION

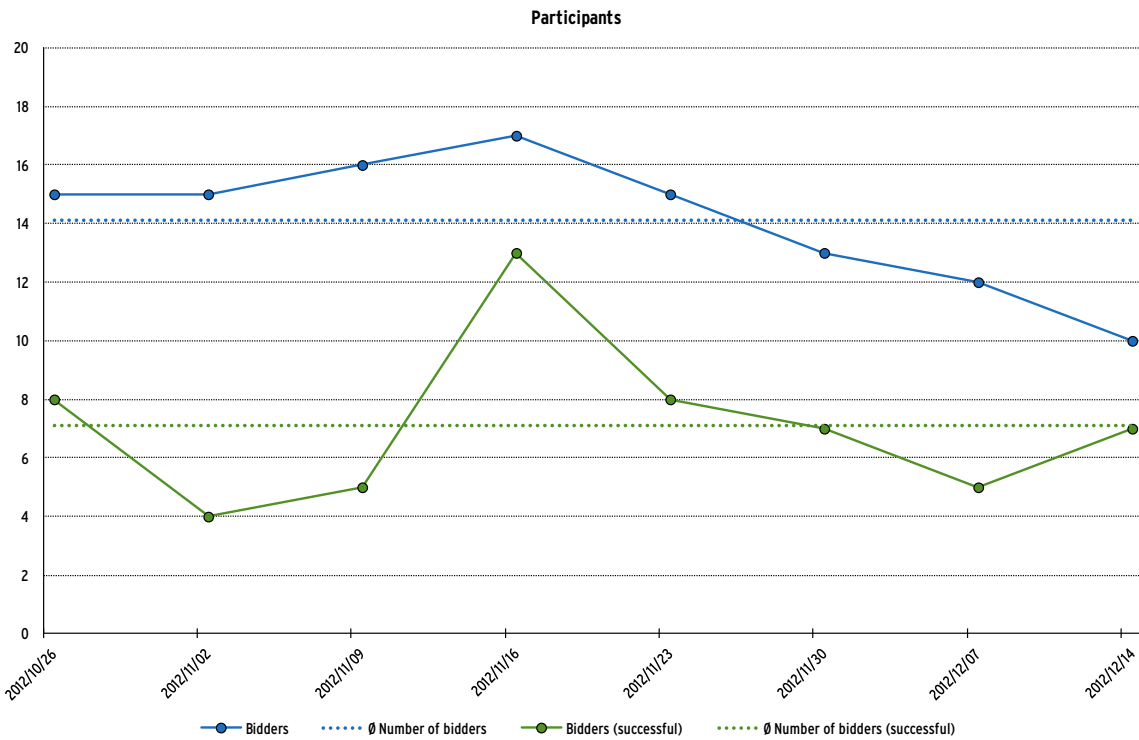
The average number of bidders across all eight dates of the early auctions was 14 and the number of successful bidders on average was 7. Bidder participation was thus slightly above that in the second trading period in the last quarter of 2012 (10 and 6). When comparing this to the low participation in the aviation auction of 31 October, it has to be noted that the usability of EUAAs is limited to aircraft operators. EUAs, however, can be used by all operators subject to emissions trading.

Info Box: Uniform Price Auction at the EEX

The German auctions at the EEX follow the uniform price procedure which is common practice throughout the European Union. It involves one round of bidding and a closed order book. This simple and robust procedure protects against market manipulation and will continue to be used for regular auctions during the third trading period and for aviation from 2013. The uniform price procedure means that all successful bidders pay the same price. The auction clearing price is determined by ranking all eligible bids, beginning with the highest bid, according to the bidding price.

In the event of equal bids, the bids are sorted by a random process. The volumes of the bids are aggregated starting with the highest bid until the volume of emission allowances on offer (e.g. 3 million EUAs) is reached. The bid price at which the aggregate volume of bids reaches or exceeds the offered volume of auctioned allowances determines the auction clearing price.

Bidders will thus be awarded their bid volume if their bidding price at least matches the auction clearing price. If a bid matches the clearing price exactly, the bidder may be awarded the remaining allowances which may be below the volume requested, depending on the bidding situation. If the bid from several participants matches the auction clearing price exactly, the above-mentioned random process applies.



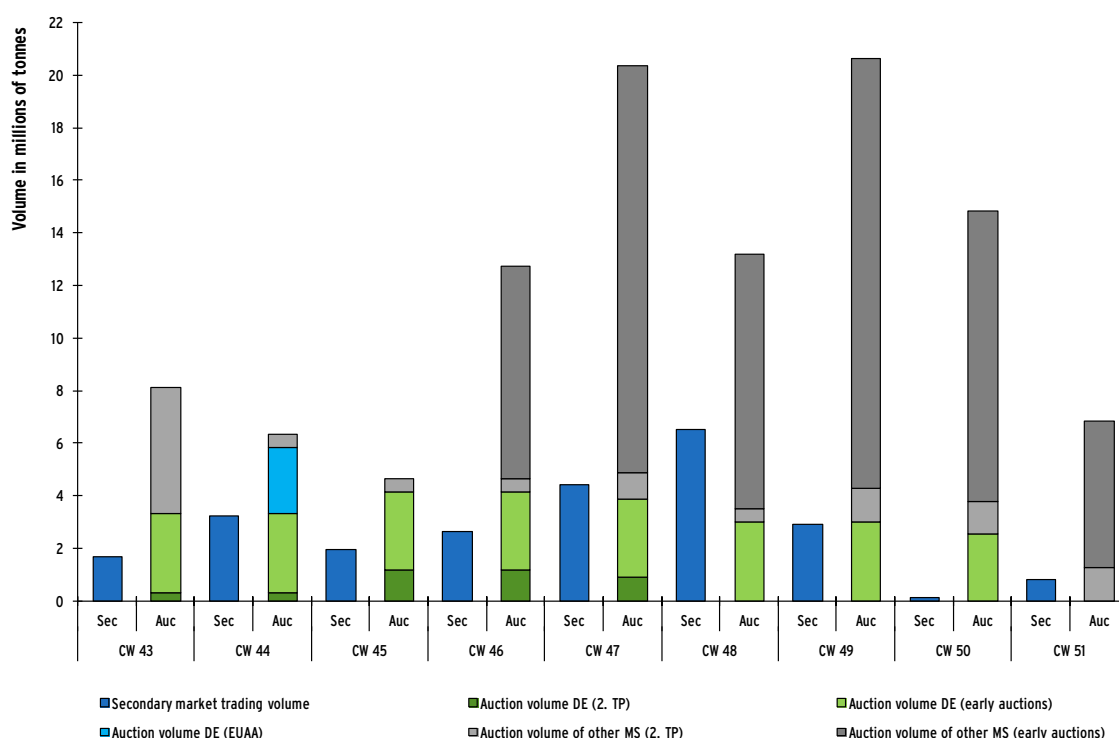
Source: EEX, DEHSt

Figure 1: Number of participating and successful bidders per date in 2012 (early auctions)

5 AUCTIONS AND THE SECONDARY MARKET

5.1 TRADING VOLUME AND THE SECONDARY MARKET

Between 26 October and 14 December 2012, 23.531 million EUAs of the third trading period (early auctions) and 2.5 million aviation allowances (EUAA 2012) were successfully auctioned at the EEX for Germany. During the reporting period, the cumulative volume of trade in the relevant total market was over 1.7 billion EUAs¹ compared to the auction amount. Figure 2 shows the volume of trade in the spot secondary market and the auction volume in the primary market per calendar week (CW). In addition to German early auctions and aviation auctions, the figure indicates the auction amounts of other EU Member States as well as the German auctions of the second trading period.



Source: BlueNext, EEX, ICE, DEHSt

*Auc = auctions, Sec = secondary market, DE = Germany, MS = EU Member State, EUAA = aviation allowance

Figure 2: Volume of trade on the secondary market (spot) and volume of auctions conducted over the period of October to December 2012

Due to the closure of the Paris BlueNext Stock Exchange on 5 December 2012, the trading volume on the spot secondary market basically came to a standstill in the 50th CW. In 2012, BlueNext had an around 80 percent market share in the spot secondary market.

5.2 CLEARING PRICES AND PRICE DEVELOPMENT ON THE SECONDARY MARKET

Reference prices from the most liquid trading venues served as appropriate benchmarks for evaluating the auction clearing prices achieved on the EUA spot auctions. The reference contract for the early auction is the Dec12 futures traded on the London ICE/ECX. As expected, the prices between the spot and ICE Dec12 futures contracts converged during the reporting period more closely. This was due to the imminent futures maturity date of 17 December 2012.

1 All emission allowances (EUA/EUAA) traded on the spot and futures markets on the ICE/ECX, GreenX, BlueNext, EEX and Nasdaq OMX exchanges are considered. Transactions completed directly on the stock exchange (screen traded) or those bilateral transactions that at least used the stock exchange clearing mechanism are included. Option contracts are not involved. The October to December 2012 spot contracts auctioned by other EU Member States are also considered.

Both the last trade made immediately before the end of the bidding period, and the volume-weighted daily average price (VWAP)² were used as reference prices. An evaluation of the first auction of aviation allowances was waived due to the almost non-existent trading volume on the EUAA secondary market.

Info Box: Reference Prices

In regular exchange trading (secondary trading), participants enter their buying and selling requests (bids and asks) into an order book which is constantly updated. As in German auctions, such buying bids in secondary trading include quantity and price limits. The price limit is the highest price a buyer is prepared to pay for the purchase of an allowance. Sellers can also put a price limit on their bid, i.e. a minimum price per allowance sold.

The order book is open to inspection by any participant. It shows the current highest purchase offer (best bid) and the lowest sales offer (best ask) with the relevant quantities. Trading occurs where best bid and best ask overlap. Trading price records finally show the price limits where supply equals demand.

Table 3 shows the relative deviations of the clearing price in the early auctions of the London lead market. The deviation from the last trade made on each auction date just before the end of the bidding period (11 hours CET) varied over the period between € -0.24 (-3.43%) and €+0.05 (+0.78%). The average deviation from the last trade was € -0.02 (-0.35%) averaged over all eight dates. Apart from the relatively poor results of the auction on 16 November, which, among other reasons, is due an increased market volatility following the release of a backloading proposal of the COM in the 46th CW, the auctions were nearly synchronous with the secondary market.

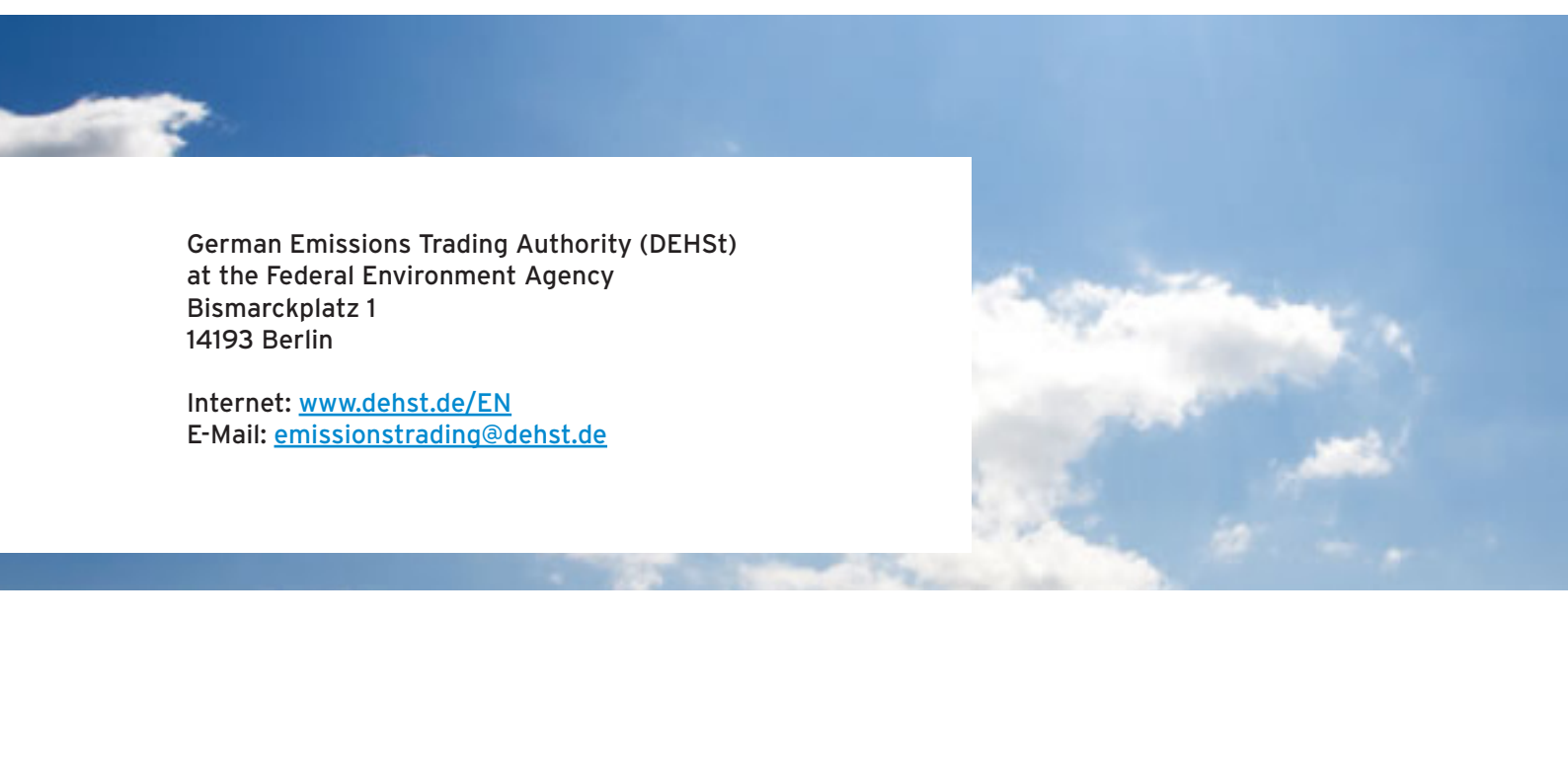
Additionally Table 3 shows the deviations of the clearing prices from the volume-weighted average daily price (ICE Dec12). The average deviation over the reporting period amounted to €-0.08 (-1.13%). It mainly showed a slight underperformance over the secondary market prices during the day. This trend was observed even during the regular auctions of the current second trading period.

Tabelle 3: Early auctions and deviations from secondary market prices (ICE Dec12) over the reporting period

Date	Contract	Clearing price	Deviation from lead market			
			Last Trade ICE Dec12		VWAP ICE Dec12	
			Absolute	%	Absolute	%
26/10/2012	EUA spot 3rd TP	€7.54	€-0.01	-0.13%	€-0.17	-2.20%
02/11/2012	EUA spot 3rd TP	€7.96	€+0.01	+0.13%	€-0.05	-0.62%
09/11/2012	EUA spot 3rd TP	€8.20	€+0.04	+0.49%	€-0.02	-0.24%
16/11/2012	EUA spot 3rd TP	€6.75	€-0.24	-3.43%	€-0.21	-3.02%
23/11/2012	EUA spot 3rd TP	€6.75	€-0.02	-0.30%	€-0.14	-2.03%
30/11/2012	EUA spot3rd TP	€6.23	€-0.01	-0.16%	€+0.04	+0.65%
07/12/2012	EUA spot 3rd TP	€6.42	€+0.05	+0.78%	€-0.06	-0.93%
14/12/2012	EUA spot 3rd TP	€6.57	€-0.01	-0.15%	€-0.04	-0.61%
Mean deviation			€-0.02	-0.35%	€-0.08	-1.13%

Source: Thomson Reuters, DEHSt
VWAP: Volume-weighted daily average

2 [ICE EUA Futures Emissions Index](#)



German Emissions Trading Authority (DEHSt)
at the Federal Environment Agency
Bismarckplatz 1
14193 Berlin

Internet: www.dehst.de/EN
E-Mail: emissionstrading@dehst.de