

The Carbon Markets and Investors Association (CMIA) is an international trade association representing companies that finance, build, and support emission reduction projects across five continents, as well as service providers to liable entities under cap-and-trade schemes. Formed to represent businesses working to reduce carbon emissions through the market mechanisms of the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol, CMIA's international membership accounts for an estimated 75 per cent of the global carbon market, valued at USD 100 billion in 2008.

CMIA's mission is the creation of the global carbon market. We therefore have an over-riding interest in the efficiency of the carbon market, so that it is best able to meet its public policy objective of reducing greenhouse gas emissions at least economic cost. Against that background, it is very much in CMIA's interests that the most efficient design is implemented for the auctioning of allowances in Phase III of the EU ETS.

We are also fully aware that other countries and regions around the world who are considering designing and implementing their own cap and trade schemes over the next decade will be watching carefully to see how the EU organises auctioning in Phase III. This third phase of the ETS, when it moves to tougher caps and much more widespread auctioning, will be vital in terms of the overall evolution of the carbon market, and it is therefore extremely important that we in Europe get auctioning design right.

CMIA is very pleased to have this opportunity to submit its response to the auctioning consultation. Our financial sector-based membership and the close relationships that many of our members have with compliance buyers mean that we are well-placed to give our comments on auctioning design. Our response represents extensive consultation amongst our members who have participated in and gained experience from the three main Phase II auctioning models employed by the British (primary participant), Austrian (Climex) and German (KfW via EEX and EXC) governments.

We draw your attention to our guiding principles set out at the beginning of the submission. We thought it might also be helpful in this covering note to summarise the key issues that have emerged for us, which are as follows:

- we accept that it is politically unrealistic to have a wholly centralised approach, we would argue for as great a degree of **harmonisation** across EU markets as is possible, to support market efficiency and economies of scale;
- against the background of an overall degree of harmonisation, we accept that there must also be an element of **flexibility** for member states to pursue in respect of the number and format of auctions. One size cannot fit all given the diverse legal and commercial practices of individual member states and differing scale of individual markets;
- we believe that both **spot and futures** auction formats should be available to member states;
- we support **early auctioning** of Phase III allowances, i.e. from 2010/2011, in support of market efficiency; and
- on auctioning models, we would not choose between the **primary participant and exchange-based format**, but – as our submission details – we see merits in both approaches.

Underpinning our submission are CMIA core principles of transparency, non-discrimination and fair access.

We hope the Commission will see our submission as helpful and constructive. We look forward to further contact on this important question; and if officials would like to discuss the submission or any aspect of it with us, we would be happy to meet, speak or respond to questions by e-mail.

**CMIA Contact Information:**