

# Sales and Auctioning of EUAs

## - Setup, results and lessons learned

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Die Zukunftsförderer

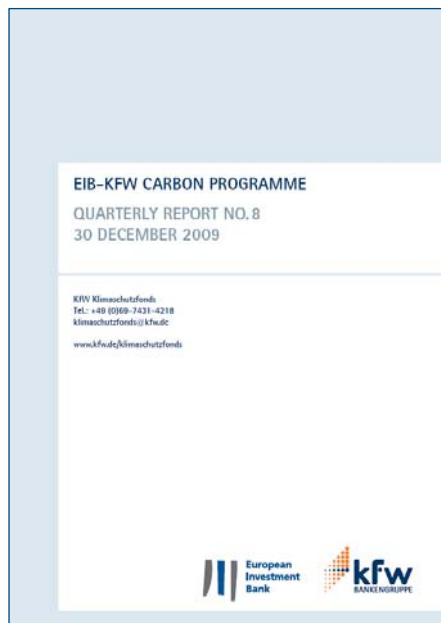


1. KfW Carbon Activities in brief
2. Sales 2008/09: Implementation and Results
3. Auctions 2010/11: Implementation and Setup

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# KfW Carbon Activities in brief

## KfW Carbon Fund



### KfW

- Promotional bank of the Federal Republic of Germany
- Founded in 1948; Shareholders: Federal Republic of Germany (80%), German federal states (20%)
- Rating AAA, Number of employees ca. 4,200

### KfW Carbon Fund

- Our Mandate:
  - Support the use of carbon credits in the ETS
  - Support climate protection projects by buying
- Carbon Purchase Activities
  - 2004: “KfW Carbon Fund” (closed)
  - 2007: EIB/KfW Carbon Programme I (closed)
  - 2008: Post 2012 Carbon Credit Fund KfW together with the EIB and other national promotional banks in Europe (CDC, NIB, ICO)
  - 2009: EIB/KfW Carbon Programme II (open for participation); focus on LDC and programmatic CDM
- Total Purchases so far: approx. 30 million certificates
- Service provider for German Government

### KfW / ZEW CO<sub>2</sub> Barometer

- Cooperation between KfW and the Centre for European Economic Research (ZEW) since 2009.
- Survey covering all German companies regulated by the EU-ETS.
- Unique depth of analysis comprising i. a. emission volume, sector and the companies' plants.
- Response 2010 stands for 25% of the plants and 41% of the CO<sub>2</sub>-emissions in 2009.



### Findings for 2009:

#### Still potential for efficiency gains from EU-ETS

- 65% of the firms have so far not evaluated the internal possibilities for reducing their CO2 emissions.
- 63% (52%) of the surveyed companies have not yet evaluated the additional cost burden arising from the changes in emissions trading from 2013 onward, thus underestimating the future costs.

#### Limited dedicated abatement measures

- Since EU-ETS start, 63% (72%) of the respondents have implemented CO2 abatement measures, however only 7% (8%) designed chiefly to reduce CO2.

#### Limited involvement in carbon markets

- Only 51% (60%) of the firms traded in emission rights in 2009.  
Reasons: Sufficient allocation, (“emotional”) desire to avoid speculative transactions.
- Only 32% of the companies – mainly large emitters – traded in CERs.

#### Conservative prices expectations

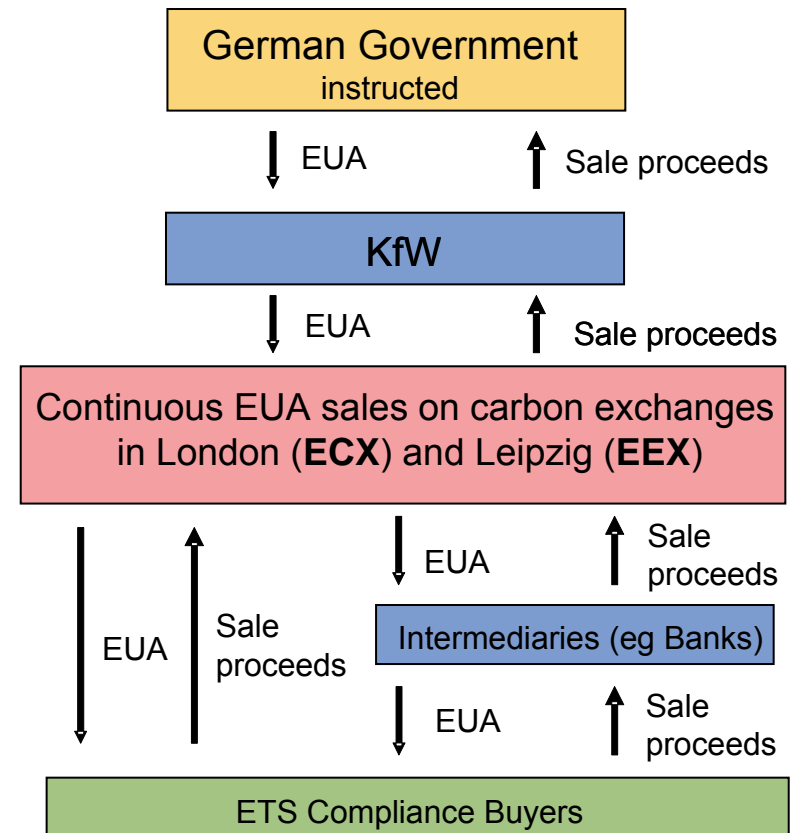
- Respondent firms anticipate prices for EUAs of about EUR 18 by the end of 2012 and an average of just under EUR 26 for the third trading period (2013-2020).

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# Sales and Auctions of EUAs

## Sales 2008/09: Implementation (1/3)

- November 2007: German Government instructed KfW to sell 40 million EU Allowances
- KfW became member on the carbon exchanges: London (ECX) and Leipzig (EEX)
- continuous sales over the course of the trading day
- on average 900.000 EUA sold / trading week (depending on liquidity)
- Benchmark: volume weighted average price (ECX CFI Index)

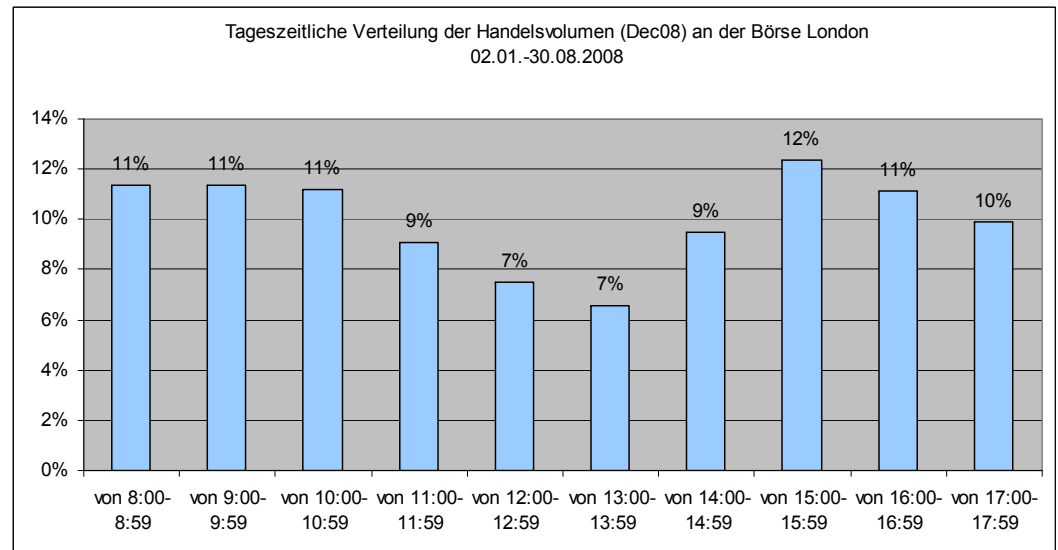
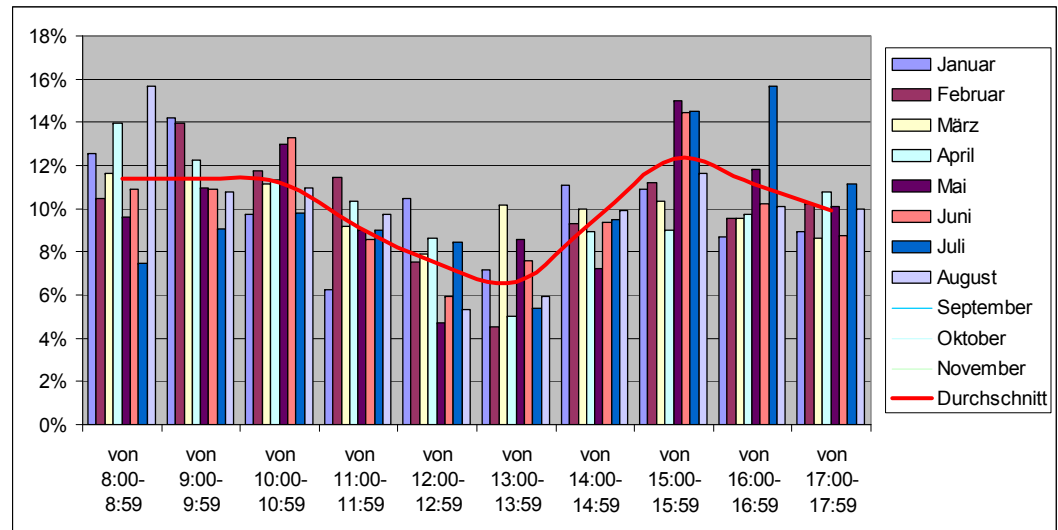




# Sales and Auctioning of EUAs

## Sales 2008/09: Implementation (2/3)

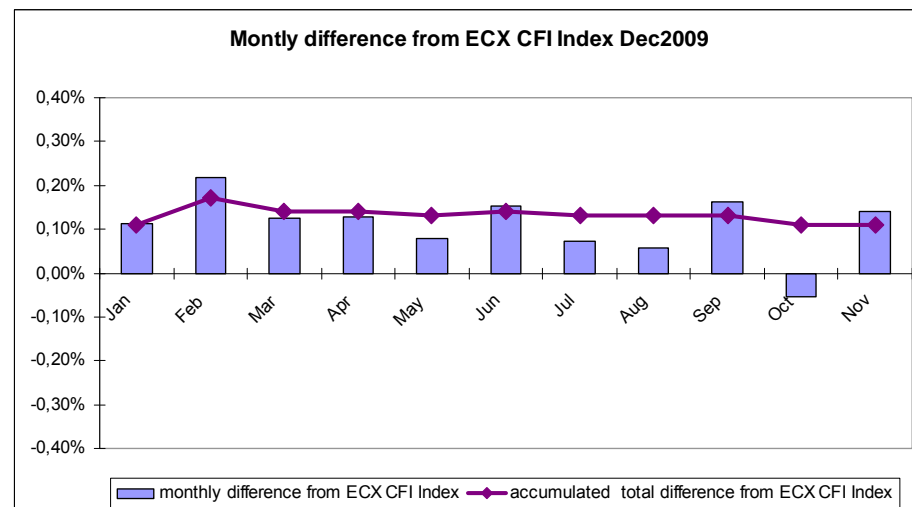
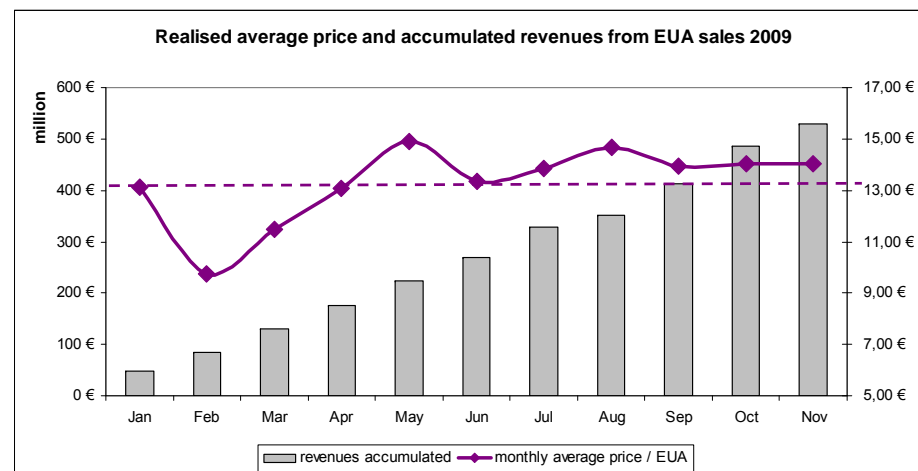
- at the beginning:
  - active sales management
  - analysing daily volumes over the course of the day
  - guideline for traders
  
- after a couple of months:
  - traders experience and intuition is most important to meet average price



# Sales and Auctioning of EUAs

## Sales 2008/09: Results

| Results:                     | 2008        | 2009                    |
|------------------------------|-------------|-------------------------|
| Total revenues (EUR)         | 933 million | 528 million             |
| Average price (EUR)          | 23.33 / EUA | 13.21 / EUA             |
| Deviation from ECX CFI Index | 0.00%       | +0.11%<br>(+2cents/EUA) |
| Number of trades             | 5,413       | 4,333                   |
| ECX share                    | 71 %        | 73 %                    |
| EEX share                    | 29 %        | 27 %                    |
| Share of spot transactions   | 0 %         | 24 %                    |

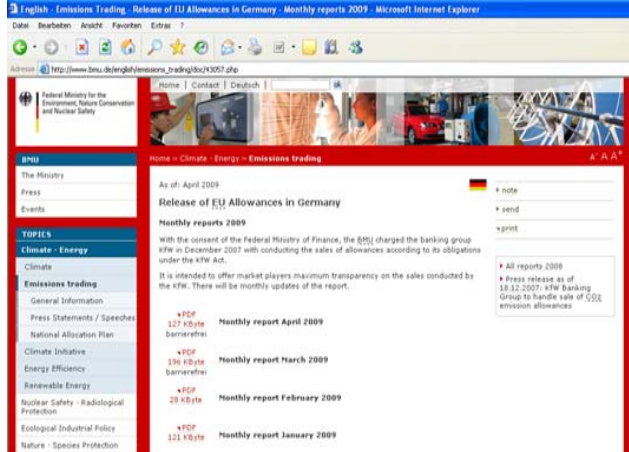


# Sales and Auctioning of EUAs

## Sales 2008/09: Lessons learned

- No market influence
- Transparent procedure
- Very cost efficient
- High market acceptance
- Positive feedback from compliance buyers and press
- Providing of continuous liquidity and therefore strengthening of the carbon trading market

→ Highly positive experience with the sales of EUA on the carbon exchanges



English - Emissions Trading - Release of EU Allowances in Germany - Monthly reports 2009 - Microsoft Internet Explorer

http://www.bmu.de/english/emissions\_trading/doc/43057.php

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

Home - Climate - Energy - Emissions trading

As of: April 2009

### Release of EU Allowances in Germany

Monthly reports 2009

With the consent of the Federal Ministry of Finance, the **BfE** charged the banking group KfW in December 2007 with conducting the sales of allowances according to its obligations under the KfW Act.

It is intended to offer market players maximum transparency on the sales conducted by the KfW. There will be monthly updates of the report.

|              |              |                              |
|--------------|--------------|------------------------------|
| ▼TOP         | ▼TOP         | Monthly report April 2009    |
| 127 x 516 kb | barrierefrei |                              |
| ▼TOP         | ▼TOP         | Monthly report March 2009    |
| 136 x 516 kb | barrierefrei |                              |
| ▼TOP         | ▼TOP         | Monthly report February 2009 |
| 20 x 516 kb  |              |                              |
| ▼TOP         | ▼TOP         | Monthly report January 2009  |
| 121 x 516 kb |              |                              |

All reports 2009  
Press release as of 18.12.2007: KfW Banking Group to handle sale of CO<sub>2</sub> emission allowances

- monthly and annual reports available at:  
[http://www.bmu.de/english/emissions\\_trading/doc/43057.php](http://www.bmu.de/english/emissions_trading/doc/43057.php)

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# Sales and Auctioning of EUAs

## Auctions 2010/11: Implementation and setup (1/2)



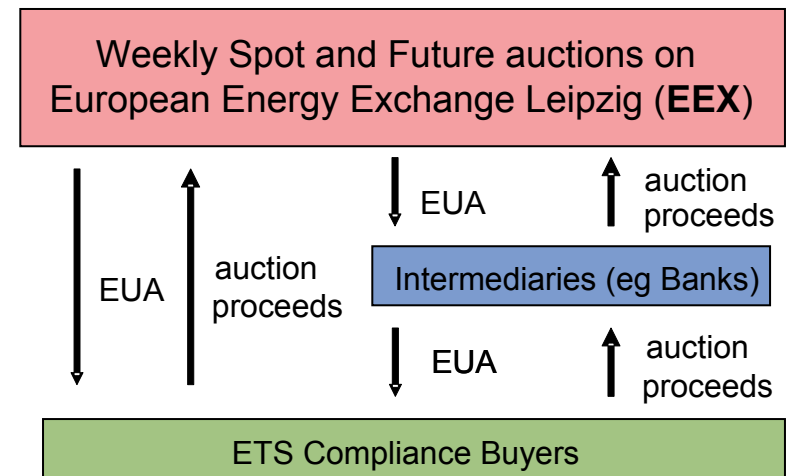
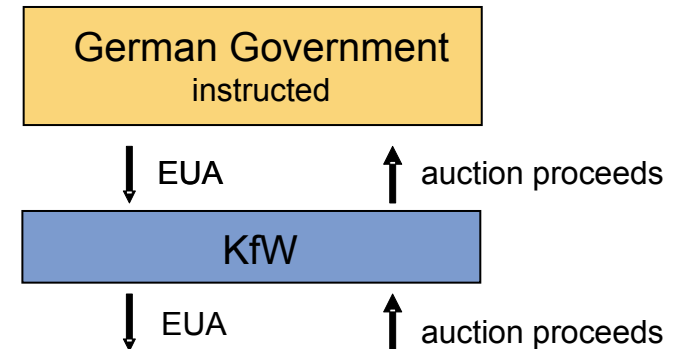
- Auctions had to start at the latest 2010 (allocation law: ZUG 2012 § 21, 2)
  - Auction design chosen:
    - Single bid uniform price
    - Spot and Future (next nearby December contract)
    - Weekly auctions
  - Auction platform chosen:
    - Using existing exchange as auction platform (because of positive sales experience)
    - European Energy Exchange Leipzig (EEX): winner of a tender carried out by the German Government Sept./Oct. 2009
- Learning experience
- Preparation for ETS 3rd period large scale auctioning

# Sales and Auctioning of EUAs

## Auctions 2010/11: Implementation and setup (2/2)

- December 2009: German Government instructed KfW to auction 40 million EUA on European Energy Exchange Leipzig (EEX)
- Auctions started 5 of January 2010
- Weekly auctions (870,000 EUA per week)
- Approx. 50 auctions per year

|  | Spot<br>every Tuesday<br>9:00-11:00 CET | Future<br>every Wednesday<br>14:45-15:00 CET |
|--|---|--|
| Weekly auction volume until end of October           | 300,000                                 | 570,000                                      |
| Weekly auction volume from the beginning of November | 870,000                                 | -  |



# Sales and Auctioning of EUAs

## Auctions 2010/11: Experience so far

- 26 spot auctions so far (as of 30 June)
- 26 futures auctions so far
- average auction price: 14,01 EUR
- auction results are very close to secondary market prices:  
approx.:
  - 0,2 % below last trade price, or
  - 0,1 % below last best bid



Figure 6: Clearing prices at the spot auctions and trade prices at the BlueNext spot market in the first quarter 2010

→ successful start

→ periodic auction reports available at:

[http://www.dehst.de/nn\\_484538/SharedDocs/Downloads/Publikationen\\_\\_EN/Auctioning\\_\\_report\\_\\_quarter\\_\\_01,temp1ateld=raw,property=publicationFile.pdf/Auctioning\\_report\\_quarter\\_01.pdf](http://www.dehst.de/nn_484538/SharedDocs/Downloads/Publikationen__EN/Auctioning__report__quarter__01,temp1ateld=raw,property=publicationFile.pdf/Auctioning_report_quarter_01.pdf)

→ auction results available one day after auction at:

<http://www.eex.com/de/Downloads/Marktdaten/Emissionsberechtigungen%20-%20EEX>

Thank you very much for your attention!

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