

## Germany accepts EC cap, auctioning likely

German Environment Minister Sigmar Gabriel said on Thursday that Germany will accept the second-phase cap set for its emissions trading sector by the European Commission (EC). This means Germany will allocate an annual average of 453.1 million allowances for the second phase of the EU emissions trading scheme.

"Germany will amend its NAP two accordingly. Agreement has been achieved about other items such as introducing a benchmark system for German energy producers or granting benefits for certain smaller companies," a spokesperson for the German environment ministry said in an e-mail to Point Carbon.

Germany's initial proposal was to allocate 482 million allowances per year, but it later reduced that figure to 465 million after revised historical emissions figures were made available. However, the EC on 29 November reduced Germany's allocation to 453.1 million, spurring strong protests.

The deadline for filing a court case in response to the EC's ruling on 10 NAPs, including Germany's, passed on Wednesday. Germany has been mulling a court case until the last minute, reportedly using it as a lever in discussions with the EC.

This means only Slovakia so far has said it will challenge the EC over second-phase allocations.

### Auctioning likely

Germany will very likely change its NAP to introduce auctioning of 10 per cent of its allowances in the second phase of the EU

emissions trading scheme, Jürgen Hacker of the German emissions trading association, said earlier this week. Ministries have already compiled wish-lists for how to spend the revenue auctioning is likely to generate, Hacker said.

The German government did not include auctioning of EU allowances when it set up the national allocation plan, but when the plan will be presented the German parliament for approval it will most likely have been changed to include the auctioning of 10 per cent of Germany's allocation.

"Two or three weeks ago I would have said there is a 75 per cent chance of auctioning being introduced, but today I would say it's 95 per cent certain," Hacker said.

While most focus has been on the second-phase cap, pressure has been building in the ruling parties' parliamentary ranks to auction part of the allocation, to curb windfall profits for generators and improve the market functioning in the EU emissions trading scheme.

"Everybody has believed that parliament would change the allocation bill for the second phase, but now I think they will be presented with a bill that includes auctioning," Hacker said.

Hacker's analysis was supported by Frank Schwabe, member of the German parliament and spokesperson on climate change and emissions trading for the Social Democrats. He

did not believe the outcome of parliamentary negotiations would result in as much as 10 per cent auctioning, however.

"I think there is a majority for auctioning in the parliament," Schwabe told Point Carbon. Social Democrats are leaning more heavily towards auctioning, but attitudes are not clearly divided along party lines, Schwabe said.

"It is not important for me how much is auctioned, but it is important that there is some," he said, guessing an outcome between 3 and 5 per cent. "We have to prepare for a higher degree of auctioning in phase three," Schwabe said.

Ministers in the ruling coalition of Social Democrats and Christian Democrats have softened their resistance to auctioning significantly lately. Environment Minister Sigmar Gabriel has said he will go along with what the parliament decides, and Economy Minister Michael Glos, who has auctioning's staunchest opponent in the past, said in January that he was reconsidering his view.

The German parliament will set the second-phase allocation in a bill this spring. Schwabe expected the bill to be passed in April or May.

Germany would place 22.7 million allowances under the hammer each year of the 2008-2012 period if it settles on a 5 per cent level of auctioning under the 453.1-million cap.