PointCarbon
NEWS

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EU ministers stall on 30% emission cut

Environment ministers want more information before deciding if the bloc should deepen CO2 goals any further.

The politicians from across the 27 member states will discuss plans to scale up the EU's 2020 emission reduction target from a 20 per cent cut below 1990 levels to 30 per cent.

But before making the choice, the ministers want to know more about how much the additional cuts will cost for each country, according to an EU council spokeswoman.

"They want to see more analysis of policy options and know more about the costs and benefits for individual member states," she added.

At today's environment council meeting in Luxembourg, ministers will be presented with an analysis by the European commission outlining how the bloc could meet the 30 per cent goal.

The EU executive's paper says the EU ETS cap could be tightened from 21 to 34 per cent below 2005 levels by 2020 to help meet the target.

The commission is ready to do further analysis to help the ministers reach a decision, according to Maria Kokkonen, a spokeswoman for the commission's climate department.

"It seems the member states have agreed to come back to this issue no later than October," said Kokkonen.

Several member states, such as Germany and the UK, are in favour of a move to a 30 per cent emission cut, regardless of climate policy in other regions.

Currently, the EU's position is to switch to a 30 per cent target only if other major-emitting countries make comparable commitments.

"The commission's recent analysis provides a welcome starting point as we discuss how to implement a higher target," said Chris Huhne, the UK's energy and climate change secretary.

"We believe a move to 30 per cent is achievable, right for the climate and right for our economies as Europe focuses on a sustainable economic recovery," he added.

Other EU nations, such as Italy, reckon a scaled-up mitigation effort would harm the competitive position of the bloc's industries.

Given the failure of last December's UN meeting to strike a legally-binding global climate commitment, some EU countries fear their businesses could lose out to foreign competitors with looser emissions regulations.

The view is at odds with Europe's climate commissioner Connie Hedegaard, who has been urging member states to toughen the goal to ensure European industries remain competitive in the drive towards a low carbon economy.

The commission's analysis shows that the deeper emission target will be cheaper to meet than it was before

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EUA closing prices - historical
EUA prices for December 2010 delivery, as assessed by Point Carbon. Prices are published daily at www.pointcarbon.com

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EUA closing prices, OTC

Contract	Bid	Offer	Close	Change
EUA spot	15.28	15.38	15.33	+0.24
EUA 2010	15.48	15.50	15.49	+0.23
EUA 2011	15.79	15.89	15.84	+0.22
EUA 2012	16.41	16.51	16.46	+0.21
EUA 2013	17.37	17.47	17.42	+0.17

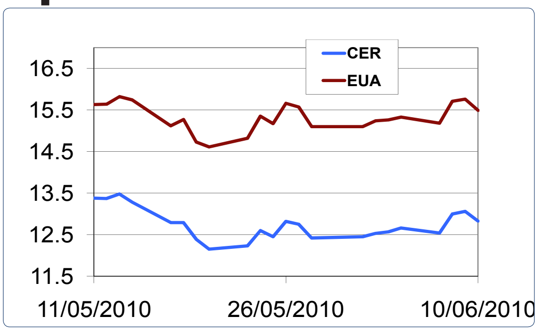
Secondary CER assessment

Contract	Low	High
Dec-10	12.78	12.88
Dec-10-12	12.47	12.57

Quoted prices are euros per EUA/CER, at close of market 10 June, as assessed through Point Carbon's bid-offer-close methodology for the over-the-counter (OTC) market. Changes refer to the last issue of CME. For methodology, see www.pointcarbon.com.

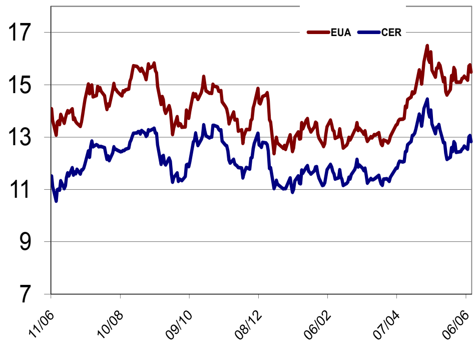
EUA and secondary CER prices [€/t]

Last month



Last 12 months

For methodology see www.pointcarbon.com



Market comment

Carbon nudged upwards in a reasonably stable trading environment this week, as market fears over the macroeconomic outlook were calmed.

By Thursday's close, the EU allowance for December delivery was valued at €15.49 in the cleared broker market, a gain of €0.23 from the previous Thursday finish.

The benchmark carbon contract neared €16 on several occasions but failed to break through the key psychological ceiling. The front year allowance reached as high as €15.94 on the European Climate Exchange, its highest level since 13 May, but for most of the week carbon traded close to €15.50 levels.

Over the five trading sessions, the contract traded between €14.96 and €15.94, compared to a trading range of €14.80-15.59 a week earlier.

Traders said an improving macroeconomic outlook helped carbon sustain its level following a 3.5 per cent gain in EUAs on Tuesday.

"We are seeing a reasonable consolidation," one trader said, referring to the euro currency, which began to recover.

On Thursday, EUAs faded slightly as energy prices sank following several days of gains and a UK auction result which some traders said was bearish.

The UK sold 4.4 million spot EUAs at a clearing price of €15.60, which was below spot prices on exchanges of around €15.64-15.65.

Traders said this was in contrast to recent UK auctions, where the clearing price had been slightly above secondary market prices.

Carbon was supported by a general upward trend in energy prices throughout the week. Baseload German power for next year delivery ended Thursday at €54.10/MWh, a 3 per cent drop on the previous Thursday.

Prompt Brent crude oil prices rose by $0.46 to finish at $74.80/bbl, and gas and coal prices also ended the week in positive territory.

Volume was healthy, with around 23 million EUAs changing hands across all platforms over the entire week.

In the secondary market for UN-backed carbon credits, CERs broadly tracked price movements in EUAs. The 2010 CER closed at €12.83, a loss of €0.26 on the previous Thursday's finish.

EU ministers stall on 30% emission cut (continued)

the impact of the 2008-2009 economic recession.

But observers have argued that it may be more difficult for EU leaders to agree on a tougher target because governments have much less cash available to direct towards climate measures.

Sanjeev Kumar, a senior associate at green group E3G, reckons the commission must focus its efforts on producing a study that emphasises the economic benefits of tougher emission limits to each member state.

“Remaining at a 20 per cent EU target is a lesson in how to stay in the gutter,” said Kumar.

“There is an urgent need for credible data at national level that breaks down the costs but also explains the tremendous benefits this has for stimulating the EU economy,” he said.

The UK’s Huhne was also supportive of the connection between a tougher EU cap and providing the bloc with an economic stimulus.

”We can put Europe ahead of the game by taking new low carbon economic opportunities,” he said.

The commission analysis provided some outline on the potential benefits for the EU economy, but it also emphasised the potential for more revenue-potential member states.

The study suggested that with a tighter ETS cap, governments were likely to receive more income from the auctioning of carbon allowances at the resulting higher prices.

”A higher climate target would generate billions in auctioning revenues from Europe’s carbon market,” said Joris den Blanken, EU climate and energy policy director for Greenpeace.

Ieta wary of liquidity threat from OTC regulation

EU plans to regulate OTC trade must not impact liquidity and price discovery of CO2 instruments, according to carbon trading lobby Ieta.

The association said that while it supported Brussels’ measures to enhance oversight and transparency in the EU cap-and-trade scheme, the potential effect of such plans must be carefully checked.

“Over-the-counter (OTC) trading of carbon contracts must be allowed for appropriate circumstances in order to help operators effectively manage their carbon exposure,” the association said in a statement.

The statement was published as Ieta sent out a position paper on market integrity to the European commission and EU member states.

The paper comes as the EU eyes controls on OTC trade across derivatives markets in a bid to prevent manipulation in energy commodities dealing.

Carbon market participants fear Brussels proposals will hamper some of their activity, particularly for trading high volumes of instruments or building specific positions with long expiry dates.

Ieta broadly backs EU proposals for a pan-European monitoring body to prevent market manipulation in energy markets not covered by financial trading regulations.

However, the association wants to ensure that data collected by such a watchdog will preserve anonymity for individual deals.

The Geneva-based lobby group, which has members that face caps under the EU ETS, as well as banks and offset project developers, is also seeking oversight for other carbon commodities.

“All oversight rules applying to EU allowances (under the bloc’s ETS) should apply also to secondary market transactions on CER/ERU or other instruments that would become tradable in the EU ETS under future arrangements,” the position paper said.

UN mulls plans to slash CER supply

A UN working group is to review plans that could massively cut the supply of offsets able to be used in the EU cap-and-trade scheme.

The methodology panel of the clean development mechanism (CDM) executive board will on 21 June discuss a revision to a methodology that would limit severely how many certified emission reductions (CERs) can be generated from emission reduction projects that destroy the waste gas HFC.

The implications of the decision have the potential to be huge, because this type of project has produced around half of the total number of credits issued so far.

The proposed revision accuses developers of gaming the system to maximise the number of CERs they can generate from each CDM project.

It is unclear at this stage whether such a limit would apply to new projects seeking CDM registration or whether it will apply to registered projects.

Some observers have expressed doubts that if the panel opts to apply it to existing projects that this would be accepted by the executive board, which oversees the mechanism.

"It could be that this is more of a political statement aimed at new projects after 2012 rather than slashing CERs from existing projects. On the other hand, the extreme secrecy surrounding this revision is strange and raises suspicions," said Axel Michaelowa, founder of Perspectives, a consultancy owned by Point Carbon Thomson Reuters.

Most analysts expect around 1 billion CERs to be generated by 2012.

The proposal to curtail supply of credits from industrial gas projects comes amid EU moves to ban companies covered by the bloc's ETS from using the credits to comply with targets.

German aviation tax may stay after 2012

Germany will likely keep a new environment levy on aviation after the sector's inclusion in the ETS.

The government expects to make €1 billion a year for four years starting in 2011, when the levy will take effect, a spokesman with the ministry of environment said.

The tax will be levied based on carbon emissions and noise levels, although full details have yet to be thrashed out, said Thomas Hagbeck.

These revenue expectations are in contrast to Chancellor Angela Merkel's initial announcement this week, when she said the tax is set to run only until the aviation sector joins the EU cap-and-trade scheme in 2012.

"I am unable to confirm that the aviation duty would be replaced by the ETS scheme. It could also supplement it, i.e. remain in force, to some extent or another," Hagbeck said in an e-mail.

He said the government estimates the emissions trading scheme will cost airlines €90 million in 2012 and that the tax will be introduced in January next year.

Czechs, Japan adjust terms of record AAU deal

Prague will increase the rate at which it spends AAU cash to meet contractual obligations.

A ministry official said that the Czech Republic will now spend money raised from the world's largest transaction for assigned amount units (AAUs) on schools and hospitals instead of solely residential buildings to ensure it meets the terms of the deal.

Neither country has disclosed the value of the transaction, which was for 40 million units, although the revenue raised is thought to be around CZK9.8 billion ($456 million).

Under the terms of the deal, the Czech Republic has to spend the cash raised on emission reduction initiatives in the residential sector under its so-called green investment scheme (GIS) before the end of 2012.

But the central European country was under pressure to spend the cash on residential buildings and has now expanded the deal to include public buildings.

The Czech ministry of environment today agreed with Japanese state agency New Energy and Industrial Technology Development Organization (Nedo) to adjust the contract.

"It will help us to make sure we keep ourselves to our obligation. With the adjustment we can use up to 40 per cent of the money we received from Japan on initiatives in public buildings," Pavel Zamyslicky said.

In the first six weeks of the year, the government transferred CZK1 billion to cover emission reductions made in the residential sector.

Maintaining this spending rate would be enough for the government to spend CZK26 billion until the deadline, Zamyslicky said, claiming the country was not under pressure.

The move comes against the backdrop of eroding confidence in AAU transactions, as seller countries are prone to delay spending as an attempt to plug holes in their budgets.

In April, Japan called on Ukraine to account for the money it paid for 30 million emission units last year.

The Czech Republic has so far sold 75 million emission units including Japan's 40 million, and raised a total of CZK18 billion.

The government has 25 million more AAUs to sell by the end of 2012, which covers the first compliance period of the Kyoto protocol.

Zamyslicky said the agreement with Nedo does not oblige the Czech Republic to source technology for emission reduction initiatives from Japanese companies.

"But in the future we may sign deals with such obligations either with Nedo or other companies," he said.

UK firms will need to buy more EUAs

UK firms will need to buy more EUAs towards 2020 than previously thought, the government said.

Lower EUA prices in the EU cap-and-trade scheme will result in UK power plants burning more fossil fuels to produce electricity, upping their EUA requirement, a report from the UK Department for Energy and Climate Change (Decc) said.

UK firms covered by the ETS will need to buy 55 million EUAs over the period 2013-2017, the government said, compared to last year's forecast that the companies would need to buy 23 million allowances to cover their pollution.

Over the 2018-2022 period, UK companies will need to buy 20 million EUAs, compared to the previous forecast that said the companies would have 17 million more EUAs than required.

Power companies covered by the scheme will have to pay for their entire EUA requirement from 2013, but industrial installations such as steel and cement plants are likely to receive most for free.

In a separate assessment also published today, Decc said it had lowered its EUA price forecast, mainly due to the impact of reduced power demand as a result of the 2008-2009 economic recession.

Decc now expects EUA prices to be in a range of €10-25 in 2020, compared to its 2009 forecast of €17-37.

The price forecast assumes the EU retains the ETS cap at current levels, which reduces traded sector emissions 21 per cent under 2005 levels by 2020.

Norway negotiates post-2012 EU ETS participation

Norway, along with fellow non-EU countries Iceland and Liechtenstein, is in talks with the EU about extending its ETS participation to phase 3.

The Norwegian government wants the majority of its firms to get the same conditions as their EU counterparts in the next phase of the scheme, a press release said.

"The government's decision to harmonise the allocation of allowances in Norway and the EU is a good starting point for further negotiations," said Erik Solheim, Norway's minister for climate and development.

Norwegian companies have participated in the European carbon scheme since 2008.

The government's release said Norway will continue to force offshore oil and gas companies to purchase all the allowances they need in the market.

However, it wants industrial facilities to continue receiving a share of its allowances for free, similar to manufacturers in the EU countries.

Ukraine to revisit bid for record AAU deal

Ukraine may reconsider selling 50 million AAUs to New Zealand-based firm Tawhaki International.

The eastern European country could agree to sell the AAUs if it becomes clear that the New Zealand government authorises the firm, the head of Ukraine's National Environment Investment Agency (NEIA) told Point Carbon News.

"We have to find out through diplomatic channels if this company has a power of attorney from the New Zealand government under Article 17 of the Kyoto protocol," Sergii Orlenko said in an email.

The New Zealand government is unlikely to need to buy any of the UN-backed emission rights to comply with its own target under the Kyoto protocol, as the country reckons it will have more than 10 million surplus units by 2012.

The potential 50 million AAU transaction, which could be the biggest AAU deal to date, comes at a time when any deal above 2 million emission rights is considered big amid waning demand globally.

Orlenko said the previous Ukrainian government turned down a bid for 50 million AAUs from Tawhaki International last year.

A sale failed to materialise, despite high-level authorisation allowing the NEIA to strike the deal.

The agency also negotiated a deal to sell 100 million AAUs to Swiss-based trader Dighton Carbon, but this transaction fell through as well, Orlenko said.

The deals were not signed because of "absence of confirmed power of attorney", added Orlenko, who took charge of the NEIA in March shortly after President Viktor Yanukovych formed a new government.

Almost a year after the firm initially emerged as a potential buyer of Ukrainian AAUs, Tawhaki International expressed its interest in the Kyoto rights again last month, when it approached the government through a member of the parliament, Orlenko said.

"He (the member of the parliament) believes, and informed the government, that Tawhaki International could attract investment resources to Ukraine economy," the head of NEIA said.

According to press reports, Tawhaki International is ready to invest up to $1 billion in the Ukrainian economy.

Orlenko said NEIA will prepare an answer on whether it will consider Tawhaki International's interest as soon as it becomes clear whether the company has a "power of attorney".

He added that the government has not received any new AAU bids from Dighton Carbon.

The NEIA has signed memoranda of understanding on potential AAU deals with the governments of Japan, Italy, Spain and Denmark, Orlenko confirmed.

Ukraine has also been in talks with the Carbon Fund for

Europe, the Umbrella Carbon Facility and the Carbon Partnership Facility about potential sales of the emission rights, he said.

"This kind of work continues in relations with other countries," Orlenko said.

Last year, Ukraine sold 30 million AAUs to Japan and 3 million to Spain.

The country reckons it will have more than 1.5 billion surplus emission rights during the Kyoto protocol's five-year first commitment period from 2008 to 2012.

ECX delays ERU futures launch

The European Climate Exchange (ECX) has postponed its launch of ERU futures until after June.

"It won't be a June launch for the ECX ERU futures unfortunately, but we are working hard on finalising the contract terms," said Sara Stahl, director of business development at the ECX.

"We are still discussing some key aspects of the contract specification and before this is finalised we cannot launch. We are still aiming for near-term launch however," she added.

Last month ECX's chief, Patrick Birley, said the exchange was preparing to launch future contracts for the UN-backed carbon credits, known as emission reduction units (ERUs), in June.

ERUs are issued to projects that cut greenhouse gas emissions in developed countries under the Kyoto protocol's joint implementation.

More than 8 million ERUs have been issued to date, according to Point Carbon's database.

Emmanuel Fages, a Paris-based analyst with Orbeo, expects some 200 million ERUs to be issued before 2012, with most of the supply coming from Russia, Poland and Ukraine.

Romania in AAU talks with Sumitomo, Marubeni

Romania's first AAU transaction is likely to be signed with a Japanese firm.

A government source told Point Carbon News the Balkan country has been in talks with Japanese conglomerates Sumitomo and Marubeni, and perhaps other firms in the world's second largest economy.

"We have been in preliminary discussions with some interested parties," said Doina Constantinescu with the ministry of economy, commerce and business environment.

"Now we are waiting for a letter of (intent) from the interested party," she said, naming Sumitomo and Marubeni as possible interested parties.

She said a letter of interest could be signed with a Japanese firm as soon as the end of the month.

Spokespersons from Sumitomo and Marubeni were not immediately available for comment.

The Balkan country has a maximum of 300 million AAUs to sell.

Romania's AAU legal framework, which was put into place in April, states the country prefers each transaction to involve at least 1 million AAUs.

More than 20 AAU transactions have been made over the past 18 months, with a total volume of more than 160 million emission rights, according to Point Carbon News data.

Bulgarian firm sells JI credits to Netherlands

Bulgaria's natural gas supplier Overgas has sold its first JI credits to the Netherlands.

In early June, Overgas sold 292,000 UN-backed offsets or ERUs to the Netherlands for about €1.48 million ($1.78 million), said Konstatin Petrov, a spokesman with the natural gas firm.

He said the total amount of the transaction reflects primary prices when the contracts were initially signed in 2004 and 2005.

The ERUs cover three projects under the Kyoto protocol's joint implementation, Petrov said.

The full amount of the sale will be invested in projects for gasification, which by replacing conventional fuels with natural gas increase the energy efficiency of Bulgarian towns, according to an Overgas statement.

In April the European commission approved Bulgaria's national allocation plan for CO allowances, enabling the Balkan nation to actively participate in the EU ETS.

However, Bulgarian companies will not be able to transfer carbon credits from its national registry because the country's accreditation under the Kyoto protocol is expected be revoked at the end of June.

Bulgaria's government has said the earliest the country can get its accreditation restored is the end of November.

Guest commentary

Democracy: A challenge for the new executive secretary

By Michael K. Dorsey (Dartmouth College, US), Larry Lohmann, (The Corner House, UK), Tom B. K. Goldtooth (Indigenous Environmental Network, N. America), and Ivonne Yanez (OilWatch, Ecuador)

Yvo de Boer, the outgoing United Nations Framework Convention on Climate Change (UNFCCC) Executive Secretary, recently summarised his attachment to consensus-building by noting that "democracy is time-consuming and can be frustrating, but it builds a stronger future."

Where will incoming Executive Secretary Christiana Figueres, who assumes de Boer's post next month, stand on this crucial issue of democracy?

Will she countenance the sort of back-room, pre-emptive manoeuvering that undermined the credibility of the Copenhagen accord of last December and that de Boer characterised as a "disorganised and ill-directed sherpa process"?

Or will she dedicate herself to helping ensure that the interests of all of the world's inhabitants are represented in the UN climate negotiations?

Figueres certainly has the political pedigree to appreciate radical, far-reaching democracy. She comes to her UN post from a family well-versed in politics of states.

Her father was president of Costa Rica on three occasions. Self-described as a "farmer-socialist" and partially inspired by H.G. Wells, he orchestrated the abolishment of Costa Rica's army.

Figueres's mother was Costa Rica's ambassador to Israel and later a congresswoman, while her brother followed in their father's footsteps, becoming president and subsequently minister of foreign trade and minister of agriculture.

The elder Figueres saw himself as even more radical than Cuba's Fidel Castro. In 1981 he boasted of this presidency that "in a short time, we decreed 834 reforms that completely changed the physiognomy of the country and brought a deeper and more human revolution than that of Cuba."

Figueres herself presents a rather different profile. Although she has 15 years of UN service under her belt, she is known as a supporter of big business.

One South African scholarly observer dubbed her "ridiculously pro-capitalist."

Prior to assuming the helm of the secretariat she wore three private-sector hats simultaneously.

She was a senior adviser to C-Quest Capital, a carbon finance company focusing on programmatic CDM investments.

Figueres was the principal climate change advisor to Endesa Latinoamerica, the largest private utility in Latin America.

And she was also as the vice chair of the rating committee of the Carbon Rating Agency, one of the first entities to apply credit rating expertise to carbon assets.

In business and at the UN alike, Figueres had a financial and a career interest in supporting the carbon-market approach to climate change that is now being called into question by verification frauds, tax swindles, land and forest conflicts, and neglect of the interests of farmers, workers and the rights of indigenous peoples.

To construct a post-Copenhagen agreement rooted in consensus and democracy, Figueres is likely to have to transcend this background and return to the more public-spirited outlook articulated by her father.

As Bolivia's lead climate negotiator Pablo Solon put it in a recent press conference: humanity, future generations and the climate should not "have to depend on kinds of market mechanisms."

Solon went on to denounce "a document that only has one option, the Copenhagen accord," as "something absolutely unbalanced and unfair" and as undermining chances for a positive outcome at the coming Cancun climate talks.

The rather one-sided advocacy of markets that Figueres has displayed in her previous career has never delivered justice in the real world, resulting in innumerable social conflicts and even wars.

Will Figueres now be able to take into account the limitations of markets in the interest of holding together what her predecessor acknowledged to be a "difficult" and "frustrating" consensus process?

In the coming months, the whole world will be waiting to find out.

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