

September 26 2003

## Carbon prices

|    | Bid   | Offer  | Mid    | Closing |
|----|-------|--------|--------|---------|
| EU | €9.75 | €13.75 | €11.75 | -       |
| UK | £1.80 | £2.30  | £2.05  | £2.30   |

Quoted prices are for allowances per tCO<sub>2</sub>e. EU: The bid is for 10-20,000 t, payment at delivery in 2005. The offer, one of several at around €14, is for 10,000 t. However, it should probably be perceived more as a tactical manoeuvre than an offer expecting to be lifted. Another offer, for just 5,000 t, was reported at €13.50. UK: The bid is for 2,000 t, the offer for 5,000 t, both are 2002 or 2003 generated allowances. The reported trade was for 2,000 t.

## Market comment

With the bid-offer spread in the EU emissions trading market widening, activity in the market is standing still. At the moment the offer side is just below €14/t, possibly to high for any one to trade on.

- There are few people willing to pay what is offered at the moment, confirmed **Claire Byers** at Nuon's environmental trading desk.

- A price below €9/t can be seen as reasonable, but with the current level there is no longer any advantages tied to early trading. Offers at €14 reduce the incentive to trade, and particularly those looking for partial payment up front must lower their prices, Byers said.

According to Byers, it is more tempting to sit and wait for the allocation results and increased certainty than taking a chance at the current price level.

## About Point Carbon

Point Carbon is the leading global provider of independent carbon price forecasts and analysis of greenhouse gas emissions trading markets. Point Carbon's analysts have built up competence on the carbon market for more than half a decade through research and commercial activities. The core competencies of our staff include international and regional climate policy, mathematical modelling and simulation, and methods for expert evaluation. Our in-depth analyses help our subscribers thrive in the carbon market.

## ViewPoint: Could the EU ETS link up to other schemes?

Linkages between Domestic Emissions Trading Schemes (DETs) is seen as critical to ensure enough liquidity, leading to lower cost of compliance. Such linkages have the potential to be complex as the schemes may differ in sectors covered, gases, restrictions on quality and quantity and project credits, banking rules, penalties, target prices/price guarantees, etc. The list can be long. Are these issues acting to deter those who feel strongly about creating such linkages? Not to the business community, who has made this one of the cornerstones of its agenda.

Canada sees this is as a critical issue. Senior Canadian representatives have initiated discussions in Brussels and shown interest in opening discussions with Japan. However, currently it is likely that any link to Japan will be done through the CDM/JI market. The EU accepts linkages in the ETS, but only limited ones with non-capped jurisdictions. Jurisdictions such as Norway have the option of signing on to the EU ETS as part of the EEA. Switzerland would have to go through the same process as any non-EU country.

While in general there seems to be a willingness to explore linking, reaching agreement may be more complex than expected. The EU ETS will include 25 of the 33 Annex 1 countries, and likely be operational by the time others are ready to finalize their rules. Will the others be model-takers? The EU should want a global a participation and approach, and will have to show flexibility if it does not want to be alone in this effort. It is unlikely that in linking Canada and the EU, non-CO<sub>2</sub> gases will be omitted. Differences in issues such as the gases (Canada will include all GHGs) and sectors included can and should be acceptable. Differences in penalties or price targets may create more serious problems.

Linking will allow for experimentation with features that are not currently included in the EU ETS and speed up adoption of those features that will be seen to work. There is a lot to digest in Europe in getting this scheme up and running. Coupled with the lack of regulatory regimes pre-2008 in other jurisdictions, it will be challenging to have any linkages take place before 2008.

Andrei Marcu  
Executive Director  
International Emissions Trading Association (IETA)

## The NAP process: Germany settles on a number

Germany has decided that the country's national allocation plan (NAP) under the EU emissions trading scheme (ETS) should reflect German industry's voluntary commitment to reduce greenhouse gas emissions by 45 million tonnes CO<sub>2</sub> equivalents (MtCO<sub>2</sub>e) annually. That was the conclusion following a meeting where Chancellor Gerhard Schröder, Economy Minister Wolfgang Clement, Environment Minister Jürgen Trittin and representatives from the German energy sector were present.

- We will need to take a closer look at which of the sectors that agreed on the voluntary emission reductions are covered by the EU ETS, but the annual 45 MtCO<sub>2</sub>e reductions will provide the framework for the NAP, confirmed **Dr. Patrick Graichen** at the German environment ministry. He added that the consequence of the phase-out of the German nuclear industry is another issue that needs to be sorted out. Industry feels that Germany will need additional credits as a result of the phase-out, while environmental groups hold the opposite position.

- German industry committed itself to this target voluntarily in 2000. At that time there was no clear-cut sanction system to enforce if the target was not reached. With the introduction of the EU ETS, that has changed. Still, I believe that German industry overall accepts the target, even though there are diverging views, Graichen told Point Carbon.

While German industry was opposed to emissions trading initially, Graichen believes that most of the included companies are coming around.

- Some, like the major oil companies, want emissions trading to start as quickly as possible, while others are still reluctant. However, I do believe that most of them are realising that there is no way out, and are gradually finding that emissions trading can actually provide benefits, through cost-savings for achieving their target and the potential of making a profit from it, Graichen said. For Germany, the timing of the NAP is a delicate issue. Because data on individual installations' emissions is still being collected, the first draft of the NAP will probably not be out for public comments until late February 2004.

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## EU, Canada and Switzerland discuss ET linkages

The EU ETS opens for mutual recognition of allowances from trading programs in Kyoto countries, and there are reports of ongoing talks on this between the EU, Canada and Switzerland. Other countries with emerging trading systems, like Norway and Japan, could also be interested in engaging in such talks with Brussels.

- With limited time before the introduction of the EU ETS no formal links are expected before 2008, but we could see a situation where the players in the market take it upon themselves to induce informal links prior to the first Kyoto period, e.g. through swaps of allowances, said **Henrik Hasselknippe** at the Fridtjof Nansen Institute.

- As for Japan, the situation regarding their domestic trading system is still too unclear to say anything certain about possible linkages. It is clear, however, that the Japanese must be aware of the potential cost reductions they could achieve through linking up to what will sooner or later be a global market.

- Another important aspect is the role of the mechanisms in the different trading systems. For instance, let us say the Canadian system allows for credits from CDM projects that are not eligible under the EU ETS. This will present policy makers with severe difficulties should they seek to link their respective trading systems, he noted.

Hasselknippe believed that any technical obstacles to create linkages can be overcome: - Essentially, all that is needed for mutual recognition of trading programs is a common unit of trade, or CO<sub>2</sub>-equivalents.

## Swiss complexity may disrupt ties to the EU scheme

Work has been going on for several years to design a Swiss emissions trading scheme, and although it has not been finalized yet, it seems that it could be difficult to link the Swiss scheme to the EU one. Consultant **Urs Brodmann** at Factor AG explained:

- The Swiss scheme is much more focused on voluntary internal emissions abatement than trading. Companies are taking on relative targets for 2008-12 based on production output, taking into account each company's concrete abatement potential. Tradable allowances are to be issued based on projected outputs in the target period. Allocations will be adjusted retrospectively, based on observed output levels.

- While companies in the EU scheme will have absolute caps, the Swiss ones will actually be in a position where they can obtain additional allowances for free by increasing their production output. This has led some experts to conclude that the two schemes are basically incompatible, he said.

Linking is unlikely before 2008, as Swiss companies will receive no allocations for 2005-07. Instead, they will have to prove that they are on track for their 2008-12 targets by demonstrating concrete abatement action.

The driver of the Swiss scheme is a carbon tax which government can introduce in 2005. Companies that comply with their voluntary targets will be exempted from paying the tax.

If the Swiss and EU schemes link up, the actual scope for trading may be minimal if the current system of relative targets is maintained, Urs Brodmann said.

## Point Carbon and RISI to analyse carbon market impacts on pulp & paper industries

Point Carbon has formed an exclusive partnership with RISI, the leading provider of research, analysis and forecasting to the pulp and paper industry. - The emerging EU carbon emissions trading scheme means European pulp and paper companies will face carbon constraints in the near future. We therefore plan to tailor-make information, analysis and consultancy focusing on how the EU carbon market will impact European pulp and paper industry. This will be done by combining Point Carbon's market intelligence and models for the carbon emissions markets with RISI's comprehensive information and analysis services for the pulp and paper markets, said **Per-Otto Wold**, Chairman at Point Carbon.

Point Carbon will supply the information, analysis and forecasts related to the carbon emissions markets. RISI, a Paperloop subsidiary, will supply information and forecasts on the pulp and paper industry itself, along with providing the marketing and sales support for the partnership. The two are soon to launch a joint report on how carbon markets are projected to affect the European pulp and paper industry.

**Rod Young**, President of RISI, said: - This report will include an introduction to carbon markets in general, as well as an initial assessment of the likely impact on the pulp and paper industry. RISI forecasts of output and production costs will be used to provide a detailed analysis of the effects of carbon emissions regulation on the different sectors of the pulp and paper industry. Point Carbon forecasts of carbon pricing and likely positioning of the industry with respect to the total carbon market will be combined with the RISI data to allow companies to take an initial assessment of the impact of the carbon market on their business

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