

IN BRIEF

- o EC looks into quality controls for CDM;
- o Voluntary market in Australia stalls;
- o Canada, the US and climate policy: better together?
- o China to exhaust hydro capacity?
- o The carbon market this week.

EU Emission Trading Scheme

EC looks into quality controls for CDM

While the CDM Executive Board continues its investigation regarding the possibility that some industrial gas producers destroying the gas HCF23 might have received undeserved credits, European Commissioner for Climate Action Hedegaard has announced that a proposal to increase the quality standards for the use of credits from such activities will be drafted by her services for the third phase of the EU ETS. This move comes after mounting scrutiny as to the environmental integrity of the industrial gas production within the CDM crediting system and numerous calls for clarity including that of the International Emission Trading Association (IETA), which had sent a letter to the EC earlier this week. IETA asked the Commission to detail how many additional CDM credits would be allowed in the event that the Union decided to go for the stricter target – a 30 percent reduction from 1990 levels by 2020. In particular, IETA suggested that only half of the additional burden should be allowed to be covered by such credits. Under the current target about 1.7 million CDM credits will be used by European companies between 2008 and 2020. Following Hedegaard's announcement, the Carbon Market and Investor's Association joined the debate by calling for the EU to announce precise rules for industrial gas activities under CDM

News from the World

Voluntary market in Australia stalls

The entry into force of the national Carbon Offset Standard (NCOS) on July 1 is having dramatic impacts on the voluntary carbon market, which had flourished in Australia between 2007 and 2008. In fact, the new standards set that voluntary credits can be generated only from projects that do not count towards the Australia's target under the Kyoto Protocol, leaving only a few agriculture and forestry projects available for such crediting system. Project developers complain that since Australia was supposed to have its own emission trading system -the Carbon Pollution Reduction Scheme (CPRS), introduced but rejected by the Senate and not likely to be back before 2013- policy makers are not providing any structure for the voluntary market, as it may clash with the future rules of CPRS. Now developers call for the NCOS review to safeguard the voluntary market.

Canada, the US and climate policy: better together?

In a report released this week by a Canadian think tank, the C.D Howe Institute, the Canadian strategy to harmonize its climate policy to that of the United States is analysed in detail, showing why it could be better for Canada to adopt a go-it-alone strategy instead. Due to its fewer low-cost opportunities to reduce greenhouse gases in the electricity sector, because of an energy mix that is already greener than that of the US, Canada is likely to face higher abatement costs if the two countries had the same reduction targets. This could lead covered entities to look for cheaper reduction opportunities abroad, leading to an outflow of financial resources from Canada. Moreover, Canadian industries in the oil and gas sectors need to drive major investments, which could be undermined by a permit system with too low prices. Finally, the current stalemate in which climate policy appears to be in the US makes it risky to wait for a bill that might not come soon enough to halt major impacts and achieve the necessary emission reductions Canada is committed to by 2050. According to the C.D Howe Institute going alone might be a lower-risk strategy if Canada wishes to remain in step with the US, especially in terms of relative carbon prices. The report can be downloaded at http://www.cdhowe.org/pdf/commentary_307.pdf

China to exhaust hydro capacity?

The Director of the Chinese National Energy Association announced this week a projected inclusion of 100,000 and 150,000 gigawatt (GW) of hydro capacity to the national grid. This added capacity should be realised by 2015 and would bring the total hydroelectric generation in China up to 350,000 GW, almost exhausting the realistic potential capacity of the country. China has had some issues getting approved CDM projects in the hydroelectric sector, as some of them appeared to lack the required additionality, being profitable even outside of the CDM framework. It is not yet clear how the projected expansion of state-owned hydroelectric capacity will affect CDM opportunities in this sector, despite the optimism of some project developers, who say that there will still be room for small-scale projects.

The Carbon Market

Carbon prices went on a bullish ride this last few days, hitting a two-month high intraday on Thursday, when the EUA2010 hit €15.55. The benchmark contract closed at €15.29 mainly spurred by the results of the German auction held this week, which cleared 570,000 allowances at €15.16 on Wednesday. Weaker coal prices and increasing gas prices reinforced the bullish trend during the week, causing an almost 3.5 percent increase in carbon prices. After a major increase in the third week of August, CER prices stabilized this week, with the CER2010 closing at € 13.42 on Friday. Volumes were slightly larger than the previous week, with around 17 millions exchanged over all platforms.

SOURCES TO THIS ISSUE

Pointcarbon, Reuters interactive, Climate Ark, Euractiv, Carbon Finance website.
News and updates selected and edited by Caterina Cruciani, Fondazione Eni Enrico Mattei.
For questions and comments please contact: caterina.cruciani@feem.it