
EU EMISSION TRADING SCHEME

Allocations of the week

On Monday, Germany started issuing the 453 million EU allowances it has been allowed to divide among its installations for the second phase of the EU ETS, followed by the UK on Thursday, well before the deadline set by the European Commission, February 28. The UK has Europe's second biggest allocation of allowances in the scheme, with 252 million allowances.

CCS funds cut again

Funds originally proposed to finance CCS projects have been revised, leaving less money to be spread among more projects. In fact, in its €5-billion stimulus package announced in January the European Commission had proposed to spend €1.25 billion on funding plants that will capture and store carbon dioxide underground. The revised proposal cuts by €100 million the proposed funding, leaving €1.15 billion for the clean coal projects and includes two more countries- Italy and France- to the original list of fund recipients Germany, Netherlands, Poland, Spain and the UK. Under this revised proposal, the original five countries will now receive €200 million for CCS development, while Italy will receive €100 million and France €50 million, even if France and Italy only have one projects and the other countries have more. Even if CCS is receiving less, overall the energy sector financing has increased from €3.5 to €3.75 billions, even if the entire package is under legal threat as most of the funding should come from unspent 2008 money budget, which according to the legal services could not be available in 2009.

NEWS FROM THE WORLD

Brazil launches the "descending carbon spiral"

The Brazilian environmental minister Carlos Minc outlined a €100 billion fund that could encourage poor countries to reduce emissions during a ministerial meeting on the sidelines of a UN Environment Programme meeting in Nairobi. The climate fund, nicknamed "descending carbon spiral", would be sourced primarily by a 10 per cent levy on clean development mechanism (CDM) transactions and the requisitioning of 10 per cent of the profits from production and trading of oil and coal, which could make up about €100billions. The fund, based on the principle of common but differentiated responsibility, would be used to finance immediate action in developing countries on mitigating climate change, and helping the most vulnerable regions to adapt. The

proposal also suggests that the fund would be used as an incentive to prevent the further loss of forests, with investments being linked to a value-per-hectare of forest preserved intact, but it is not yet the official negotiating position of the Brazilian government.

First ERU issuance coming in days

The first emission reduction units (ERUs) from a Joint Implementation project are set to be issued, as the JI Supervisory Committee approved the German verification firm TÜV Süd as the first accredited independent entity (AIE) for JI. Although around 15 verification companies have been able to carry out validation, verification and monitoring work, they have not been able to submit reports that would lead to the release of JI carbon credits into the market. As for TÜV Süd, since the final verification report the firm prepared for a project in Ukraine has already been accepted, the ERUs should be issued in a matter of days. The project, capturing and using coal-mine methane at the Zasyadko mine in Ukraine, is set to be issued with 331,000 ERUs for reductions made between January and June 2008. To avoid double-counting, governments whose countries host JI projects must convert AAUs (credits given to governments under the Kyoto Protocol) to ERUs, by cancelling the former credits.

THE CARBON MARKET

After another bearish Monday, a bullish trend kicked in which brought carbon prices to recover an astonishing 11 percent in one day on Wednesday, with the EUA2009 at €9.75 and over 42 million allowances exchanged over all platforms during the day, 20 millions of which were EUAs. Another bullish day followed, with another 11 percent gain for the European allowances in an extremely brisk day that saw EUA2009 back over €10, at €10.81. On the secondary CER market prices followed the same trend, with CER2009 closing up at €9.75. Weaker energy prices and the urge to cash in some gains after last week's levels pushed carbon prices down again on Friday, when the EUA2009 closed at €9.96 and CER contracts shedding almost 10 percent on Thursday's close.

SOURCES TO THIS ISSUE

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