
EU EMISSION TRADING SCHEME

More AAU deals concluded

More details have emerged about the scandal over the sale of 15.15 million Assigned Amount Units (AAUs) concluded last year by the Slovakian minister that caused the sacking of the environment minister; apparently the government had declared to have sold a lower amount of AAUs and at a lower price than actually done, with €75.75 million arriving in the country's pockets instead of €60 million. The Slovakian Prime Minister has declared that the country will not rescind the contract and that revenues will be used in the national green investment schemes (GIS). This year AAU deals have been at the centre of a fierce debate about their possible negative impact on the environmental effectiveness and credibility of climate change commitments, besides the questions about how the revenues coming from these sales will be spent. Ukraine has been at the forefront of the AAUs sellers with a stunning amount of sales concluded, including a Memorandum of Understanding (MoU) signed with the World Bank at the end of May stating how the country should use revenues in national GIS that could lead to a further 10 million sale. Moreover, it is concluding a 300 million AAUs deal with Japan and another 150 million AAU sale with two private companies.

European emissions decline for the third year running

According to the latest inventory released by the European Environmental Agency at the end of May, emissions in 2007 fell 1.2 per cent from 2006 to 2007, putting overall EU emissions 9.3 per cent below 1990 levels, with warmer weather and more expensive fuels basically driving the reductions.

NEWS FROM THE WORLD

UNFCCC Bonn meeting kicks off

Monday June 1 was the kick-off day of the UN climate talks that engage UNFCCC parties before the next conference of parties in Copenhagen this December. The meeting will last for two weeks and parties are

expected to debate the draft text proposed in mid-May by the UNFCCC, that should serve to draft a Kyoto successor.

In the first days of the conference financing climate change action has been a major issue. A draft report of the European Union finance ministers obtained by Reuters confirms that at least €100 billion will be necessary to help developing countries to cope with climate change. On this topic Mexico proposed to create a fund into which developed and developing countries pay according to their GDP, emissions and population, which could raise money for poor countries to cut emissions and adapt to climate change. This proposal caused mixed reactions: the European representative Runge-Metzer declared that, although the Mexican proposal is interesting, a common position in the EU has not been reached yet. Jonathan Pershing, the head of the US delegation at UN climate talks in Bonn, has shown support for the proposal which "is similar to the UN model of funding". This first week of talks seems to confirm the north-south divide seen so often in climate negotiations, with developing countries calling for developed ones to undertake serious commitments and the developed countries requiring developing ones to engage in reduction commitments. For example, Pershing called for Russia and China to undertake reductions and confirmed that the US are not going to accept targets that use 1990 as a baseline.

Vote on Waxman-Markey postponed after July 4

After winning the support of the House energy committee a few weeks ago, a full-House vote on the Waxman-Markey energy and cap-and-trade bill, which includes a national ETS targeted to a 17 percent reduction in GHG emissions compared to 2005 by 2020, does not seem likely to happen before July 4. Rumours had it that a vote could be possible carried out last week, but the Bill has still to make its way through other committees, such as the Ways and Means committee and the Agriculture committee. According to an aide to Nancy Pelosi, who is leading the Bill in Congress, there are still some issues such as allowance allocation and how to protect ratepayers from energy price spikes that need to be resolved, with a first deadline set for June 19. According to Terry Tamminen, California's former Environmental Protection Agency secretary, even without a federal Bill passed soon, regional legislation will de facto create an American ETS, as 33 US states are already either participants or observers in one of three regional cap-and-trade programmes.

SOURCES TO THIS ISSUE

Pointcarbon, Reuters interactive, Climate Ark, Euractiv, Carbon Finance website
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Australian ETS passes in the Lower House

After three days of debate the Lower House of the Australian Parliament passed the legislation introducing the carbon pollution reducing scheme (CPRS) last Thursday. Now the Bill will face the Senate vote, which is scheduled to start on June 15. If it passed the CPRS will introduce a domestic ETS starting from July 1, 2011.

IETA calls again for AAU sales ban

As the UN climate talks opened in Bonn, the International Emission Trading Association (IETA) seized the chance to reiterate its call for a ban (or a limit) of assigned amount units (AAUs) sales in order to avoid serious distortions in the carbon market. During the Bonn talks the UN will circulate a draft text that includes a proposal to limit or prevent unlimited banking of AAU after 2012. Despite the significant AAU deals concluded in this phase, Russia is thought likely to carry forward 4 - 6 billion emission rights in any future climate agreement and has already declared that banking of AAUs after 2012 would be one of its conditions for giving its support to a future climate deal.

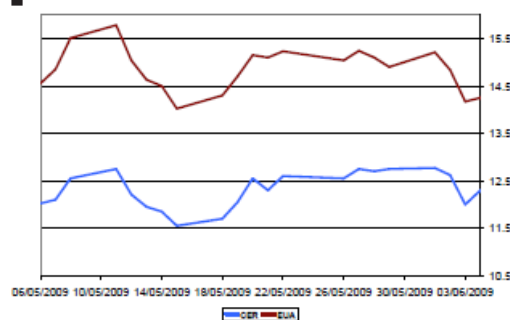
THE CARBON MARKET

Carbon prices traded in a narrow bound during the last week of May, with the EUA2009 closing the week basically unchanged from the previous one at €15.10. Exchange volumes were thinner, with only about 105 million allowances traded, compared to the 122 million average of the past weeks and on the secondary CER market prices did only slightly better than the EUAs, with CER2009 closing the week at €12.70. In the month of May over 489 million allowances exchanged hands, slightly less than in April.

June started off on a bearish note for carbon, with prices shedding about 5 percent from the previous week in the last week. Carbon recovered from the three-week low of €13.77, hit on Thursday, thanks to increasing Brent crude oil prices. The EUA2009 closed the week at €14.01, while on the secondary CER market the CER2009 finished at €12.00. Overall in the last week about 135 million allowances exchanged hands over all platforms.

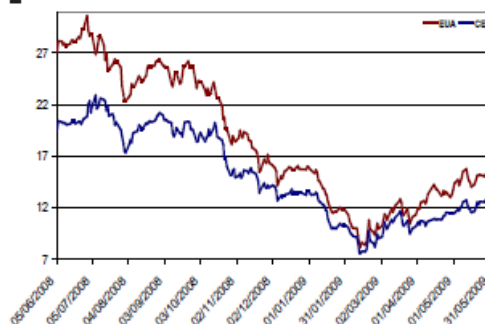
EUA and secondary CER prices (€/t)

Last month



Source: Pointcarbon

Last 12 months



Source: Pointcarbon

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