

EU EMISSION TRADING SCHEME

Control over CCS-targeted allowances under debate

As current market prices make it unlikely that the 300 million allowances set aside to finance the 12 approved CCS projects in the EU will raise enough cash (the €9 billions expected), Member States, who are going to be responsible for the financing of the projects they host in case EU funds do not cover all expenses, have asked to be put in control of their share of the allowances, in order to oversee how they are managed and spent. Chris Davies, rapporteur in charge of the CCS directive would rather call in the European Investment Bank (EIB), which could front the cash in exchange for the control over the allowances. Analysts at WWF worry that leaving the control to the EIB could act as a price floor for the allowances, risking to undermine the whole EU ETS. No decision has been taken yet about the EIB involvement, although informal talks are undergoing, and a formal decision on how to proceed with the allowances is expected no later than September.

European airlines contest cap calculation methodology

A spokesperson for the Association of European Airlines (AEA) has let known that its members are not going to accept the 212 million tonnes cap that the EC is likely to propose for the aviation sector on August, 2, on the grounds that the association has serious doubts on how the cap has been calculated. In fact, the Euro Control has monitored flights for two years, but uses a methodology in which only 43 separate plane models exist, instead of the about 400 existing according to the AEA. This may cause the 33 members of the AEA to fight for a less stringent cap for 2012, year in which the aviation sector will enter the EU ETS.

The power of the desert

This week twelve major firms including such as ABB, Eon, Munich Re and Siemens signed in Munich a memorandum of understanding to create a system of networked solar plants in the desert of North Africa. The Deserted Industrial Initiative is aimed to cover 15 percent of the electricity needs of the European Union and is going to cost about €400 millions. Besides improving energy availability and increase energy security of the Union, this project will also help host countries in North

Africa, developing desalination plants to use marine water for irrigation purposes.

NEWS FROM THE WORLD

Industrial companies' view on an international agreement

In "Securing Europe's Energy Future, Maintaining Competitiveness and Tackling Climate Change", a paper published on July 15, the European Round Table of Industrialists called for a new international regime to include sector-based agreements, with advanced developing countries accepting binding emission cuts. Such sectoral agreements would have to involve at least 80% of world production of products in each particular sector, to reduce carbon leakage risks in exposed EU companies, and lead to CO₂ reductions comparable to what the EU has set. The ERT support a cap and trade system as the best way to achieve emission cuts, but flexible mechanisms such as the CDM should be redesigned to include large-scale projects, including CCS technology, leaving lower costs measures, such as energy efficiency to be financed by developing countries. The report can be downloaded from

<http://www.ert.be/DOC%5C09112.pdf>

EU-China talks

This week, representatives of the European Union visited China to try and bring forward the discussion on a future international agreement. Although China is still resisting the 15-30 percent reduction target that the EU asks from it, more fruitful talks about technology cooperation ended with an agreement to organize future workshops. Clean energy partnerships could play an important role in the definition of an international agreement in Copenhagen later this year.

THE CARBON MARKET

In a very bullish run, carbon prices gained about 6 percent over the week, losing some ground on Friday, which recorded the lowest closing price of the week at €14.02 for the EUA2009 due to bearish signal from gas prices. On the secondary CER market, all vintages recorded major increases, with CER2009 closing at €13 on Wednesday, the highest level since January 7, 2009. The spread between EUA and CER for 2009 reduced to €1.52, compared to last week's €1.71.

SOURCES TO THIS ISSUE

Pointcarbon, Reuters interactive, Climate Ark, Euractiv, Carbon Finance website

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