

EU EMISSION TRADING SCHEME

The race to GIS

Being sellers of AAUs, both Hungary and Latvia have put in place laws that assign the revenues from these sales to so-called Green Investment Schemes, which so far have not even identified the projects they are to finance. The pressure on these countries to get the national GIS up and running as soon as possible, has caused a race over which one will complete this task first, with both countries announcing their GIS will be ready by August. The original start up date for the Latvian GIS was March 2009, while Hungary has been postponing its since last October.

Key deadline for aviation regulation risks being missed

The steps to realize the inclusion of the aviation sector into the EU ETS in 2012 are likely to be considerably slowed down, as the European commission is struggling to identify which airlines should be regulated by which member state. The EC had prepared a provisional list of to-be-capped airlines that included 2,700 companies, several of which disputed their inclusion in the last months. According to the EU's aviation directive capped airlines have to submit their carbon benchmarking plans by August 31; all airlines not abiding this provision are to lose their free allocation of EU allowances for eight years, a significant threat when we consider that free allocation accounts for 97 percent of the 2012 cap and 95 percent of the 2013 cap. Aviation companies to be included in the EU ETS were originally to be identified by February 2009, but the final list has yet to be produced and is not expected before the end of July. Since the aviation sector, especially the cargo operators, has suffered major losses due to recession, it is unlikely that the EC will enforce the August deadline, which will imply a severe financial repercussion on the non-compliant companies.

NEWS FROM THE WORLD

G8 unconvincing historic agreement

This week during the G8 Summit held in L'Aquila, Italy, the group of major economies including Canada, France, Germany, Italy, Japan, Russia, the UK and the US agreed to stop world temperature rise above the **2° Celsius limit**, identified as the upper limit to avoid catastrophic changes in the climate by the IPCC. Following the scientific debate, the G8 countries agreed to halve world emission by 2050

(as required to achieve the 2° limit target according to the IPCC) and supported an ambitious long term target of 80 percent or more for industrialised countries. For the first time the most industrialized countries of the world recognized the 2° limit, with the US supporting the scientific view in climate change also for the first time. Such an historic position did not manage to convince environmental groups as it lack one of its most salient features: a base year on which to calculate emission targets. In fact, the statement is quite vague on the subject, stating simply that reductions should be "compared to 1990 or more recent years".

G8 leaders also discussed the current recession and the need for a transition to a **low-carbon economy**, stressing the importance of greater investment in energy to expand employment and ensure resumption in economic growth, while also reducing emissions of greenhouse gases. The G8 countries pledged continued support for renewable energy and clean coal and acknowledged carbon markets as a central contributor to reducing emissions.

G8 countries pledged also to help financially **developing countries** reduce their emissions, with President Obama even asking international finance ministers to put forward ideas for helping to pay for reform in emerging economies, which will be discussed during the next September G20 meeting in Pittsburgh. Such an opening by President Obama sparked the debate on the future role of the G20 compared to an institution like the G8 that even President Sarkozy had called obsolete. Moreover, in order to achieve consensus on a global agreement on climate change more support has to be gained from developing countries. In fact, during the Major Economies Forum meeting held on Tuesday to facilitate agreements among the 17 parties that make up 75 percent of world emissions, no agreement on a long-term reduction goal for 2050 had been achieved.

THE CARBON MARKET

Thanks to bullish German power prices, carbon gained almost 5 percent this week, closing on a one-month high at €13.97 in the 2009 benchmark contract. Secondary CER gained almost 2 percent and closed the week at €12.08. Carbon prices started increasing on Wednesday, right before the UK auctioned 4.2 million EUAs and right before German power hit a 1.5 percent increase.

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