Market news
IETA-IEA-EPRI Conference

Coralie Laurencin

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EUA-CER spread has been volatile in 2008

Conflicting drivers have pushed the spread up and back down over the last 8 months

- **Upward drivers for CER prices**
  - The pipeline of CDM projects could underdeliver
  - The EB is limiting number of projects which get approval
  - Smaller projects

- **Downward drivers for CER prices**
  - Cap on amount of CERs can be imported into the ETS
  - How much ‘hot air’ is purchased by governments for compliance
  - Qualitative restrictions for post-2012

EUA-CER spread in 2008

- Commission proposal
- Cap on imports
- Doyle amendments
- Drop of 2/3 of CER value
- Less supply
Status of the discussion on the Commissions’ proposed Directive

Some points seem to be agreed

- The 20% and 30% targets
- If an international deal is struck, the cap will increase to 30%: ½ of the additional demand can be met by imported credits
- All credits for utilities will be auctioned
- Cogeneration installations need to receive special treatment in recognition of their efficiency levels

Likely outcome

- Participants will be able to use more than 1.4bn tons of imports over the 2008-2020 timeframe
- Likely tightening of the quality requirements of imported credits
- Compensation for sectors exposed to international competition
- There will be no earmarking of auction revenues

What is being debated

- Amount and quality of import credits that can be imported into the ETS
- Auctioning
  - How to move from free allocation to auctioning for industry
  - Can be handled by a centralised agency
  - Should revenues from allocation be earmarked
- How to address carbon leakage
  - Which sectors are exposed
  - Appropriate compensation
- Which year is the base year to be used as reference for allocating credits: 2005 or 1990
- 10% of allowances will be distributed to Member States for the purposes of solidarity
- What is the smallest installation included in the ETS (currently it is 20MW)
- Include shipping in the ETS from 2015
Expanded use of CDM credits on conditions of quality

Proposed amendments on imported credits

- Improve the quality of imported credits
  - Post 2012 imports used for compliance will have to be from high quality projects
  - Regardless of whether an international deal is struck or not

- Increase the quantity of imported credits
  - Only if an international deal is struck

Propose volume of imported credits in the Doyle amendments in the 2008-2020 timeframe
Drivers for Post-2012 investment framework

- Quality of projects
- Continuity and credibility
- Developing countries commitments
- US participation

**Post 2012 investment framework**
- Demand level (EU, US?, Australia, NZ, Japan?)
- Which countries provide CDM credits
- Which projects qualify

Nothing ▶ Bi-lateral agreements ▶ Global deal
Key points for policy makers

- Cap
  - Level of the cap is paramount
  - Cap drives prices which will lead investment of the path to a low carbon economy

- Auctioning
  - Auctioning is the best method of allocation of credits
  - Sectors exposed to international competition are entitled to special treatment

- CDM
  - Huge challenge to balance continuity and carbon market evolution
  - Avoid retrospective regulation: do not refuse post-2012 first crediting period CERs
  - Do not change Phase 2 rules
  - Allow more volume to flow into Phase 3
  - Create the transition towards increased quality projects
Contact Climate Change Capital

CCC Head Office
Climate Change Capital
3 More London Riverside
London
SE1 2AQ
United Kingdom
Tel: +44 (0)20 7939 5000
Fax: +44 (0)20 7939 5030
www.climatechangecapital.com