Market News

IETA/IEA/EPRI Workshop
Paris, September 22, 2008
What is BlueNext?

- BlueNext is the environmental exchange with global ambition
- Two shareholders are committed to the long term success of BlueNext and will support the company in its future technical and financial developments
Lessons learnt from phase I

• Has the EU ETS delivered?
  – Well functioning market
  – Emission reductions
  – CDM development
  – Cultural change
The Start of Period II of EU ETS
Exchange Vs. Brokers

- Trades made on secured platforms have increased continuously since 2005...
- … especially on spot trading where 95% of contracts have been traded on exchanges in 2008 against 85% in 2007.

Total volumes on European market (EUA) and breakdown between OTC and exchange trades

Source: BlueNext from Reuters
The Start of Period II of EU ETS
Spot Vs. Futures

- Spot market has become more financial in the last months: more and more players are doing arbitrage between spot and futures contract. This is due to the increasing liquidity seen on the spot market and number of members on BlueNext Spot.
- In the actual context of financial crisis, investors try to diversify their investments. Carbon market, spot and futures, is a way to enlarge their product portfolio.

Source: BlueNext from ECX

Market Segmentation in 2008 on EUA markets

Source: BlueNext from ECX
Futures volumes breakdown by maturity

- On EUA market, volumes are concentrated on first delivery (December 2008).
- However, on CER market, volume breakdown is more homogeneous.
- This can be explained by the fact that, on CER market, market players need to cover their total number of CERs whereas on EUA market, they only need to cover the difference between emissions and allocation.

Source: BlueNext à partir d’ECX
The Start of Period II of EU ETS

Prices

EUA Spot and Futures prices (€/t) and volumes

Growing Oil price

Rumours on French Confection to ITL

Moves in energy prices

Source: BlueNext, ECX
Market prices

EUA Spot and Futures prices (€/t) and volumes

Growing Oil price

Rumours on French Connection to ITL
Moves in energy prices

Source: BlueNext, ECX
Market Segmentation

**EUAs Traded Volumes (Mt) and Market Breakdown**

- Spot Exchanges: 23 Mt (2%)
- Futures Exchange (Screen): 555 Mt (39%)
- Futures Exchanges (OTCC): 578 Mt (40%)
- Spot OTC: 1 Mt (0%)

**CERs Traded Volumes (Mt) and Market Breakdown**

- Futures Exchange (Screen): 89 Mt (30%)
- Futures OTC: 42 Mt (14%)
- Futures Exchanges (OTCC): 166 Mt (56%)

*Source: Own calculations based on BlueNext and Exchanges’ Data*
Main issues for post 2012

• Most important issues in the EU proposal:
  – Flexibility between ETS and non ETS sectors
  – Coverage: gases, sectors, installations
  – Community registry vs national registries
  – Allocation
    • Auctioning vs. free allocation, benchmarking
    • Regulation on auctioning : how are auctions organized?
      • Use of auction revenues (earmarking?)
  – Use of offsets : quality & quantity
  – Small installations

➡ Key word for phase 3 : harmonization
Additional « Elephants » in the room

- Post 2012 uncertainty: international negotiations & impact on EU ETS
  - Effort: 20 – 30% reduction
  - Countries with binding reductions?
  - Countries & sectors “CDM able”
  - Potential sectoral agreements
Domestic ETS

EU ETS
2100 Mt

JVETS
0.5 Mt

CCX
25 Mt

Australian ETS
~ 500 Mt

NZ ETS
~ 70 Mt

Alberta
2.6 Mt

Swiss ETS
2.4 Mt

Mandatory Cap & Trade Schemes
Existing

Mandatory Cap & Trade Schemes
To be launched

Voluntary Cap & Trade Schemes

Upcoming national ETS?

Source: BlueNext
## Exchanges & Products

### SPOT EXCHANGES

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<tr>
<th>Opening</th>
<th>Products</th>
<th>Services</th>
<th>2008 Volume (Kt)</th>
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<tr>
<td><strong>BlueNext</strong></td>
<td>June 2005</td>
<td>EUA, CER</td>
<td>38 231</td>
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<td><strong>Climex</strong></td>
<td>March 2005</td>
<td>EUA, (CER)</td>
<td>1 308</td>
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<td><strong>EEX</strong></td>
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<td>EUA</td>
<td>703</td>
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<td><strong>Exaa</strong></td>
<td>June 2005</td>
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<td><strong>Nord Pool</strong></td>
<td>February 2005</td>
<td>EUA</td>
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### FUTURES EXCHANGES

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<th>EU Market Places</th>
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<td>BlueNext</td>
<td>April 2008</td>
<td>EUA, CER</td>
<td>Futures</td>
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<tr>
<td>ECX</td>
<td>April 2005</td>
<td>EUA, CER</td>
<td>Futures, Options, Swap</td>
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<td>EEX</td>
<td>Oct. 2005</td>
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<th>North American Market Places</th>
<th>Opening</th>
<th>Products</th>
<th>Services</th>
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<tr>
<td>NYMEX</td>
<td>Mar. 2008</td>
<td>EUA, CER, RGA + NOX, So2</td>
<td>Futures, Options</td>
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<td>MCeX</td>
<td>May 2008</td>
<td>Canadian emissions (large emitters)</td>
<td>Futures</td>
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<tr>
<th>Indian Market Places</th>
<th>Opening</th>
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<td>NCDEX</td>
<td>April 2008</td>
<td>CER</td>
<td>Futures</td>
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<td>MCX</td>
<td>Jan. 2008</td>
<td>Mini CFI, CER</td>
<td>Futures</td>
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Issues from the exchange perspective

• **Direct interest** as an exchange: a well functioning liquid market (exchanges live by volume)
  – Liquidity: ability to find a counterparty for a transaction, broad participants, tight bid & ask spreads

• **Long term interest**: a stable ETS, long-term existence. Must deliver on the intersection
  – Environmental objective
  – Broad societal concerns, including accounting for competitiveness
Phase III debate – BlueNext interests

• Presence of CERs – will CERs have higher market velocity?
• Consistency on CERs across EU – cannot filter if no consistency
• Auctioning vs free allocation- will auctioning increase liquidity?
• How can auctioning be done to maximize liquidity?
  – Type of auctioning
  – Timing
  – Frequency
  – Participation
• What is better for solid infrastructure - one registry vs 27 registries.
• More gases and sectors: more underlying, diversity of abatement – better liquidity
Supply/demand outlook until 2012
The Kyoto Balance

[Bar chart showing supply and demand outlook until 2012 for EU Gap, Japan's Gap, ROE & NZ, Canada's Gap, EU Policy Steps, Japan Policy Steps, EU Sinks, Japan Sinks, ROE/NZ Sinks, EU CER & ERU, Japan CER & ERU, and ROE/NZ CER & ERU. The values indicate the shortfall in credits available now and the current shortfall.]
Thank you for your attention!
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