

# European Daily Carbon Markets

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## Market Snapshot

Heren CO<sub>2</sub> '07: EUR 0.55/tCO<sub>2</sub>e

There were marginal gains in the Phase II contracts on Thursday, with the main driver again being the German power market. Traders said that the European Commission's expected announcement on Friday regarding the Estonian NAP II (see separate story) was unlikely to have a significant effect on the market because of the small size of the Baltic state's allocation. Nevertheless they acknowledged that the current thinness of talk, largely because of the absence of many players at the Carbon Expo in Cologne, could lead to more substantial movements that would normally be the case.

## Germany leans towards auctioning but has yet to make a decision

Germany will officially decide whether to auction 10% of its total carbon allocation over phase II by the end of June, Matthias Maching, state secretary at the German Federal Ministry of Environment told *Heren Energy* on Thursday.

On the sidelines of an industry conference in Cologne on Thursday, Maching dismissed recent media reports claiming a decision had already been made. "The debate in parliament on this issue will begin in May and a decision will be made by the end of June," he said. He conceded that a consensus was nonetheless emerging towards auctioning.

Jürgen Hacker from the German emissions trading association (BVEK) told *Heren Energy* on Thursday that in June the German government would also have to address the question of how to split the 10% between the national ETS sectors, if auctioning was

given the green light.

BVEK said it backed a share of the potential 10% being auctioned between sectors to avoid any speculation over auction price outturns if bidders were exclusively from the power sector. "We need a mix of players to participate in future auctions," Hacker said. He added that an even bigger question was that of revenues. "A plan will have to be drawn up on how to recycle revenues generated from the auctions. That could take some time," he said.

Addressing delegates in Cologne, Jos Delbeke, European Commission (EC) climate change director said "a logical way to avoid windfall profits in future phases would be to move towards more auctioning." Free allocation versus auctioning will be one of the issues addressed in the EU's emissions trading scheme review set to be published later this year.

## EU states to be left out in the cold if they fail to meet ITL deadline

European countries could be left out of the international transaction log (ITL) if they fail to meet the requirements by the 1st December deadline, Andrei Marcu, president of the international emissions trading association (IETA) told *Heren Energy* on Thursday.

Interviewed at an industry conference in Cologne, Germany, Marcu said: "If there's an option of stopping the system completely or having a smaller number of people moving forward, then I think we would have to move forward."

The ITL is the central hub for monitoring international CO<sub>2</sub> trading.

The IETA president also poured cold water on hopes the ETS could be linked to emerging global carbon markets.

When asked if there was any market that could link to the ETS, Marcu responded: "Nothing right now," adding the Californian market was still too preliminary, the "Reggi" East coast market was too small, and the Canadian efforts may be unable to connect to the ETS for regulatory

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### OTC assessment (€/tCO<sub>2</sub>e)

Period	Bid	Offer	Diff.
Spot	0.52	0.56	0.000
2007	0.53	0.56	-0.015
2008	19.00	19.10	0.050
2009	19.40	19.55	0.075
2010	19.80	19.90	-0.050

### ECX (€/tCO<sub>2</sub>e)

Period	Midpoint	Diff
May '07	0.52	0.520
2007	0.54	-0.020
2008	19.10	0.120

### Nordpool (€/tCO<sub>2</sub>e)

Period	Midpoint	Diff
2007	0.52	-0.030
2008	19.10	-0.100
2009	19.45	-0.250

### Carbon Spot (€/tCO<sub>2</sub>e)

Exchange	(kt)	
	Price	Volume
Powernext	0.530	25
EEX	n/a	n/a

### UK Clean Spark Spreads

Period	Gas (p/th)	Power (£/MWh)	Spark spread (£/MWh)	Clean spread (£/MWh)
Day-ahead	20.40	19.60	5.44	5.29
June '07	21.40	23.65	8.79	8.63
Winter 07	44.63	39.65	8.66	5.91
Summer 08	29.60	34.45	13.89	8.56
Winter 08	45.05	41.75	10.46	5.07

### UK Clean Dark Spreads

Period	Coal (\$/tonne)	Power (£/MWh)	Dark spread (£/MWh)	Clean spread (£/MWh)
Day-ahead	71.70	19.60	5.13	4.78
June '07	71.65	23.65	9.19	8.84
Winter 07	72.94	39.65	24.93	18.61
Summer 08	72.84	34.45	19.75	7.45
Winter 08	72.74	41.75	27.07	14.64

### German Clean Spark Spreads

Period	Gas (€/MWh)	Power (€/MWh)	Spark spread (€/MWh)	Clean spread (€/MWh)
Day-ahead	10.24	32.23	11.39	11.17
June '07	11.10	39.50	16.91	16.68
Q3 '07	10.80	46.25	24.27	24.04
Year 2008	20.08	55.10	14.24	6.41

### German Clean Dark Spreads

Period	Coal (\$/tonne)	Power (€/MWh)	Dark sprd (€/MWh)	Clean sprd (€/MWh)
Day-ahead	71.70	32.23	11.00	10.48
June '07	71.65	39.50	18.28	17.76
Q3 '07	72.25	46.25	24.86	24.33
Year 2008	72.65	55.10	33.59	15.30

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reasons.

Speaking on Thursday, Jos Delbeke, director for climate change at the European Commission, said: "EU will do everything necessary to incorporate registries to the ITL by the 1st December deadline," adding "For the ITL, all (parties) need to move at once and this will require discipline from the member states."

Doubts remain whether all EU member states will meet the December deadline, although Delbeke said this was a "self-inflicted deadline by the regulated sector."

Such uncertainty has impacted on other carbon mechanisms. According to Societe Generale's Emmanuel Fages, trading activity on the secondary certified emissions reductions (CERs) market is dwindling due to ongoing ITL ambiguity.

"Although the UN climate department has said it is confident European registries will have established the ITL link by the end

of this year in time for December deliveries, the risk that not all will be ready in time due to incompatibility issues has frightened buyers out of the market," he said in a research note.

"The market needs more transparency on the implementation timeline, more understanding on the key process steps to be followed, more clarity [now] on what is going right, or wrong."

IETA's Marcu reiterated this sentiment in regards to the ETS' Phase III, saying many market participants were now calling for some type of auctioning. Unlike Phase I and II, when limited auctioning took place, market sentiment is gradually moving towards this model.

But Marcu said there were limits. "We didn't like the auctioning done in some of the Nordic states," he said. "It's a risky proposition, auctioning in an untested market."

## Italian banks are missing out on arbitrage opportunities – GME

**Italian financial institutions** are missing out on lucrative arbitrage opportunities between the recently launched Italian carbon trading platform and other European hubs, Stefano Alaimo, director of environmental markets at Italian energy market operator GME said on Thursday.

In an interview with *Heren Energy* at an industry event in Cologne, Alaimo said: "Banks in Italy are being slow to enter the carbon market, which reflects the general behaviour of Italian installations towards carbon trading." GME recently introduced carbon spot trading (see *EDCM 2.052*) to complete its environmental markets segment. The platform already lists green and energy efficiency certificates.

"On numerous occasions since the launch of spot carbon trading, the best bid on our platform has been higher than the best offer on other platform and vice versa," Alaimo said. He added this occurred mainly because liquidity had yet to take off at GME. "Every market needs financials to create liquidity," he said. However, stringent Italian financial market legislation is currently hampering bank activity. Italy is set to sign up to the EU directive on financial services before the end of this year, set to give companies more trading flexibility.

Alaimo added active banks could also play a role in advising smaller companies on how to efficiently manage their carbon portfolios.

## Next NAP decision for Estonia

**Estonia will be** the next country to get the European Commission's (EC) verdict on its second phase National Allocation Plan (NAP II), an EC official said on Thursday.

Jos Delbeke, director for climate change and air at the EU, told *Heren Energy* at the sidelines of an industry conference in Cologne, Germany, the Estonian decision was imminent. Later on Thursday, the EC published a notification document on its website stating the Estonian NAP decision would be published on Friday 4th May.

Delbeke would not be drawn on when the EC would rule on the Italian NAP II, but insisted a decision was not far off. The Italian Ministry of Environment recently said it expected a decision on its NAP II after the summer, although this date could not be confirmed by the EC.

He agreed with the growing perception that Italian companies are predominantly just complying with ETS and not actively entering the market. He believes that certain Italian installations used 2007 allowances for 2006 compliance, "simply delaying the problem." Alaimo was not discouraged by the slow pick up of trading on its platform nor was he particularly worried about the competition.

"We are getting more and more interest from parties outside Italy as the market senses things are starting to change here," he said. When questioned on whether the GME platform was currently imbalanced, with a lot of companies in demand – Italy is overall short – and few buyers, Alaimo said not all Italian players had a net allowance deficit and demand would be met. There were also generous allocations in certain Italian sectors under phase I and there is a belief that Italian companies will take to carbon trading when they find themselves with large short position under phase II.

GME already has a Certified Emissions Reduction (CER) book, as recently revealed by *Heren Energy* (see *EDCM 2.078*), although it will remain empty until a sufficient number of registries are connected to the International Transaction Log (ITL), Alaimo explained. The Italian market operator said that in the long term it was open to potential partnerships on carbon trading, although Alaimo declined to provide further information on this aspect.

## New Values to launch CER spot contract

**Dutch New Values** is ready to list a spot Certified Emissions Reductions (CER) on its trading platform but is waiting for enough countries to be linked to the International Transaction Log (ITL) to launch, the exchange told *Heren Energy* on Thursday.

New Values, part of the pan-European carbon trading platform Climex Alliance, is the latest exchange to firm up its CER plans, following French Powernext, Nordic energy exchange Nord Pool, ECX and Italian market operator GME.

"The platform is technically ready but there are outstanding eligibility issues with certain countries under Kyoto and EU registries need to be connected to the ITL," the company said. New Values already organises auctions for CERs, Emissions Reduction Units (ERU) and said it would also launch a spot ERU contract when the time was right.

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