
Klimaforum

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Oslo, 4 februar 2008

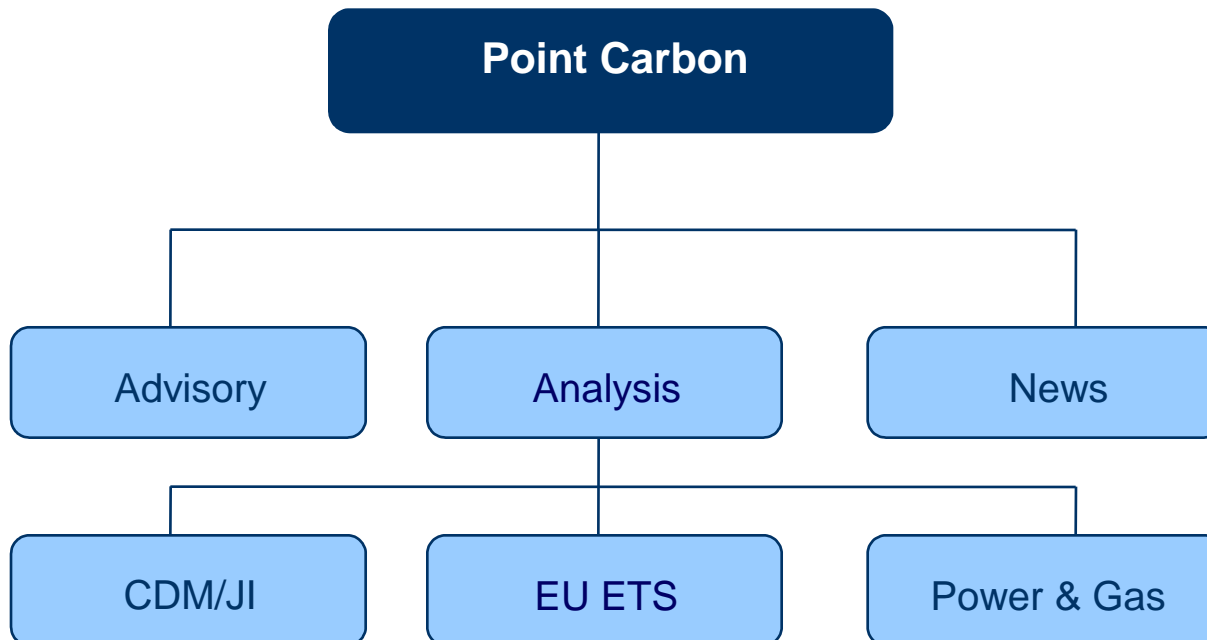
Agenda

- Kort om kvotemarkedet i 2007
 - Og litt om prisene så langt i 2008
- Kommentarer til EUs klimapakke
 - Markedsimplikasjoner
 - Potensielle utfordringer
- Norge: Et annerledesland i det europeiske kvotemarkedet
 - Regjeringen aktiv selger av EUA-sCER spreaden. Hvorfor?
 - Hvordan skal man sikre faktiske reduksjoner i kvotesektorene?

NB! De fleste lysbilder er på engelsk...håper det går greit.

About us

- Consultancy services and independent analysis
- Providing critical insights into energy and environmental markets
- 140+ employees. Oslo, London, Washington DC, Kiev, Tokyo, Brussels
- More than 15,000 subscribers in 150 countries



Kort om markedet og priser

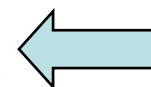
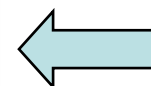
Steady growth in the global carbon market

Reported and estimated volumes for the years 2005, 2006 and 2007, together with the volumes forecasted in our February 2007 CMA, "Outlook for 2007."

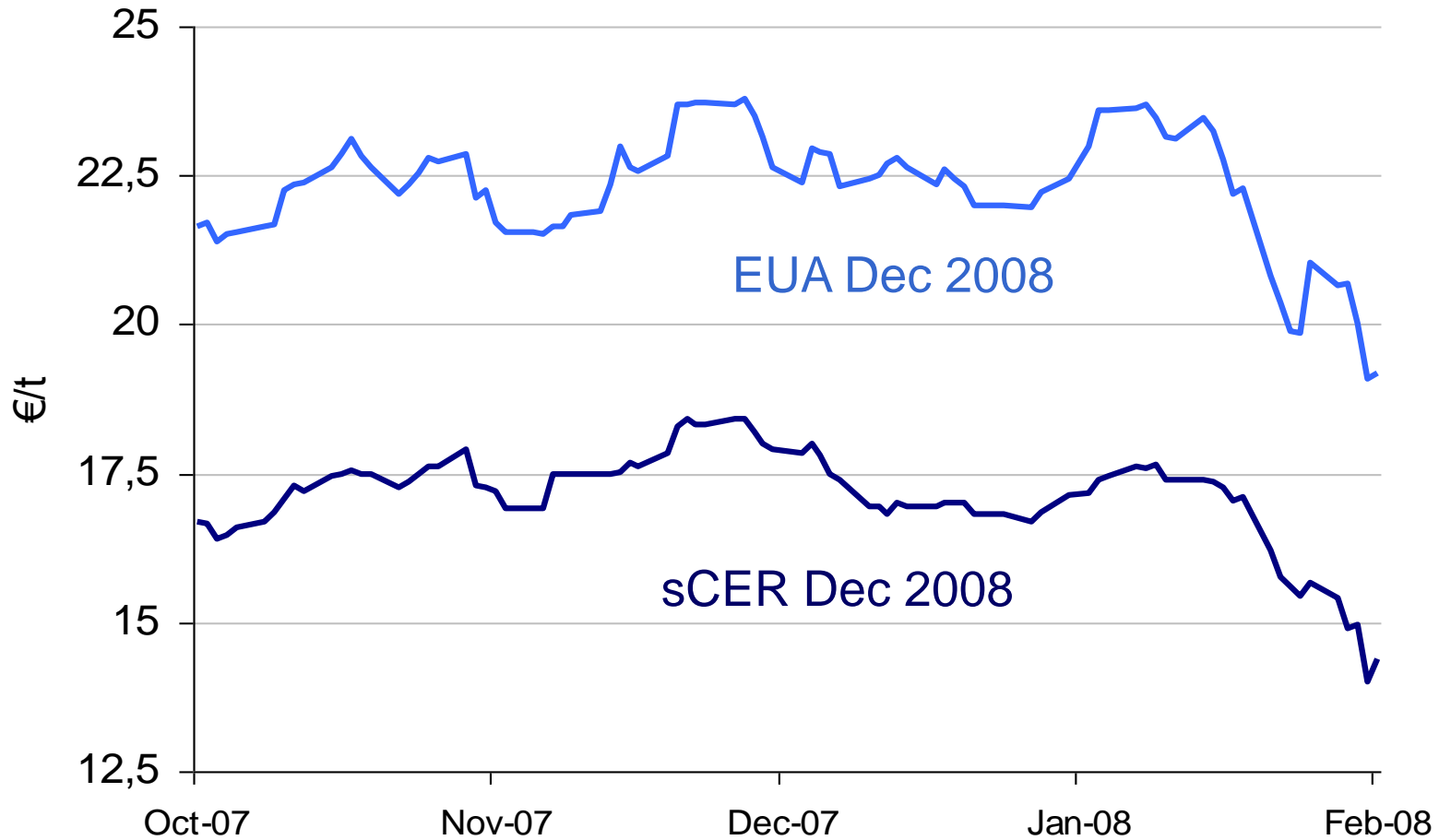
	2005		2006		2007			
	Final figures		Final figures		February forecast *		Final figures	
	[Mt]	[€ million]	[Mt]	[€ million]	[Mt]	[€ million]	[Mt]	[€ million]
EUA total **	362	7,218	1,017	18,143	1,750	18,503	1,643	28,133
- OTC	207	4,269	627	11,180	-	-	1,009	17,278
- exchanges	55	1,131	190	3,395	-	-	434	7,431
CER total	401	2,038	563	3,920	552	4,321	947	11,737
- Primary	397	1,985	523	3,349	456	3,260	597	5,984
- Secondary	4	50	40	571	96	1,061	350	5,753
ERU total	28	96	21	95	45	277	38	326
Other total	7.8	52	31	300	50	500	48	186
Sum	799	9,401	1,632	22,458	2,397	23,601	2,676	40,382

* Point Carbon does not forecast market value. Rather, prevailing carbon prices at the time of the forecast are used to project the financial value of the forecast volume.

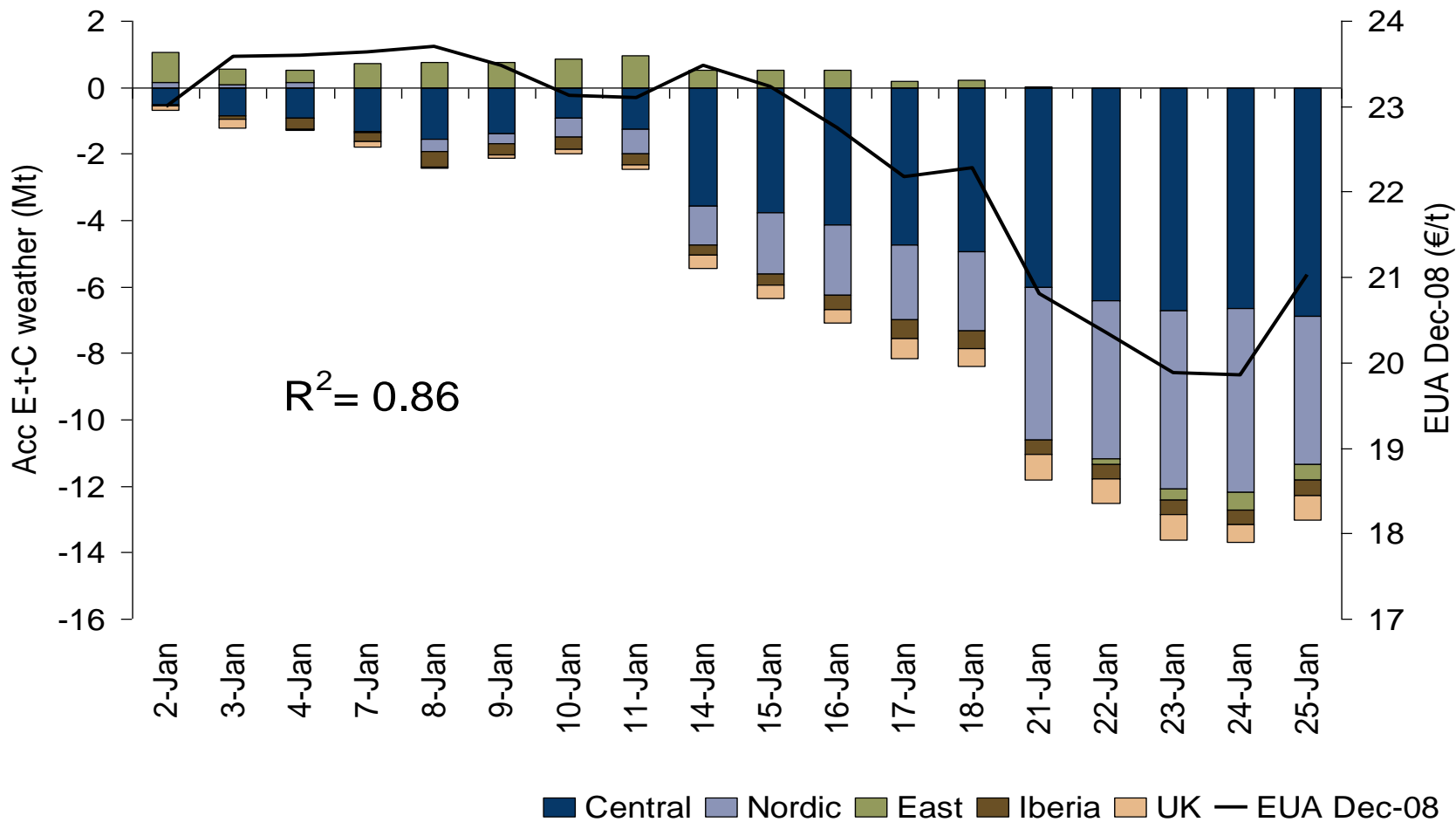
** The EUA total also includes an estimate of bilateral volumes (not shown).



EUAs & sCERs – volatile start to the new year



Accumulated E-t-C, weather versus "normal"

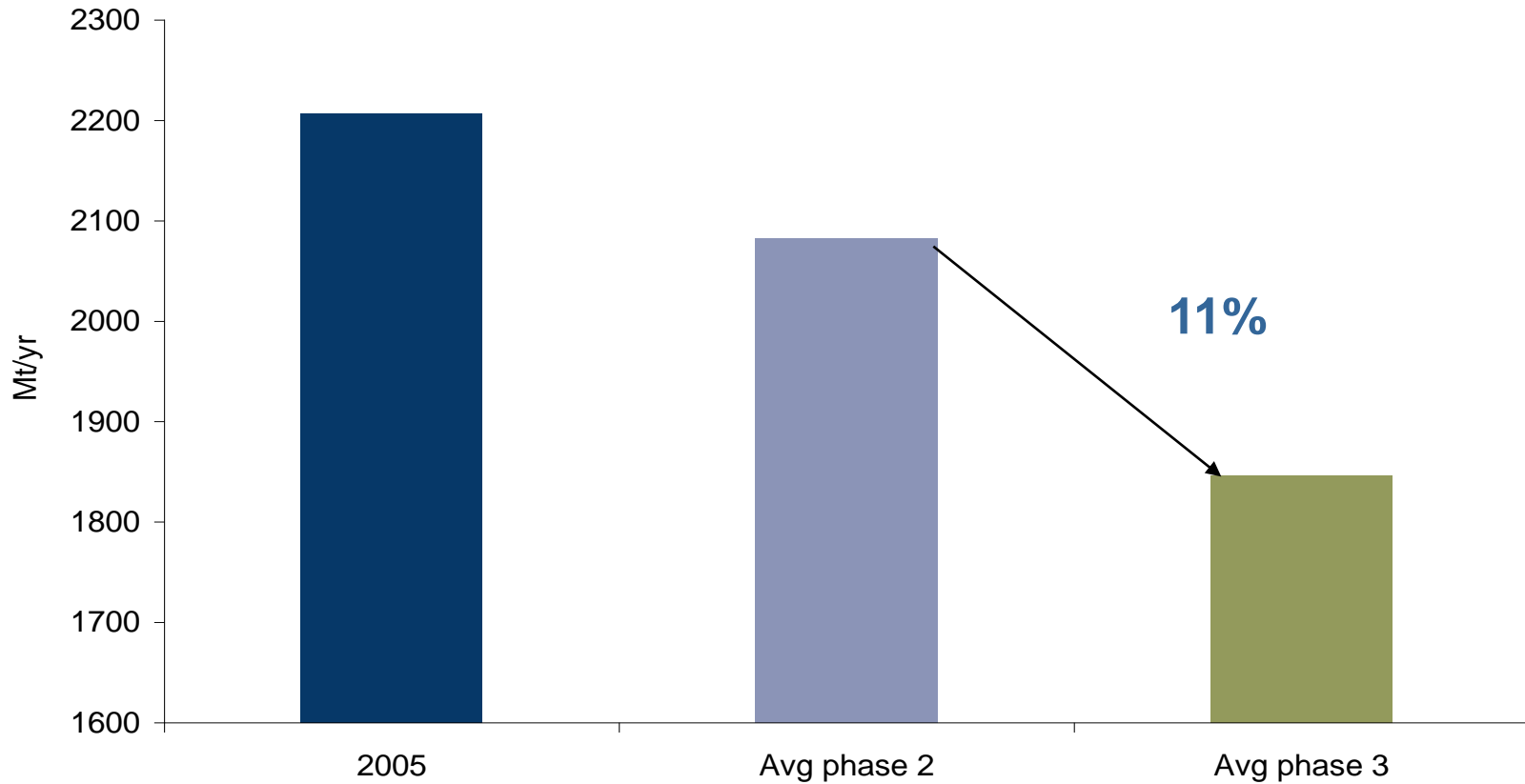


Forslag til nytt EU kvotedirektiv

EU ETS review: Overall assessment

- Direct impact also in phase 2
 - CER/ERU "generosity" corrected
 - Ensuring EU reductions by extending credit limit to phase 3
- Linking the internal EU process to the global one
 - EU credit demand as carrot (stick) in negotiations
- Consistency across proposals in package
 - But what happens if Res directive not delivers?

Allocation (20% EU reduction target)



Source: Point Carbon

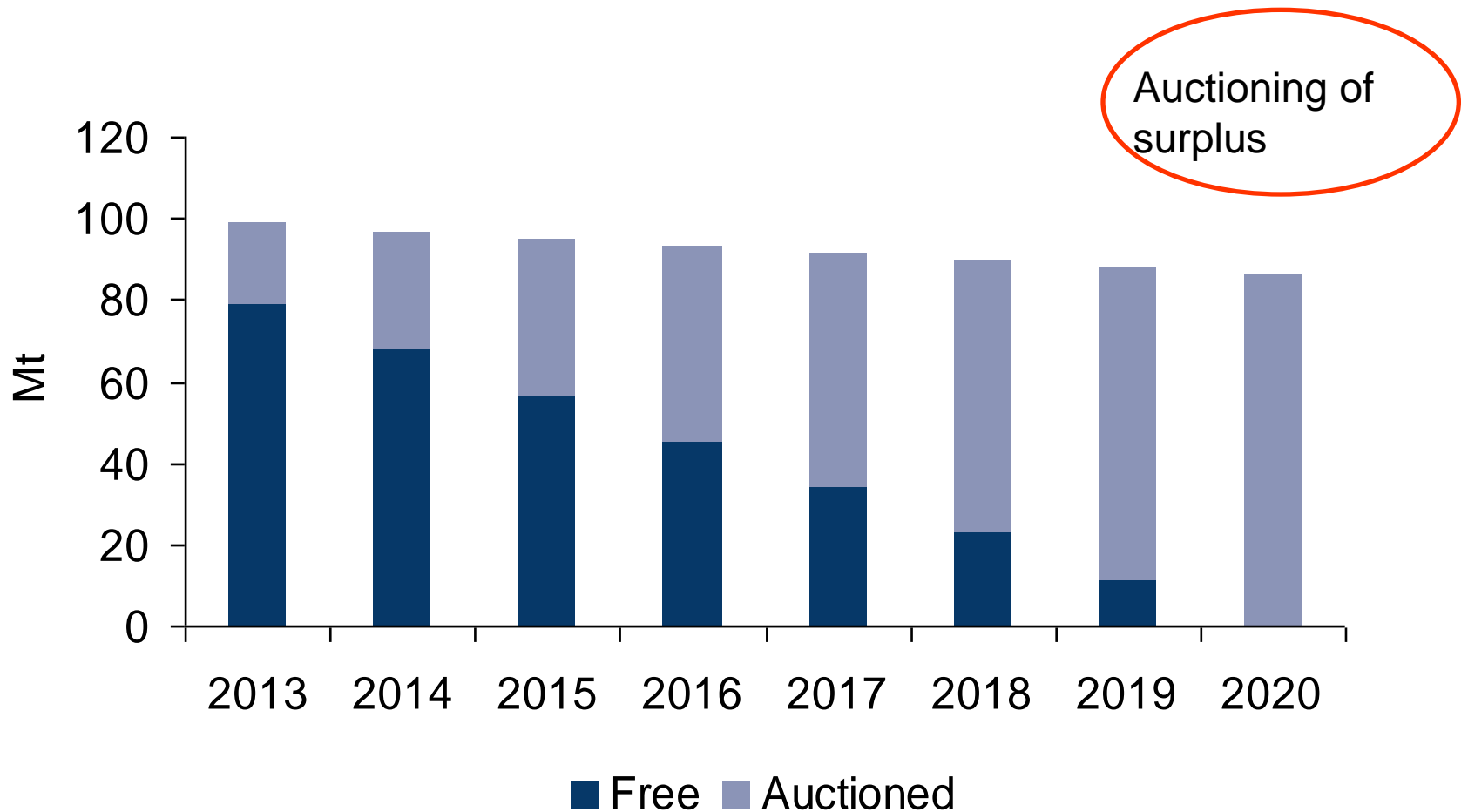
Auctioning

- Auctions will be set up by Member States
 - Harmonised auctioning rules shall be adopted by 2011
 - Auctions will be open, transparent and non-discriminatory
- How will the right to action be distributed among Member States?
 - 90% of auction volume distributed according to 2005 emissions
 - 10% of auction volume distributed for the purpose of EU "solidarity and growth" (more revenue to newest Member States)
- Timing of auctions might be a problem
 - (Some) Member States will set up national platforms
 - Others might use common EU platform?

New entrant reserves

- 5 % of total allocation each year
- New electricity producers will not receive any allowances for free
- New industry installations will receive 80% for free in 2013, decreasing to 0% in 2020
 - Rest (e.g 20% in 2013) will be auctioned that year
- Surplus will be auctioned in 2020, and not after each year

NER allocation



Credit limit (20% reduction target)

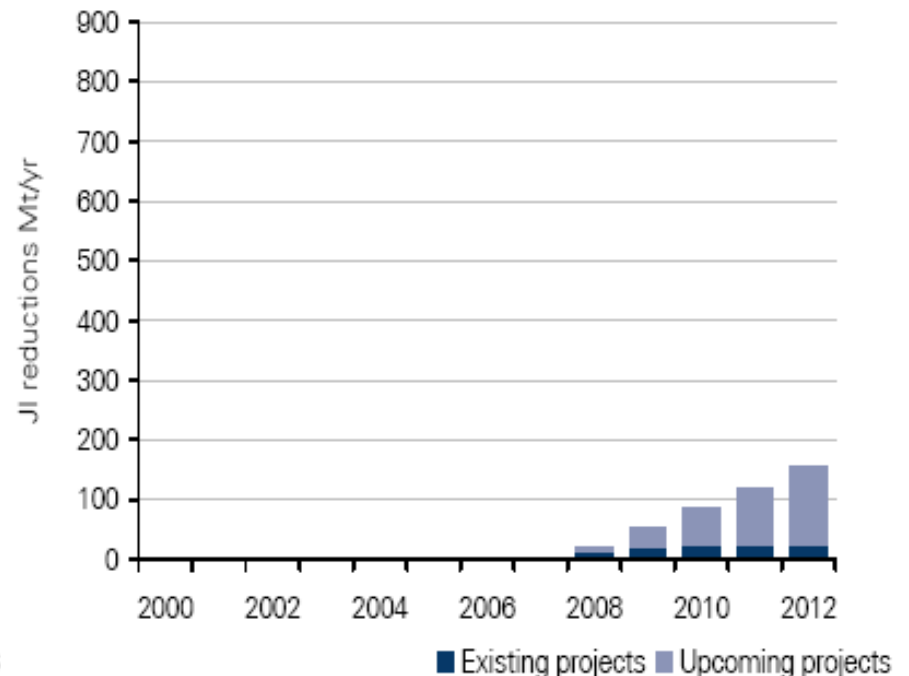
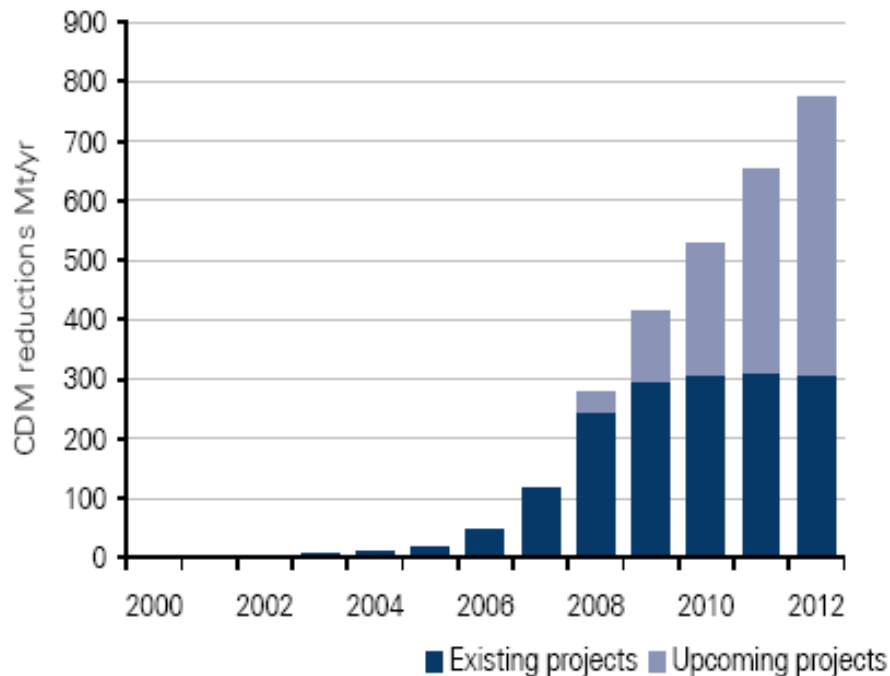
- Phase 2 credit limit expanded to cover phase 3
 - On average: 108 Mt/yr over 2008-2020 period
- "Banking": Exchanging CERs/ERUs with phase 3 EUAs
 - Member States must make this exchange up to 31 Dec 2014

Which credits can be used in phase 3?

- All reductions from the 2008-2012 period
- Reductions from projects started after 2012
 - CDM projects established before 2013
 - CDM projects started after 2013 in Least developed countries
 - Credits from projects started after 2013 based on agreements with third countries (in case of delayed international agreement)

CDM and JI

Figure 3: Expected emissions reductions (risk-adjusted) from existing and upcoming CDM and JI projects
Total CDM and JI emission reduction forecast, in Mt.



EU reduction target increasing to 30%

- On the back of a "satisfactory" international agreement the EU reduction target could increase to 30%
 - Depending on commitments from US and key developing countries
- EU target will not necessarily be 30%
 - Directive written to enable any increase above 20%
- EU target could change during phase 3
 - "From the year following the conclusion of an international agreement"

30% scenario: additional reduction

Total target 2020 (20%) - $\left(\frac{\text{Total target 2020 (20\%)} }{80\%} \right) \times 70\%$ "1990"

=

Total target 2020 (20%) $\times 1/8$

=

556 Mt

Total target 2020 (30%)

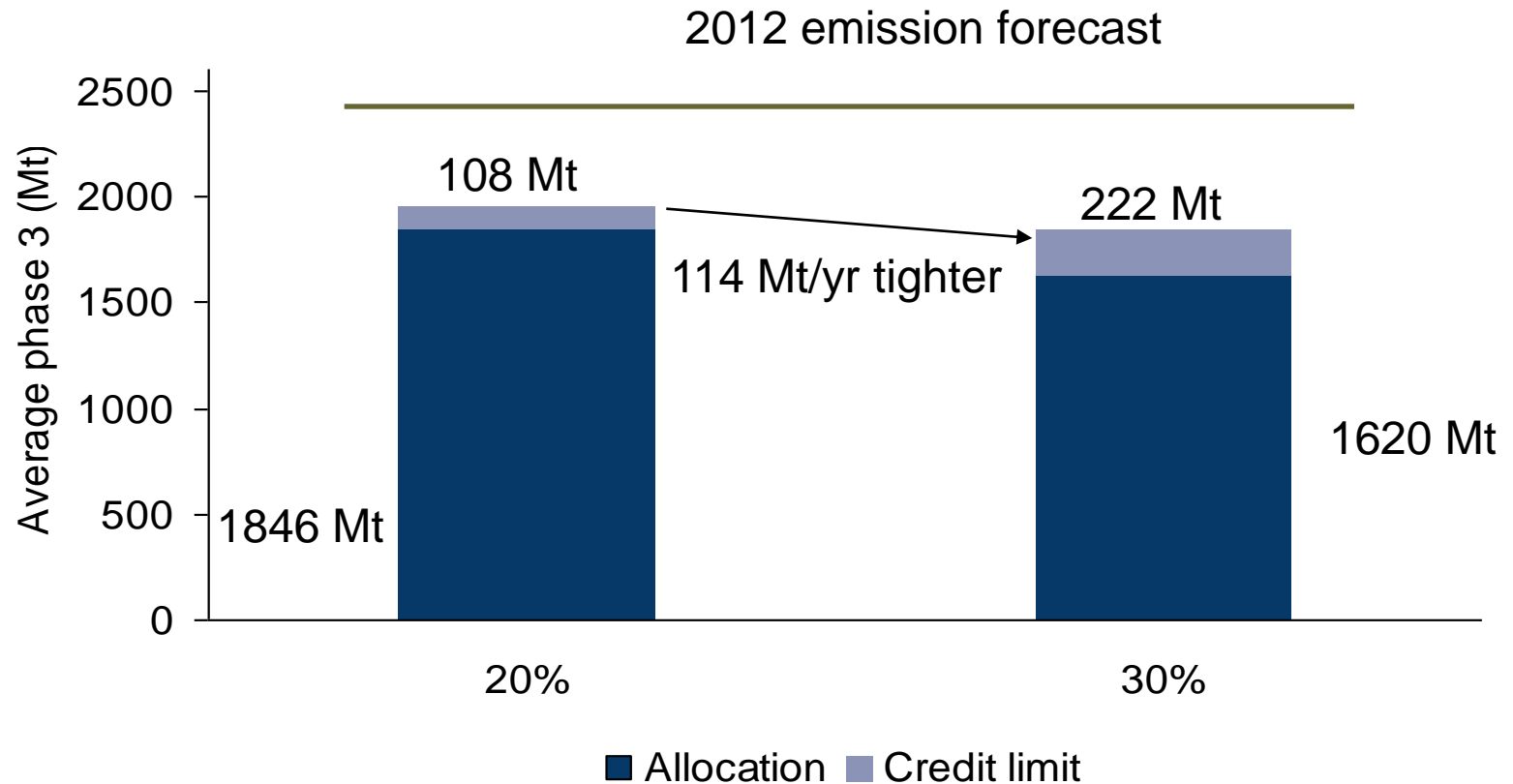
Must be distributed on ETS and non-trading sector

30% scenario: ETS allocation and credit limit

- Additional reduction split between EU ETS and non-trading sectors
 - About 63% of additional reduction in ETS (350 Mt in 2020, average 228 Mt)
 - 2020 ETS allocation: 1370 Mt
 - Average allocation phase 3: 1620 Mt

- Credit limit will be increased by 50% of the additional reduction
 - On average in phase 3: 114 Mt

How much tighter in 30% scenario?



Concluding remarks

- ETS allocation will be at least 21% below 2005 emissions
- Phase 2 and phase 3 linked also through credit limit
- Credit limit will not **at all** cover ETS shortfall
- Important to look at combined effects of proposals
- Allocation and credit limit linked to outcome of international negotiations
- Proposal has highest possible political support

Market implications

- **Bullish phase 3 EUAs**
 - Confirmation of a strict phase 3
 - Major part of the abatement has to take place in Europe
- **Bullish phase 2 EUAs**
 - Tighter credit limits
 - Expect less swapping of CERs for EUAs from industrials
- **Bullish “phase 2 CERs/ERUs”**
 - Expect the entire credit limit (1.4Gt) to be exhausted
 - Bullish EUAs will push CERs upwards
- **Bullish EUA - sCER spread**
 - The higher EUAs, the higher spread (due to the limit)

Norge i kvotemarkedet

Noen særnorske elementer ved kvotesystemet

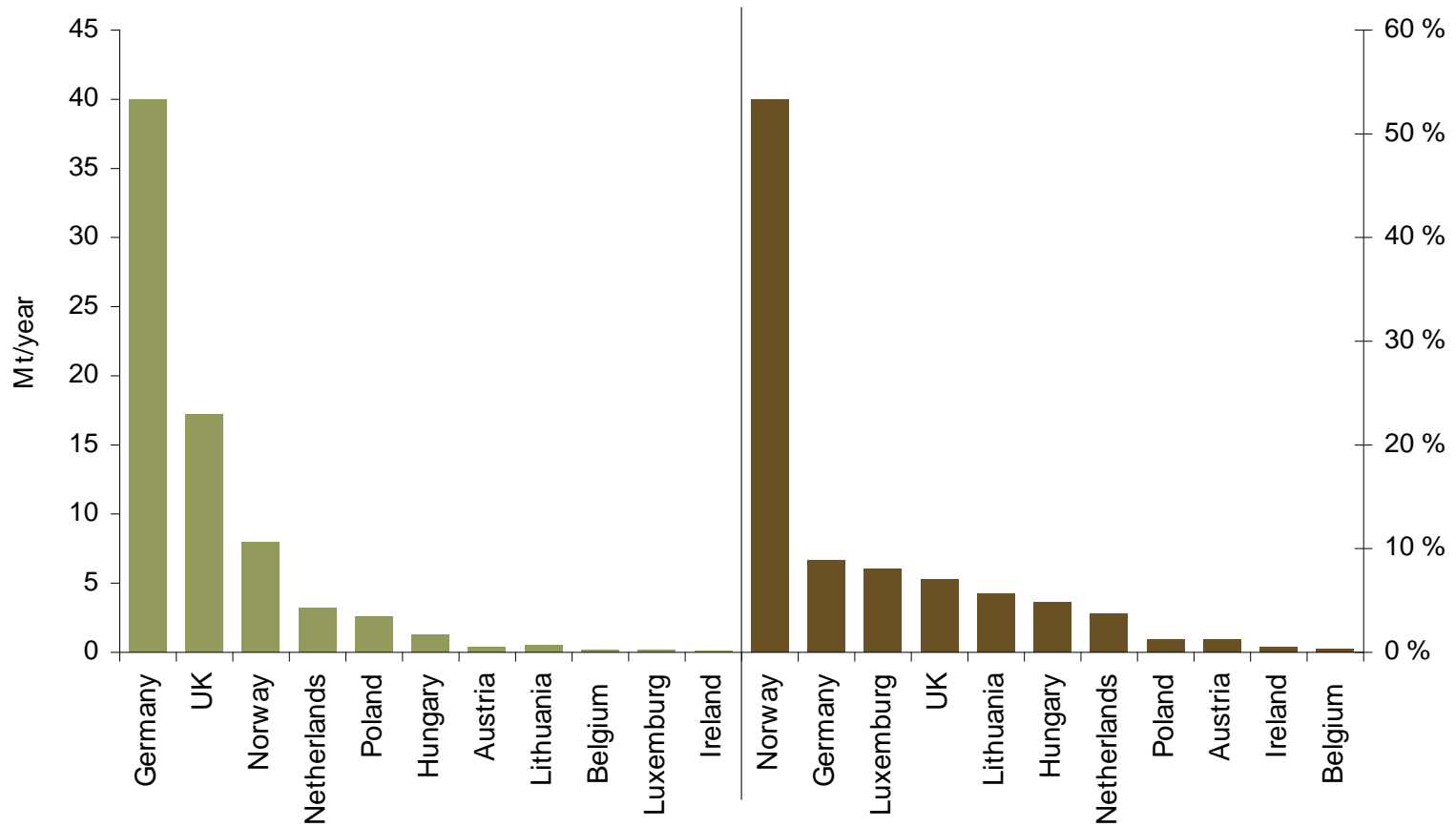
2008-2012 perioden

- Stor grad av auksjonering/salg i fase 2
- Men også stor grad av CDM kjøp
- Staten tar en implisitt posisjon i EUA-CER spreaden

2020 klimaforliket

- Store deler av reduksjonene skal tas innenlands
- Kjøp av EU kvoter teller ikke som innenlands reduksjon
- Norge har verdens strengeste fortolkning av supplementaritet
- Er målsetningene i klimaforliket i det hele tatt realistisk?

Norge auksjonerer mest av alle...



Source: Point Carbon

..men skal også kjøpe mye CDM/JI (7 Mt/år)

- Man selger EUA og kjøper CER/ERU
- I markedsterminologi selger man EUA-sCER spreaden
 - Fra €10/t til €5/t avhengig av hvilke typer CER man kjøper
- Kan gi milliardinntekter til staten

- Er det noe problem?
 - Nei!
- Man slår to fluer i en smekk
 - Forurensere må betale
 - Teknologi- og kapitaloverføring til u-land

Klimaforliket

- 15-17 Mt reduksjoner skal tas innenlands innen 2020
- Kjøp av EU kvoter teller ikke som innenlands reduksjon
 - Denne regelen gjelder kun Norge, og er selvpålagt
- Kvotesystemet innen 2020 vil dekke ca 45% av norske utslipp
- Reduksjoner i kvotesektorene vil kun komme som resultat av pris

Fra Ot.prp 66

EU-land for å innfri kvoteplikten. EU-kommisjonen kategoriserer kvotesystemet som et nasjonalt virkemiddel. EU ønsker å bidra til å etterleve Kyoto-protokollens krav om supplementaritet blant annet ved å begrense bruken av de prosjektbaserte mekanismene, mens det ikke kan settes tilsvarende begrensninger for bruk av kvoter fra andre EU-land. For Norges del legges det til grunn at ethvert kjøp av kvoter fra andre land vil innebære bruk av Kyoto-mekanismene, uansett om det er kvoter utstedt i EUs kvotesystem eller gjennom de prosjektbaserte mekanismene. Spør-

Er klimaforliket urealistisk?

- Veldig, veldig ambisiøst!
 - Det er bra, men det er også viktig at målsetningen er realistisk
- Verdens strengeste fortolkning av supplementaritet
- Man har ikke ”kontroll” over reduksjonsmengden i kvotesektorene
 - Markedslogikken råder
- Man kan heller ikke nødvendigvis subsidiere innen kvotesektorene
- Hva om kvotesektorene dekker seg inn kun med kjøp av kvoter?
 - Må redusere opp til 50% innen andre sektorer, transport og landbruk

Takk for oppmerksomheten!

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