



European Carbon Market 2007

SAIS Conference

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Véronique Bugnion

Point Carbon

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Providing critical insights into energy and environmental markets



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European Union Emission Trading Scheme in brief

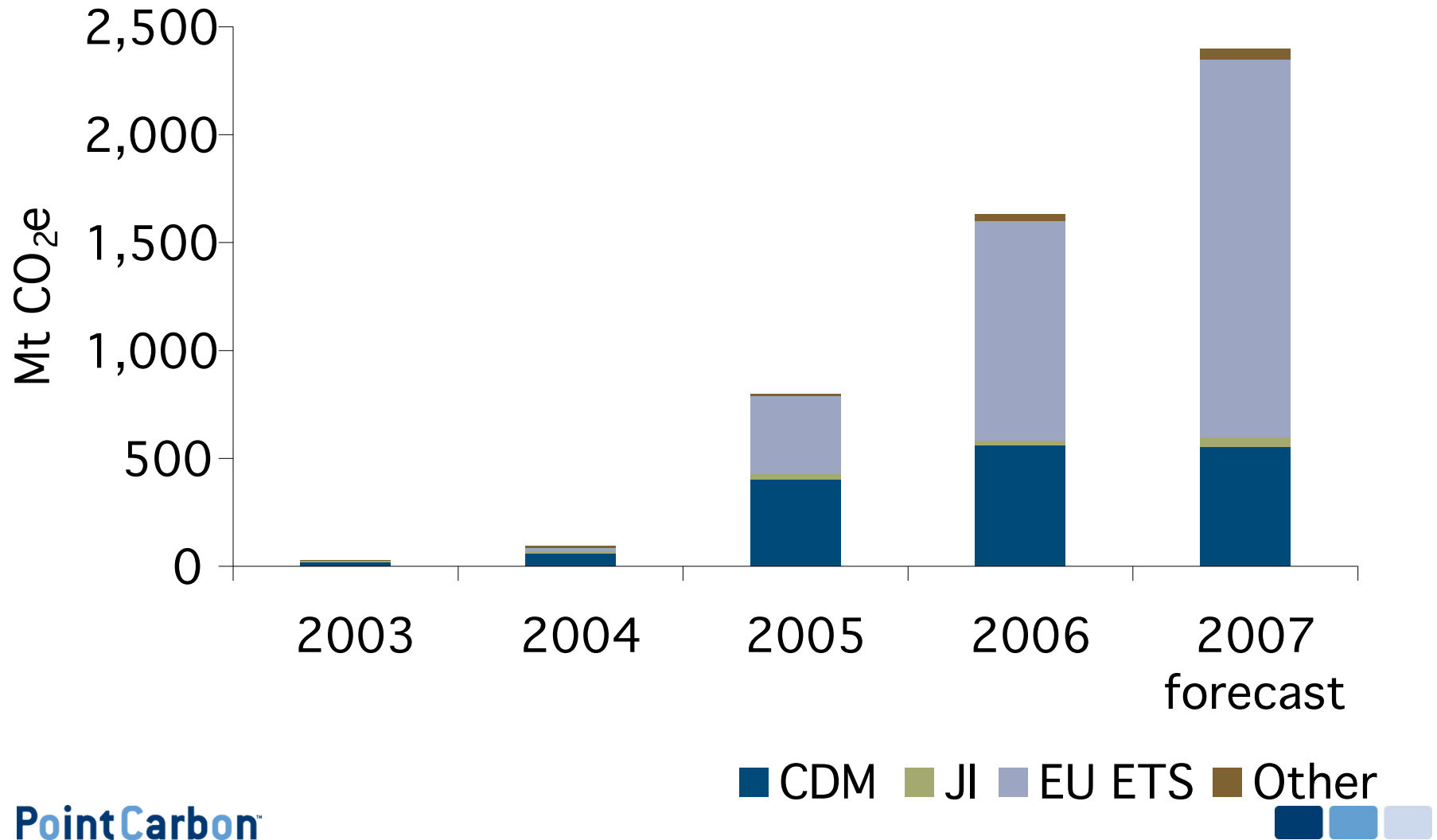
- ETS directive (2003/87/EC) entered into force 25 October 2003
 - First compliance period 2005-2007
 - Second compliance period 2008-2012
- Covers all 25 Member States (soon 28)
 - Installation specific caps (NAPs)
 - Power and heat, refineries, metals, minerals, pulp and paper
- Phase I
 - 11,400 installations, 2.1 GtCO₂/year
 - Some 4,000 companies
 - Overallocated by approx. 100Mt/year
- Phase II allocation
 - Ongoing process
 - Allocation will end up ~11% below proposed NAP levels
 - 2008-2012 market will be short ~1.7 Gt
- May link to schemes in non-EU countries
 - Norway, Japan, Canada, Russia, US ...
- Links to Clean Development Mechanism from 2005, Joint Implementation from 2008
 - Approx. 100 countries involved
 - Expected to supply the EU ETS with 1 GT of reductions over the 2008-2012 period

➤ By far the largest cap-and-trade scheme in the world!

Delinking Phase 1 - 2 . A sort of goodbye...



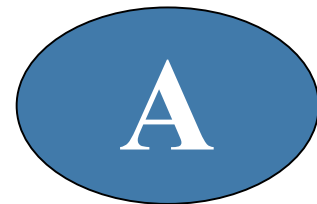
Growing....up ...



Information sources

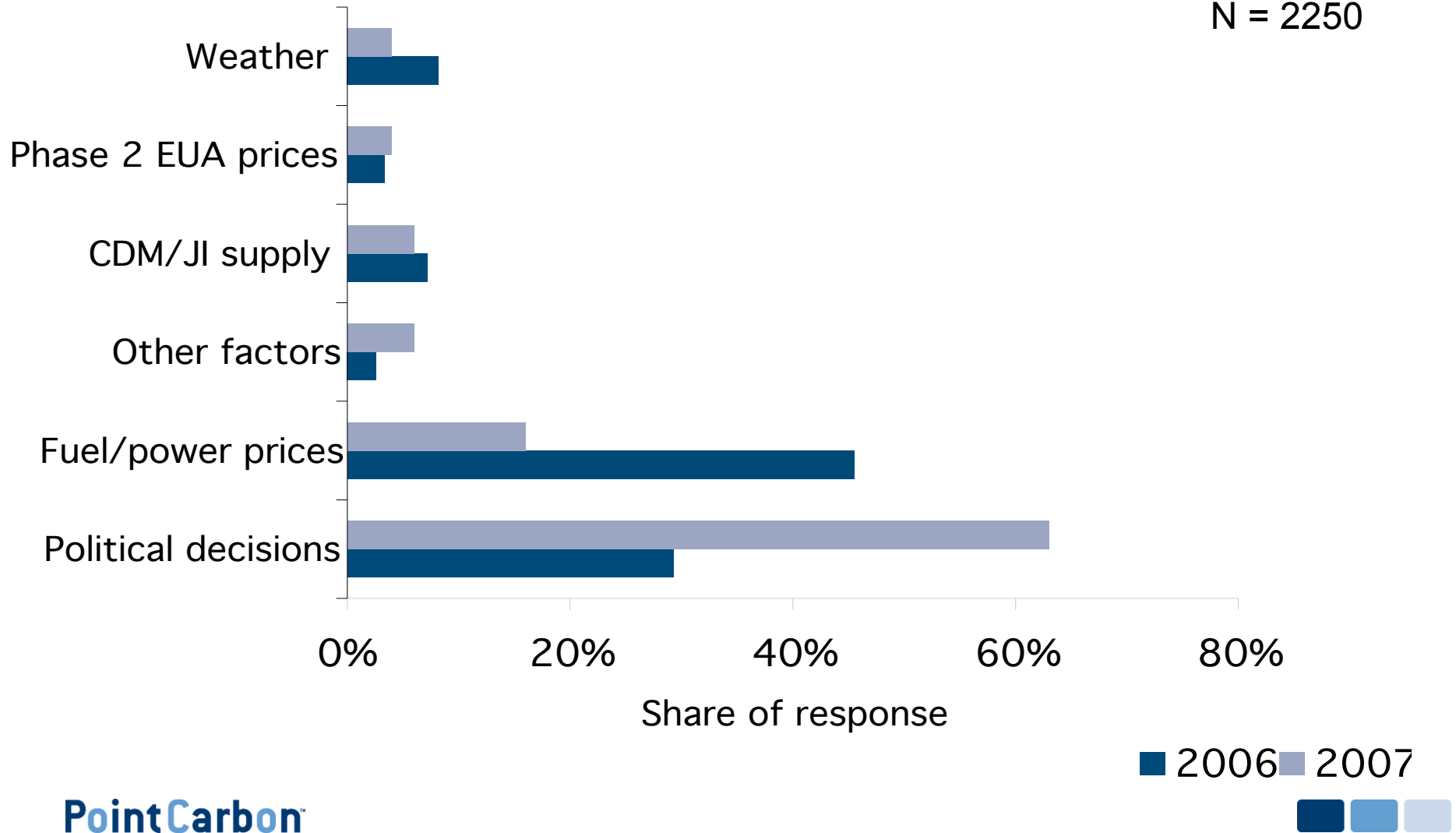
- **Carbon Market Survey 2007**
 - Sent to ~16,000 unique e-mails taken from Point Carbon's subscription lists
 - Designed along the same lines as Carbon Market Survey 2006

- **2250 respondents**
 - 24 % of respondents are covered by CO₂ regulations
 - 42 % of respondents are involved in EU ETS
 - 32 % from North-west Europe
 - 30 % from non-EU Annex 1 countries
 - 15 % from non-Annex 1 countries



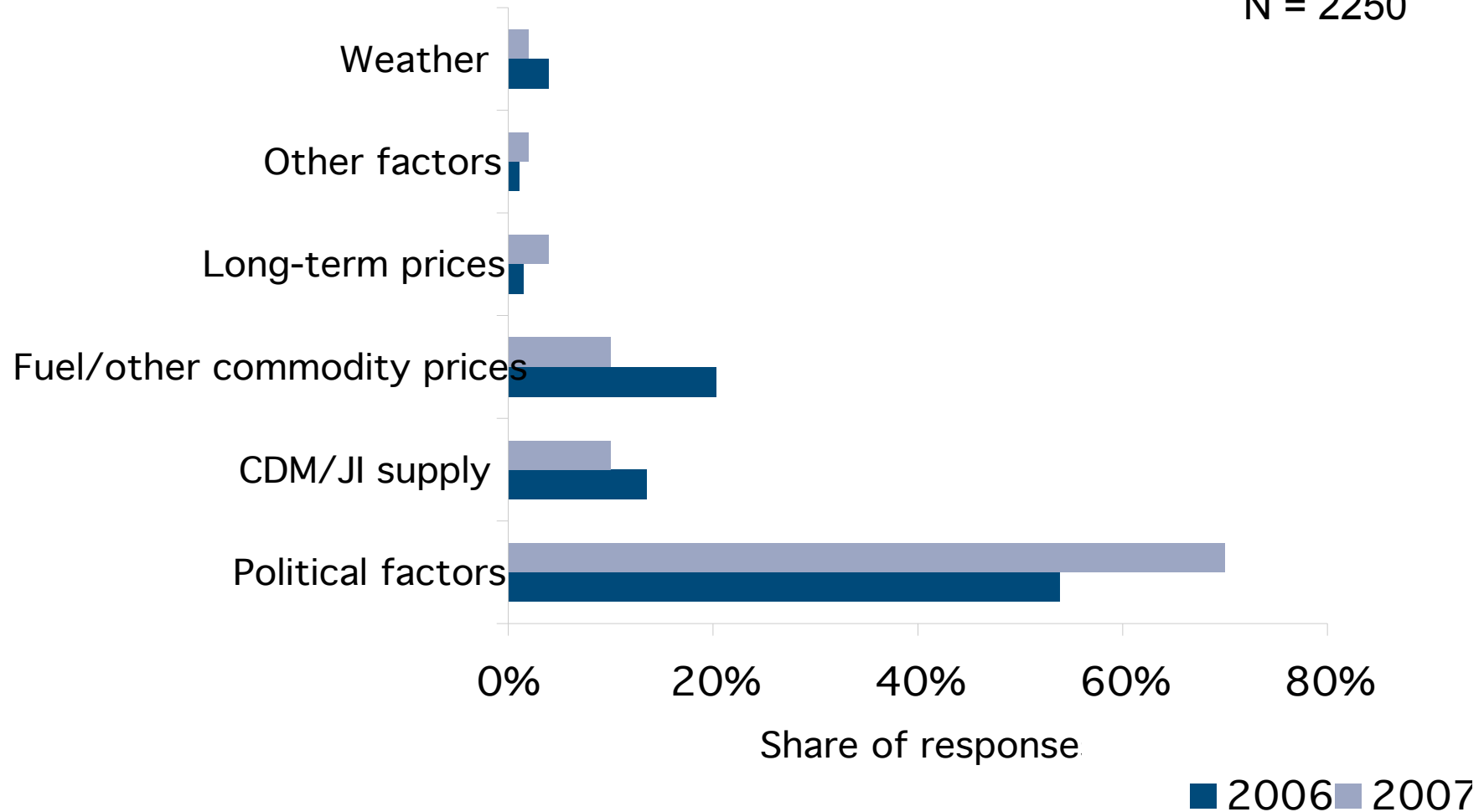
Price drivers (short term) – Survey

N = 2250



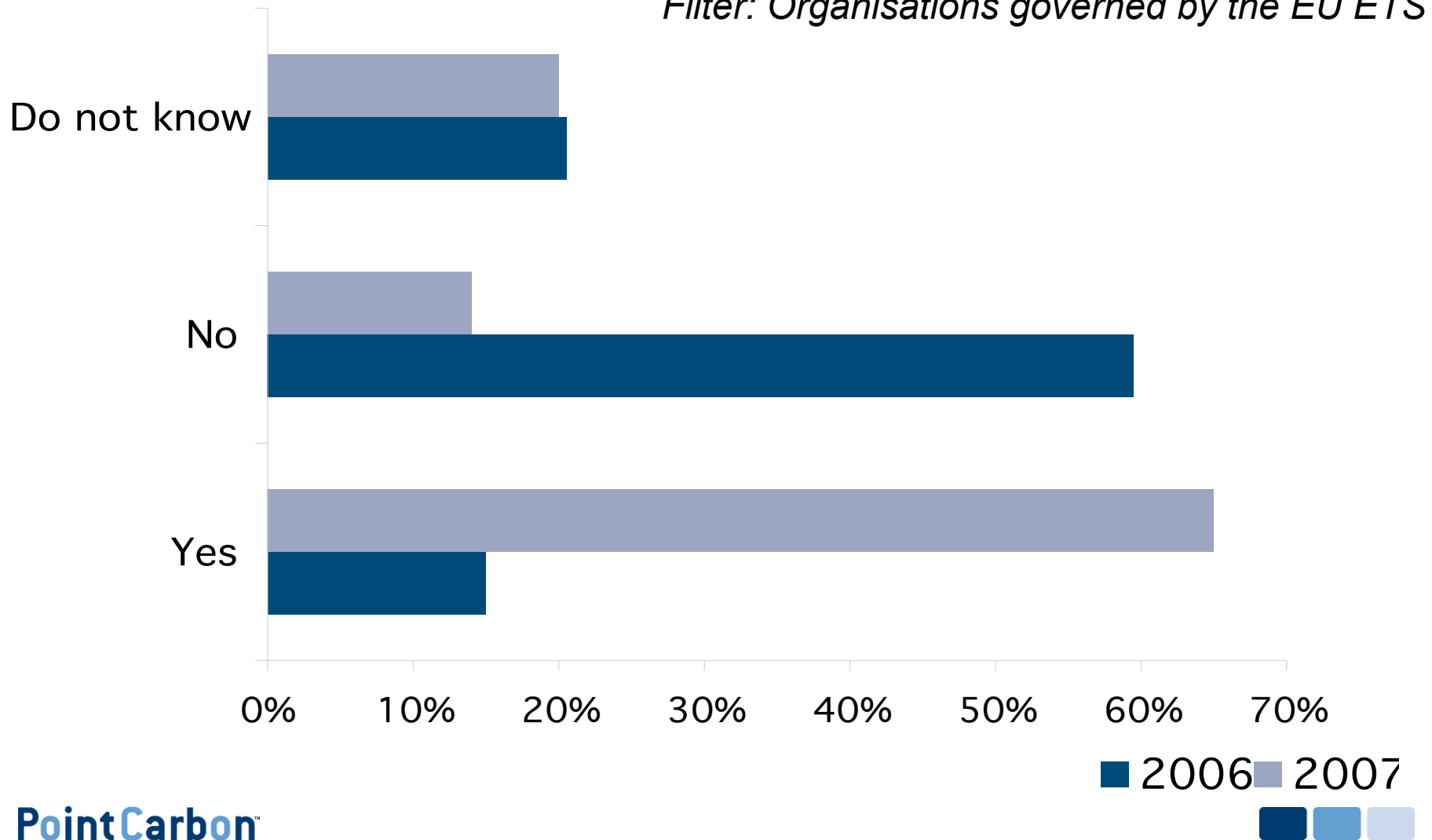
Price drivers (long term) – Survey

N = 2250

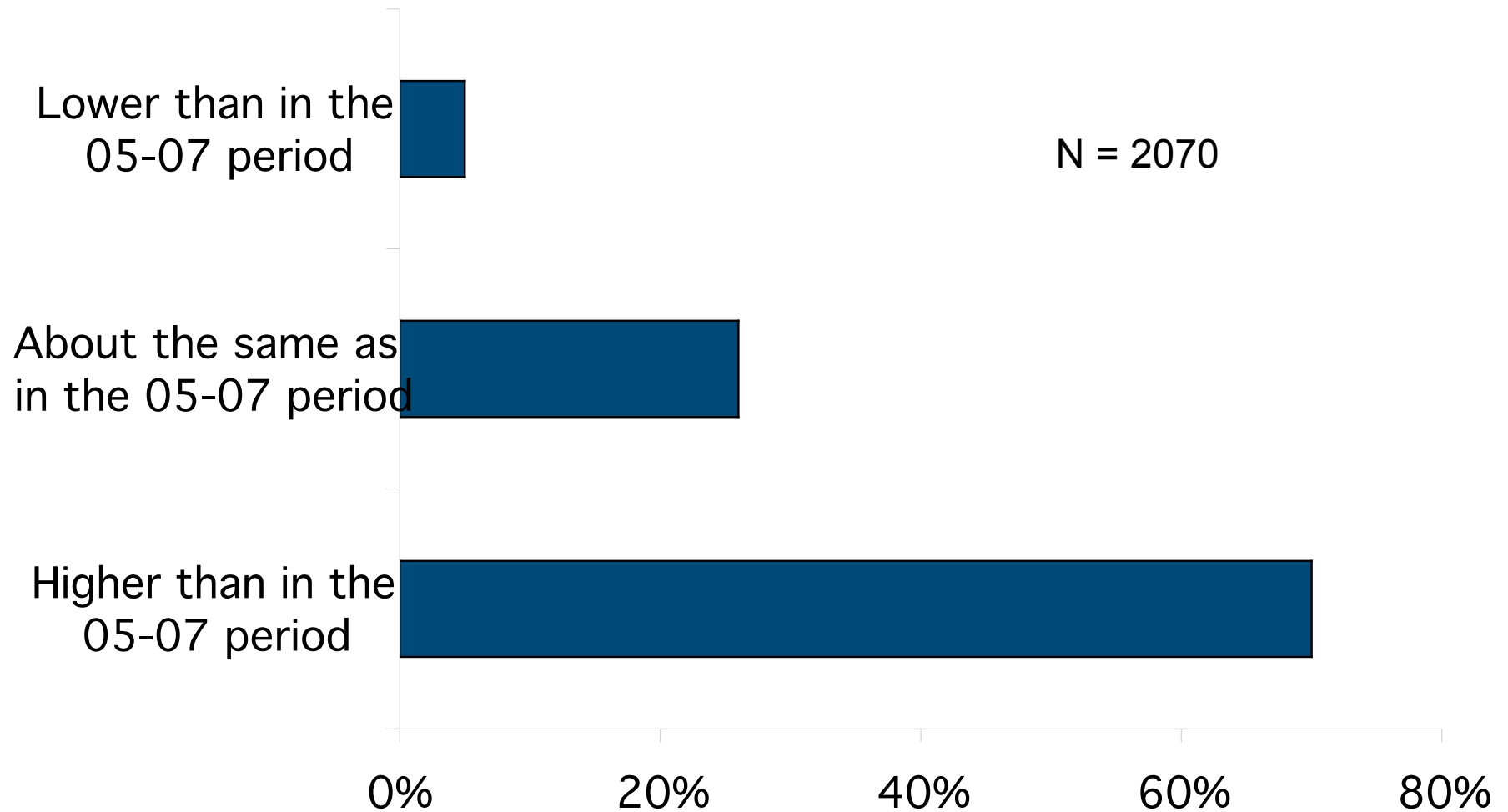


Has the EU ETS initiated internal abatement?

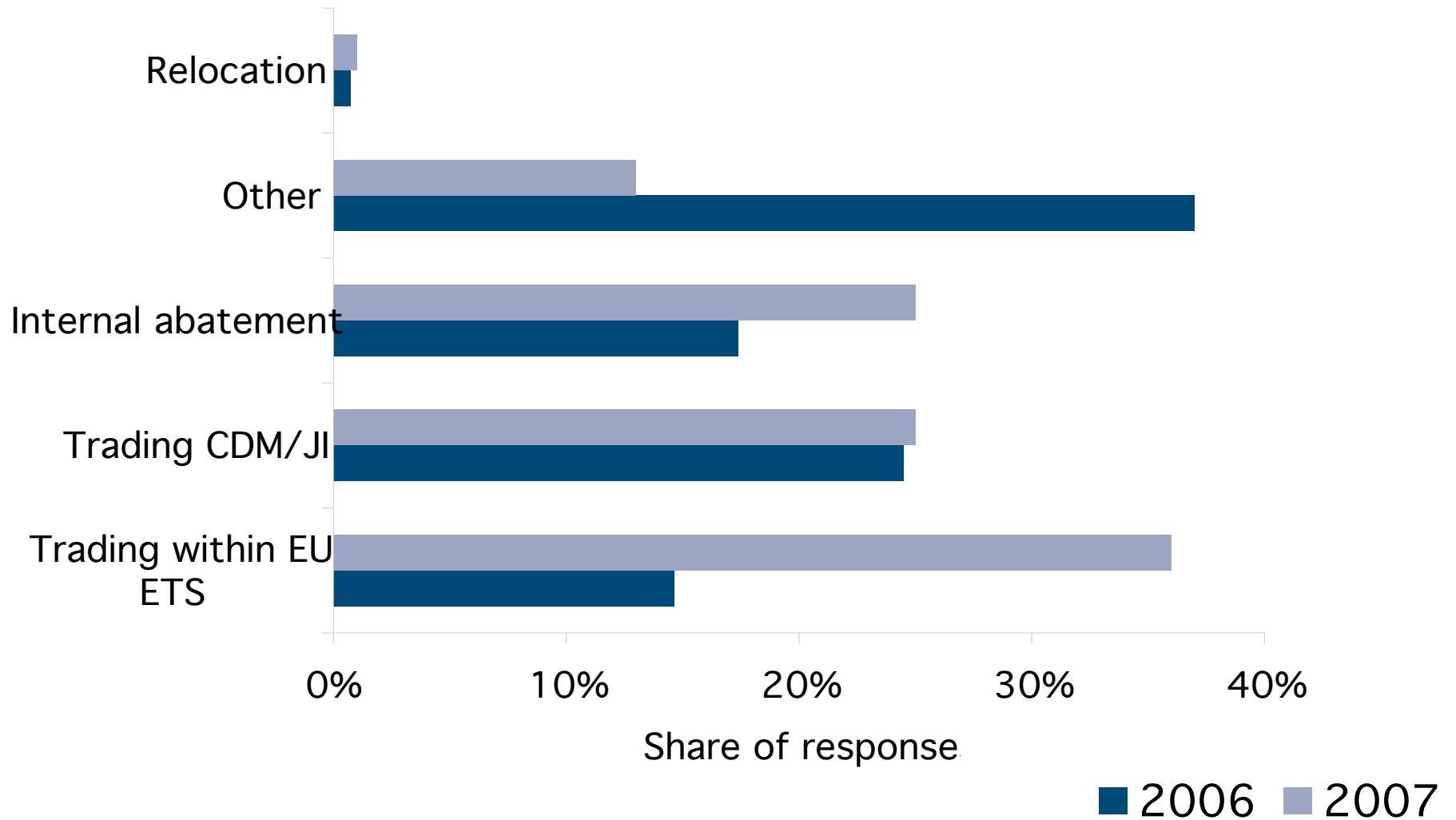
Filter: Organisations governed by the EU ETS



Level of internal abatement in EU ETS Phase II



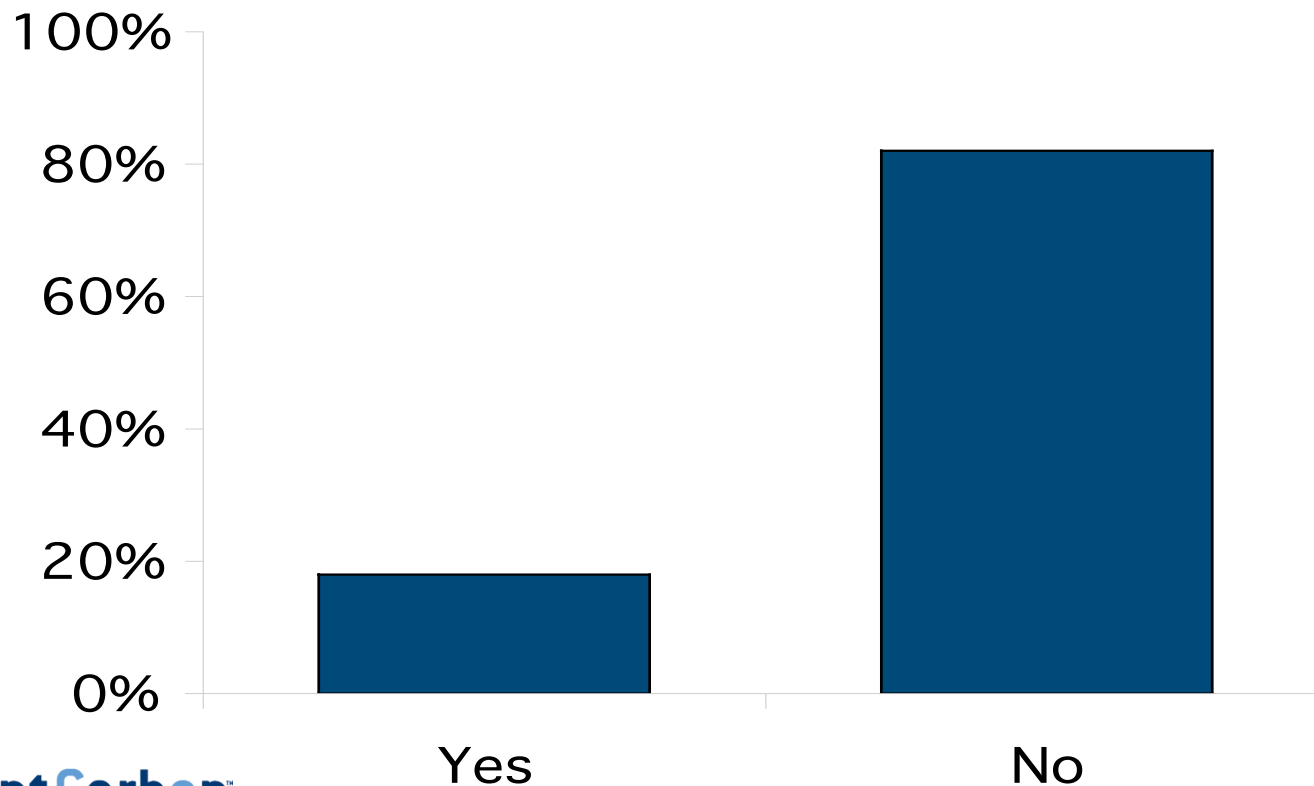
Primary compliance strategy?



Enough CERs/ERUs?

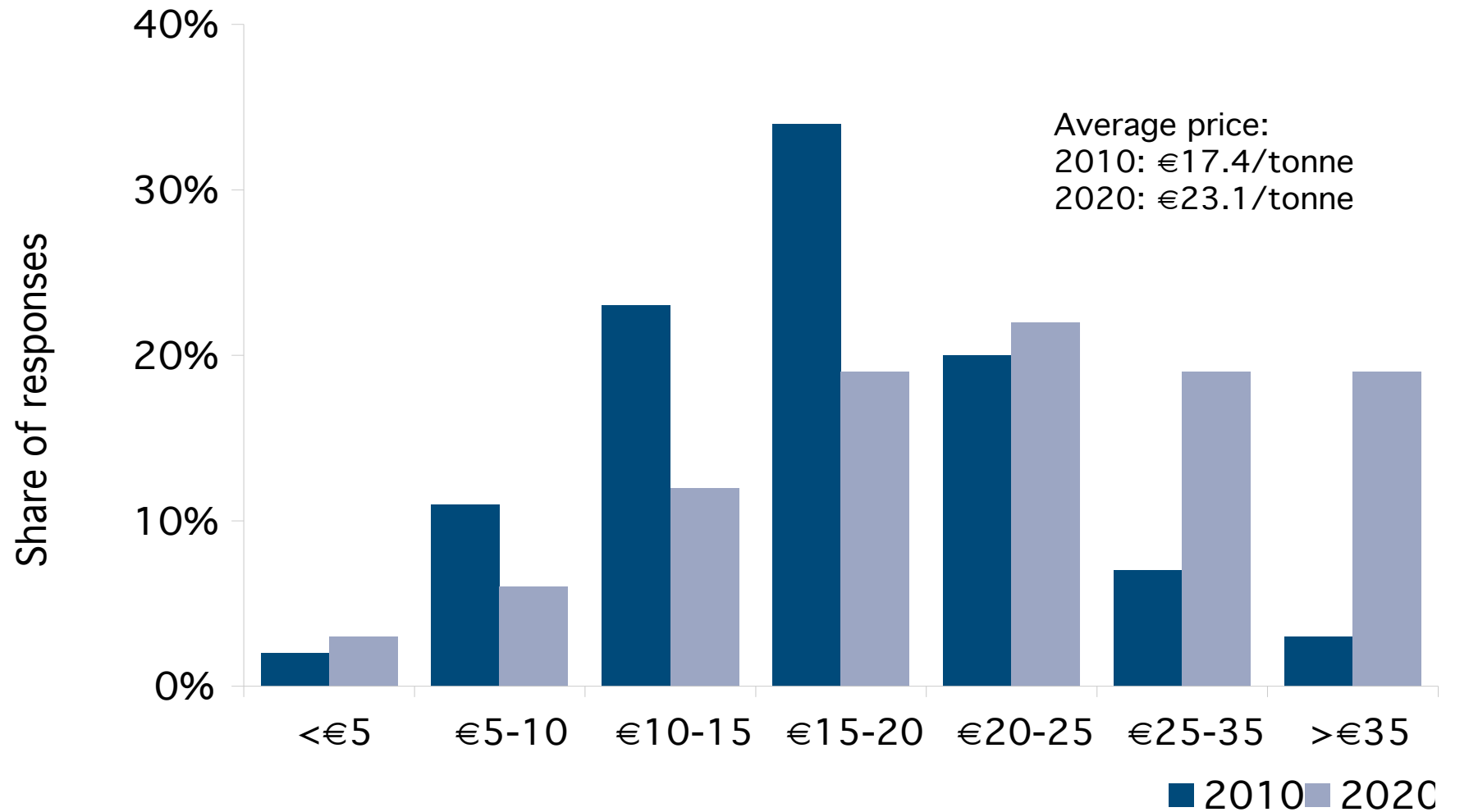


Will the credit flows from CDM/JI projects eliminate the need for internal abatement in EU ETS phase 2?

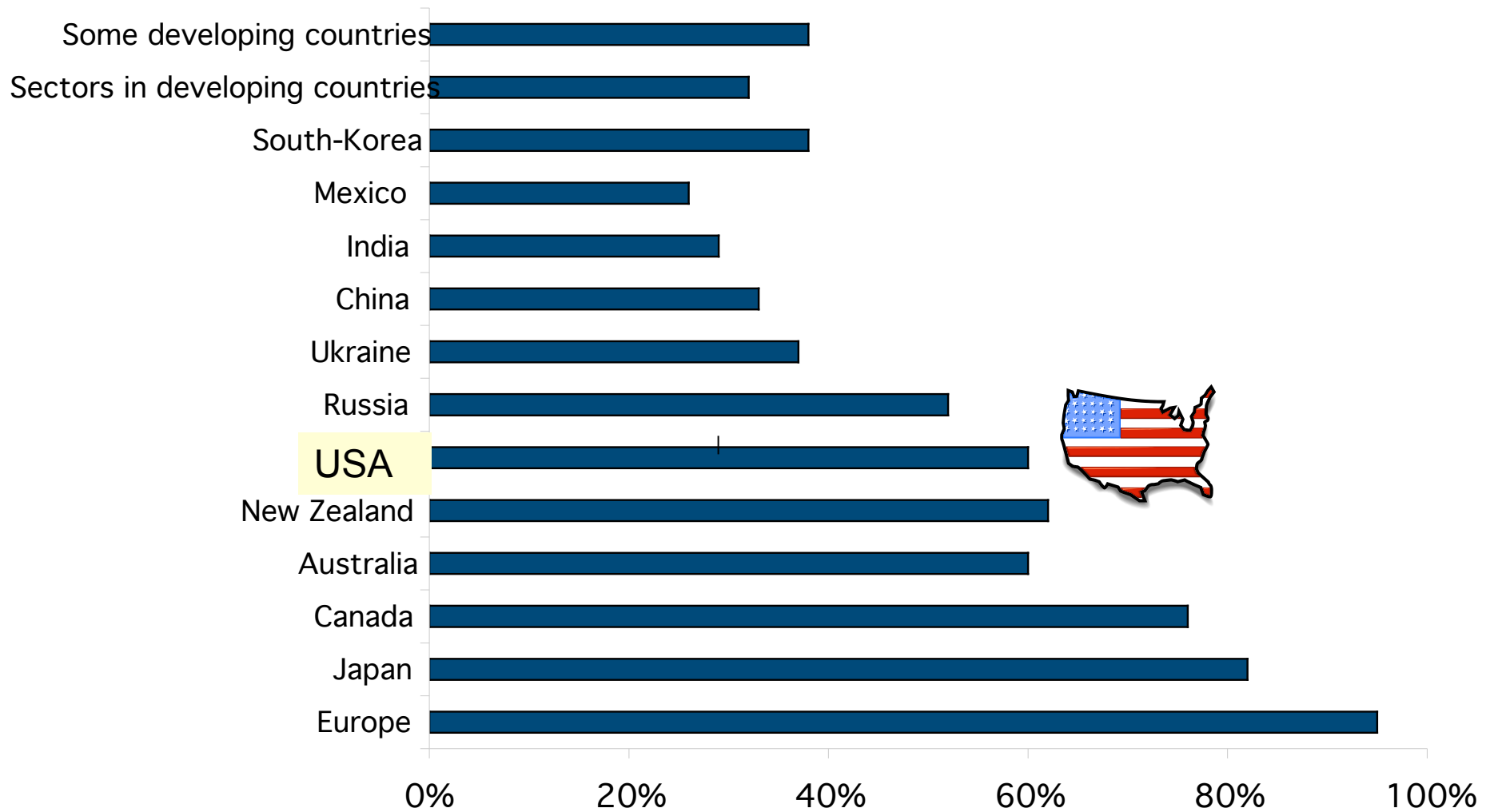




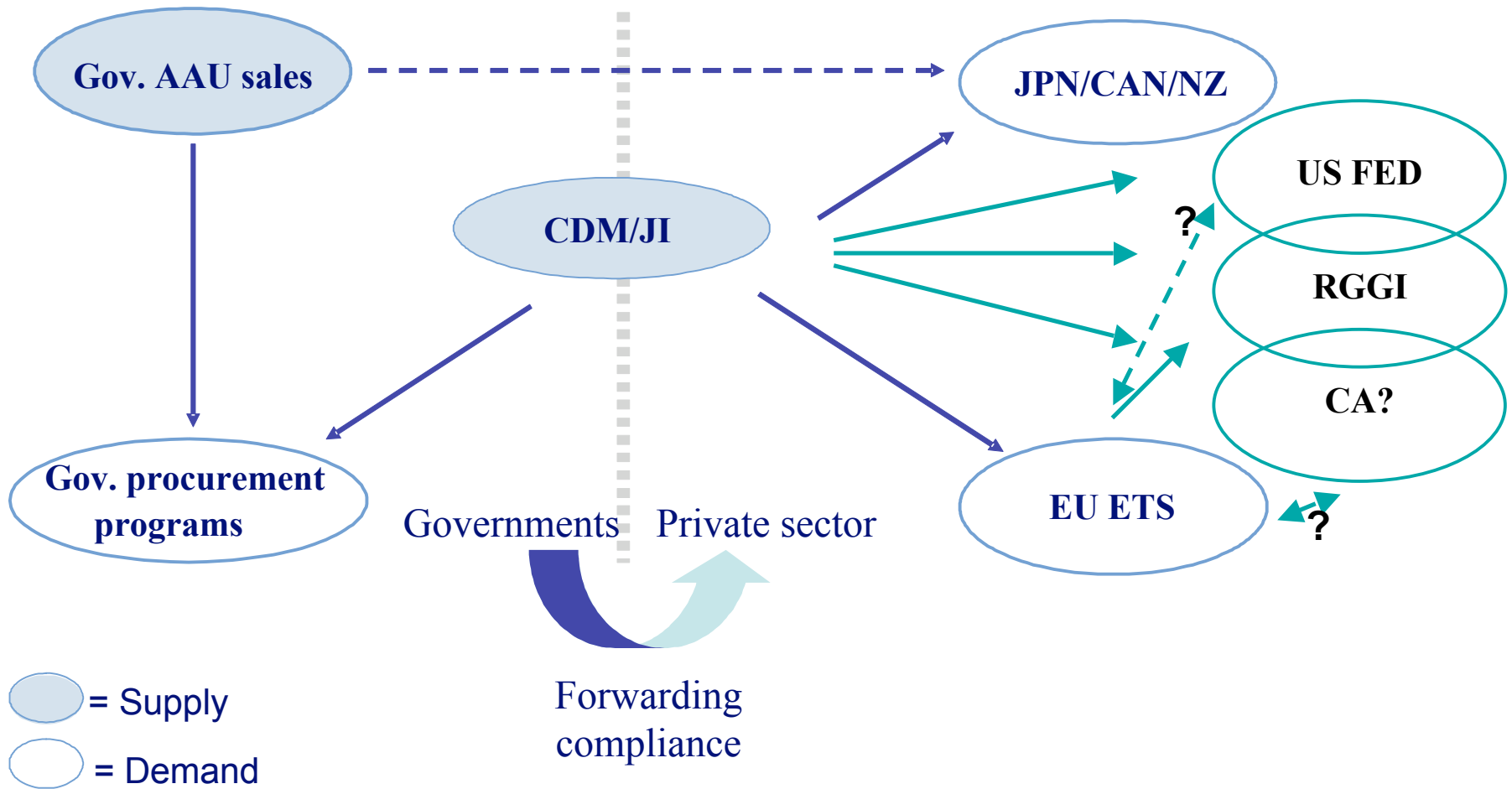
Prices in the long run?



Who will participate in a post 2012 agreement?



How does the US fit in?



Key issues in linking US and other markets

- Potential market size:
 - Federal 1-3 times the EU ETS
 - RGGI 8% of the EU ETS
 - WCAI 30% of the EU ETS
- Price caps
 - Linking schemes is complicated, linking schemes with price caps is near impossible (RGGI, Bingaman)
 - Price of offset quantity caps skew the market dynamics
- Offsets (McCain, Feinstein, RGGI)
 - Demand might exceed supply

Conclusions

- Phase II of the EU ETS will require:
 - Substantial import of carbon credits from developing countries
 - Domestic reductions
- Internal abatement is beginning to take place
 - 15% in 2006 survey, 68% in 2007 survey
- Carbon prices are expected to stay in the 20€/tonne (25\$/tonne) range
 - Higher than US domestic analysis indicates
 - Higher than caps in certain federal bills and proposals