Carbon Monitor

Volume 11 Issue 4 **May 2006**

Joints Implementation Struggles against the Clean Development Mechanism

JI or Joint Implementation is a project implemented in one Annex B country for the benefit of a project sponsor in another Annex B country creating Emission Reduction Units or ERU.

The Clean Development Mechanism or CDM is a project in a Non Annex B country, or developing country without an emissions cap, sponsored by an Annex B country creating Certified Emission Reductions or CER.

Carbon Monitor April 2006 mentioned the complexity relating to track 1 and track 2 JI in the Russian context. When the host country has yet to implement Kyoto compliance JI is not available. The concept of a track 2 JI was created with the requirement to address additionality.

In practice JI is less complex than CDM in implementation. However, lack of national compliance effectively complicates the JI opportunity. The Chatham House publication we mentioned in April raises this as the reason why few JI projects have occurred in Russia.

Track 2 JI and CDM are in some sense equivalent with three major differences

1. CDM CER's can be banked from 2000 onwards into the 2008-2012 commitment period
2. Track 2 JI process can be hindered by the lack of a national body or regulatory process for its approval in the host country
3. CDM is regulated by a central UN body.

The trading records show CDM with 397mt CER contracted for future delivery at 6.7 Euro per CER whereas JI saw JI ERU traded in a much lower volume of 28mt ERU at a price of 5.1 Euro per ERU.

World Carbon Market 9.4 bn Euro in 2005

Point Carbon's first annual report on the state of the carbon market "Carbon 2006: Towards a truly global market" has been made available for free download at their website. The report provides a complete overview of volumes, values and trends in 2005 for EU ETS, CDM, JI and other market segments. The study also presents the results from the world's largest ever carbon market survey.

To download the report, go to www.pointcarbon.com where it is currently available on the front page. Alternatively, you can find it under the Research & Advisory section.

The global carbon market saw transactions worth €9.4 billion in 2005 on a volume of 799Mt CO2e. The majority of the value came through EU ETS, at an estimated financial value of €7.2 billion. 93% of the volume in the project market came through CDM, at 397 Mt CO2e worth €1.9 billion.

Table 1: Reported volumes and values 2004 and 2005
Reported and estimated volumes 2004 and 2005 , in million tonnes of carbon dioxide equivalents and €. Bilateral ETS for 2005 estimated as 27% of total EU ETS volume at average EUA price through the year.

	2004		2005	
	[Mt]	[€ million]	[Mt]	[€ million]
EU ETS total	17	127	362	7,218
- OTC + exch.	*9.7*	*n.a.*	*262*	*5,400*
- Bilateral	*7.3*	*n.a.*	*100*	*1,818*
CDM	60	188	397	1,985
CDM 2nd	0	0	4	50
JI	9	27	28	96
Other	7.9	34	78	52
Sum	94	377	799	9,401

EU Market retreats from Record Levels

Recent trading saw the EU allowance prices increase to around 30 euro and then drop dramatically. www.pointcarbon.com

We commented that since starting in 2005 the market appears to have reached a stable state in the last few months according to data from the LEBA last month. This conclusion was proven untrue as we have seen the price increase 20% in a short period and then a significant drop in a matter of days to a low of 13.40 Euro.

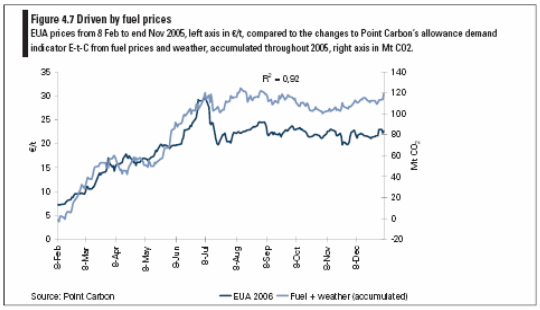
The explanation for this is that many of the EU nations have released information suggesting that they are in compliance and are in some cases sellers to EUA. Amongst those making announcements last week only Spain appears to be a purchaser.

Larger nations including the UK are expected to report by 15th May.

Environmental Intermediaries and Trading Group Limited
phone 64 21 310 301 fax 64 9 303 0610
P.O.Box 9185 Newmarket Auckland, New Zealand
www.eitg.co.nz

What has Driven the EUA Price in the Past?

Point Carbon recently suggested that fuel prices and the price of EUA are linked. In their report the following graph was used to illustrate this



Fuel and weather certainly seem to influence prices. Also parties holding EUA on a long term basis for arbitrage may have some influence on the price.

One has to look at EU TS on the basis that it is a limited trading scheme with limited participants and therefore its intrinsic design may have linked the allowance prices to fuel prices and weather.

Certainly the relative price of say coal and natural gas and their differing carbon content either justifies paying more for EU TS when the price of natural gas increases the normal spread with that of coal.

Also given Europe's high demand for heating, cold weather can create demand for heating fuels such as coal and oil, or conversely electricity for air conditioning in times of warm weather.

A large percentage of emitters indicated internal abatement projects have occurred as a result of EU TS. Given the comments from various parties the price of EUA is a surprise to many emitters.

Impact of EU Aviation Policy

EU policy calls for including Aviation in the EU trading scheme by 2008.

You may ask yourself why?

Domestic aviation is already included in Kyoto in Annex B. countries cap so why the extension?

Recent EU commissioned analysis papers indicate that the EU intends to regulate in bound and out bound aviation as well as the domestic obligation.

What does this mean?

It means that ANY airline from ANY country destined for the EU will be subject to an emissions mitigation requirement on that flight.

Three examples could be:

1. A US carrier comes from the USA (not a ratifier of Kyoto) and lands at Heathrow.

EU would expect that the flight would be regulated. When the plane leaves a similar obligation would exist.

2. A carrier from a non Annex B country flies into Paris France.

EU would expect that the flight would be regulated. When the plane leaves a similar obligation would exist.

3. A carrier from an Annex B country that has ratified Kyoto flies into Frankfurt Germany.

EU would expect that the flight would be regulated. When the plane leaves a similar obligation would exist.

Despite the fact that Kyoto excludes international aviation EU still intends to regulate.

No wonder the interest from airlines in the recent emissions pilot scheme (Carbon Monitor April 2006)

CER Prices Emerge from CDM Projects

Forward contracts are emerging with CER from CDM projects. A broad range of projects have emerged each with an attached price range.

The top range provides a price indication of 12-14 Euro per CER for the premium projects.

Most of the trades currently are occurring in the range of 5-10 Euro per CER and 9-14 Euro per CER.

Contact Details

Terry Quilty ph 64 21 310 430
fax 64 9 920 1093
email terry.quilty@eitg.co.nz

Richard Hayes ph 64 21 310 301
fax 64 9 920 1093
email richard.hayes@eitg.co.nz

Simon Baillieu ph 27 82 558 9616
email simon.baillieu@eitg.co.nz

'Carbon Monitor' is a client service of EITG.
EITG develops, facilitates and engineers Carbon Mitigation projects and strategies.

EITG corporate advisory provides high-level briefings and advice on building robust responses to emerging regulatory structures.

EITG is part of an international consortium with representation in Asia/Pacific, UK, USA and South Africa

www.eitg.co.nz