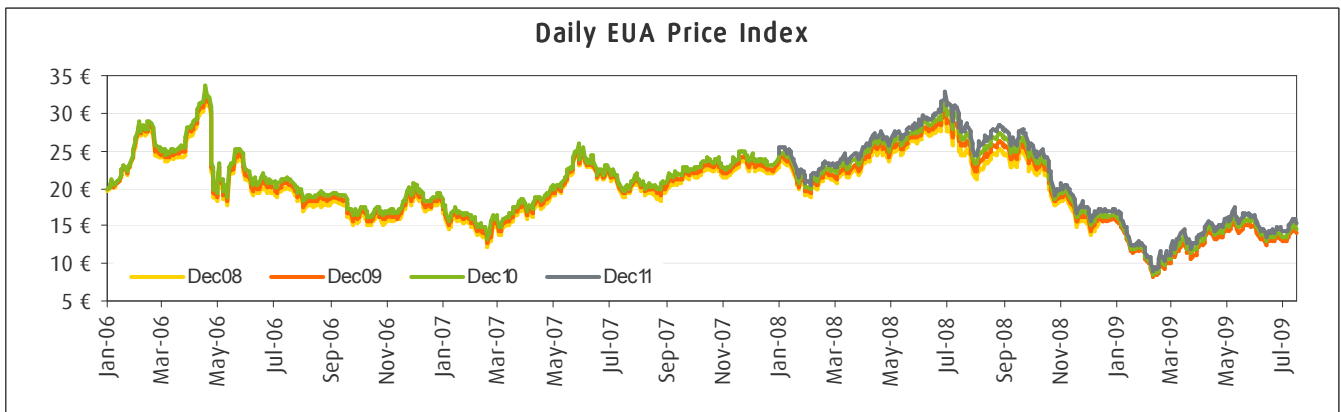


Wednesday, July 22, 2009



Source: ECX Last update: 09-07-20

## Emission Trading: Established above EUR 14?

Bid-Offer Dec09: EUR 14.45—14.47

These days it seems that the carbon market is in a certain summer hebetude. It is unlikely that there will be regulatory changes before the UN climate summit in Copenhagen in December 2009. Companies subject to the EU ETS are restraining themselves when it comes to selling surplus Phase 2 certificates. Energy providers are the only market participants acting from time to time in order to balance short-term fluctuations in energy production by selling or buying allowances.

At the moment it is mainly macroeconomic factors that affect the price of carbon. Price movements reflect the results of supposedly new analyses and surveys about the economic situation in Europe and North America. Although analysts agree that the current second trading phase (2008-2012) is characterized by an oversupply of emission allowances, EUA prices are being kept stable by the possibility of banking (i.e. of retaining Phase 2 allowances for use in Phase 3), which creates a certain demand for carbon. The market for project-based certificates from the flexible UN mechanisms (mainly CERs) continues to be short because some projects will generate a lower volume of emission reductions than initially estimated. This supports the CER price, and the spread to EUAs has been shrinking progressively.

Last week, the oil price was on the rise, a fact which tends to support the price of carbon. After Tuesday's low of USD 59.15, oil broke through the USD 60 mark on Wednesday morning and steadily increased from then on. The news of rising house building activity in the United States further supported the market as of Wednesday noon, driving Brent oil up to USD 64. Since then, the price has remained at this level.

The change of the gas and coal prices, however, beat down the price of carbon. Last week, the price of UK gas dropped by approx. 6 %, while coal went up by more than 2.5 %. When the gas price decreases by comparison with the coal price, energy providers

switch to gas, the combustion of which releases far less CO<sub>2</sub> than coal. Fewer emission allowances are therefore required per MWh of generated electricity.

With oil prices going up and gas prices falling, EUAs moved sideways last week. After the week's high of EUR 14.94 last Tuesday morning, the Dec09 future dropped by nearly EUR 1 to EUR 14 by the close of the market. On Wednesday, they partly recovered from the previous day's loss and closed almost at the day's high at EUR 14.53.

Thursday was an uneventful day with EU allowances trading in a narrow price range at around EUR 14.55.

On Friday, end of the week-sales put the market under pressure. After a day's low of EUR 13.97, the Dec09 contract was listed at EUR 14.09 at the close of trading.

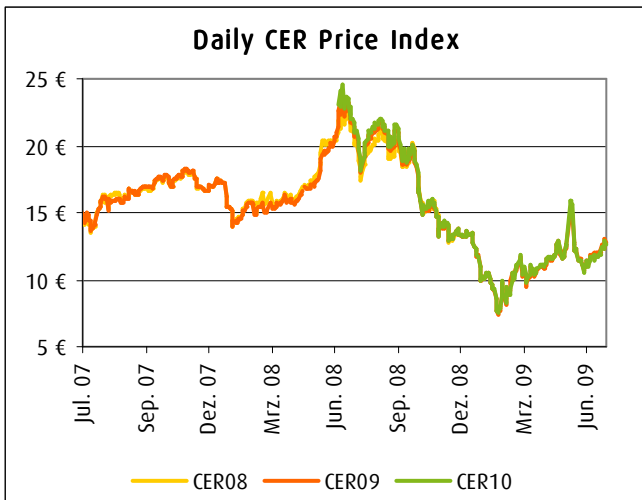
On Monday, the price of carbon initially seemed to recover again. In the morning, EUAs rose to the day's high of EUR 14.40, but then receded again and closed at EUR 14.16.

Yesterday, EUAs tested the support level of EUR 14 in early trading. Positive signals from the oil and stock markets, however, gave them a boost, driving the price up to EUR 14.54 during the course of the day.

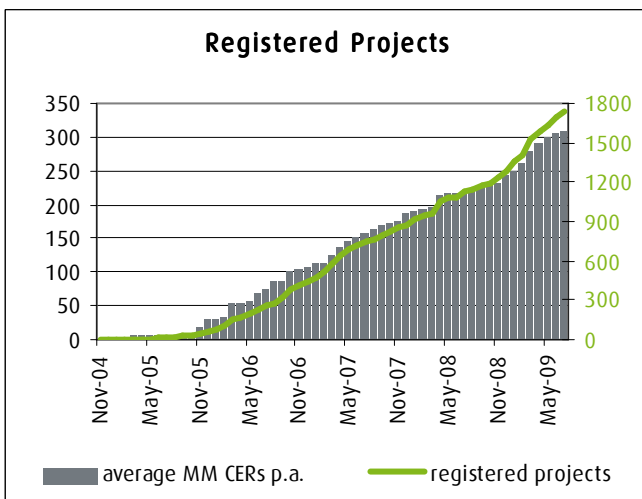
Today, the Dec09 future opened at EUR 14.36 and quickly moved up to yesterday's high again where it is currently trading.

After a temporary high of about EUR 2 last Tuesday, the spread between EUAs and the project-based CERs has again narrowed significantly and currently amounts to EUR 1.50.

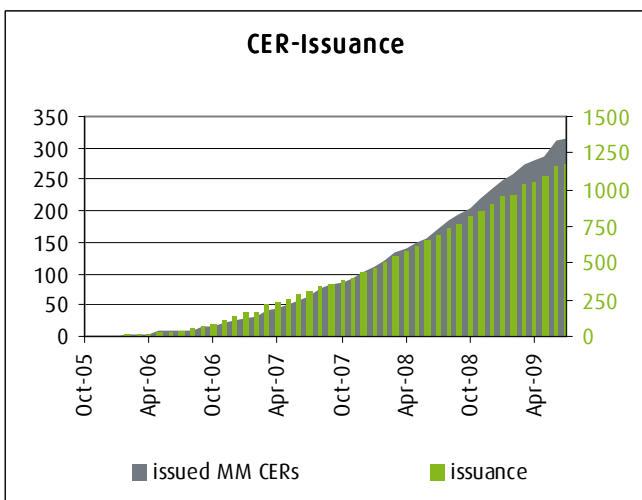
## CDM-JI: CDM Executive Board registers PoA project



Source: Nord Pool - Last update: 09-07-20



Source: UNFCCC - Last update: 09-07-20



Source: UNFCCC - Last update: 09-07-20

### CDM Executive Board registers PoA project

At its 48th meeting, the CDM Executive Board (the body responsible, amongst other things, for the registration of CDM projects) gave the go-ahead for the first CDM Programme of Activities (PoA). Over the next two to three years, this pooling of several smaller projects as one PoA in Mexico will replace 30 million old light bulbs with energy-saving ones. This could generate as many as 7.5 million CERs during the course of the project lifetime.

This first approval of a PoA could prove to be a milestone in the development of the Clean Development Mechanism and has the potential to affect the future supply of CERs significantly. The CDM has often been criticized for focusing on individual projects that cause fairly high transaction costs until they are recognized as a CDM activity. In a PoA, numerous small projects can be pooled and treated as one if they use the same methodology. This decreases the administrative overhead and thus the transaction costs, and the number of generated CERs could go up drastically.

The CDM EB has requested clarification of some issues, but the Mexican light bulb project is expected to be formally approved next week. After registration as a PoA, the project will probably go for the quality seal of the Swiss non-profit Gold Standard Foundation, which certifies renewable energy and energy efficiency projects that contribute to sustainable development in an exemplary manner.

### US lobbyists take positions regarding climate bill

Recently, the US House of Representatives signed the draft of a national climate law which would, amongst other things, implement an emissions trading scheme. Before it can take effect, however, the bill has to be approved by the US Senate. The government would like to see this accomplished before the upcoming UN climate summit in Copenhagen in December. Although the Democrats hold the majority in the Senate, the bill is expected to be controversial.

President Obama initially planned to have all allowances auctioned. After extended discussions, however, the House backed away from this proposal; some of the allowances are now supposed to be handed out free of charge.

In the run-up to the readings in the Senate, the various stakeholders are taking their positions. Representatives of the energy-intensive industries are demanding larger free allocations for their installations. The aluminum, steel, chemical and paper industries have called upon the Senate to increase the free allocation by several percentage points. They argue that this would smooth the transition to more efficient and less carbon-intensive technologies.

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


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