

PRESS RELEASE

3C: Sale of 40 million emission allowances per year could influence the market

A prompt and transparent sale of certificates would prevent market distortions.

Bad Vilbel/Frankfurt, June 20, 2007 – The projected sale of 40 million emission allowances per year can noticeably influence the emission certificate market. “If you want to place 40 million emission allowances per year on the certificate market, you need to figure out how to implement this as professionally as possible,” urges Markus Huewener, Managing Director at 3C Holding AG in Germany.

In the coalition negotiations the governing parties agreed to first sell the emission allowances and then auction the allowances off later on. “3C appreciates the parties’ decision to temporarily arrange for a sale of certificates at market value, which could be implemented promptly. A sale would enable installation operators to access allowances at an early stage in 2008. An auction as the only instrument would deprive the market of a significant volume due to the lead time of several months,” Huewener points out.

Key decisions concerning the planning and implementation of the sale have yet to be made. In addition to the selection of the institution to execute the sale, a decisive issue is the institution’s executive freedom. 3C advises against issuing a mandate for systematic price maintenance that was common within the open market policy of the German Bundesbank. In fact, the executing institution should have less freedom and should be obligated to tell the market participants how many certificates are placed per day. According to 3C’s Managing Director Huewener, there is no need for central price maintenance. “The market for emission allowances is becoming increasingly liquid. And an increasing number of installation operators are actively taking part and are even trading derivative financial products such as forwards and options. This increases the price signal’s resilience – in spite of the various political influences on the emission allowance market.”

Should the sale of emission allowances be performed successfully, an auction might not be necessary. Auctions are particularly suitable when a commodity to be sold has not had a price yet. However, this is not the case with emission allowances. “The sale of emission allowances is as economically efficient as an auction – with lower transaction costs for the government and installation operators,” argues Huewener.

3C anticipates a shortage of emission certificates, especially in 2008. This is mainly due to the slow development of the supply of certificates from climate protection projects in developing nations under the Clean Development Mechanism (CDM) installed by the Kyoto Protocol. “Considering that analysts expect the market in 2008 to be short between 100 and 400 million emission certificates, one can gauge the impact that the sale of 40 million emission certificates per year would have” explains Huewener. Thus 3C eagerly awaits the announced regulation for the implementation of the sale of emission allowances.

About 3C Group - As one of the leading Carbon Asset Management firms in Europe, 3C originates and procures carbon credits from CDM and JI projects around the world. 3C Group draws upon an extensive international network of project developers, financial institutions, technology providers and emission reduction experts. 3C Markets AG provides consulting services regarding emission trading and hedging strategies, especially within the EU ETS. 3C Consulting GmbH's Carbon Investment Advisory offers comprehensive expertise on carbon funds and project based Kyoto-mechanisms. Furthermore, 3C Consulting is among the world's leaders for carbon offset services.

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