European Daily
ICIS HEREN CarbonMarkets
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OTC EUAS			€/tCO_2e
Period	**Bid**	**Offer**	**Diff**
Spot phase II	14.25	14.35	0.500
2009	14.65	14.75	0.550
2010	15.30	15.40	0.550
2011	16.00	16.10	0.550
2012	16.95	17.05	0.550

OTC CERS			€/tCO_2e
Period	**Bid**	**Offer**	**Diff**
Spot phase II	12.00	12.10	0.300
2009	12.00	12.10	0.400
2010	12.05	12.15	0.350
2011	12.15	12.25	0.400
2012	12.50	12.60	0.400

ECX EUAS		€/tCO_2e
Period	**Price**	**Diff**
2009	14.60	0.430
2010	15.29	0.430
2011	15.92	0.370

NORD POOL EUAS		€/tCO_2e
Period	**Price**	**Diff**
2009	14.60	0.350
2010	15.30	0.400
2011	15.90	0.350

CARBON SPOT EUAS		
Exchanged	**Price,** €/tCO_2e	**Volume** '000 tonnes
BlueNext	14.170	8,969
Nord Pool	14.200	0

EXCHANGE CERS			€/tCO_2e
Exchange	**Period**	**Price**	**Diff**
Nord Pool	Dec '09	12	0.300
Nord Pool	Dec '10	12.05	0.300
ECX	Dec '09	12.01	0.350
ECX	Dec '10	12.03	0.320
BlueNext	Dec '09	12	0.280

"German generators are likely to start hedging post-2012 power sales in late 2010"

MARKET SNAPSHOT

HEREN CO_2 2009: €14.63/tCO_2e

A recovery was staged on both the European and international carbon markets on Wednesday, following the steep losses incurred in the previous session.

EUA Year 2009 was last assessed at €14.70/tCO_2e – a €0.55/tCO_2e rise day on day. Traders said the market was taking its cue from the oil markets. Brent crude was last seen trading around the $55.65/bbl level on Wednesday evening.

The bullish trend was amplified due to the shortening of positions on the back of the previous day's losses. So traders came back into the market wanting to buy back. The benchmark contract hit the psychological technical level of €14.50/tCO_2e and instigated stop loss action. This supported the contract into the close – with some traders anticipating further upwards movement in the next session. CERs followed the bullish trend – albeit more slowly.

Shortfall of tCO_2e likely

Power generators buying EU Allowances (EUAs) ahead of Phase III could create a shortage of more than 1bn tonnes of CO_2 equivalent (tCO_2e) in the current trading phase, despite the looming over-allocation, predicts Deutsche Bank.

The German bank expects EU power suppliers to start hedging the CO_2 exposure of 2013 power sales by late 2010. By 2012, they could be in the market for 1,258m tCO_2e, according to the bank's forecasts (see table).

FORECAST PHASE III COMPLIANCE BUYING IN PHASE II	Germany	EU total
End 2010	139	278
End 2011	341	682
End 2012	629	1258
Total	1109	2218

Unit: million tonnes CO_2 equivalent; Source: Deutsche Bank

This compares to an anticipated total surplus of EUAs in Phase II of 75m tCO_2e, once all unused allowances from the New Entrants Reserve have been handed out. Unless power companies can access EUAs in large-scale Phase III auctions, they would create a shortage of 1,183m tCO_2e in Phase II.

Unless the EU holds large-scale Phase III auctions soon, this shortfall would have to be covered by Phase II EUAs.

German power suppliers would be the main buyers. Deutsche Bank thinks they will stand for around half of the Phase III hedging over the next four years. Companies like E.ON and RWE are likely to start hedging post-2012 power sales in late 2010, buying around 140m tCO_2e, the bank said.

In the over-the-counter market, the German Baseload power curve is already traded up to four years ahead, even though activity is limited after the front year. The German Baseload 2013 contracts trade on a day-to-day basis. German exchange EEX quotes contracts out to 2015, although open interest is very thin after 2013.

Analysts are monitoring the spread between EUAs and Certified Emission Reductions (CERs). Phase III is only expected to boost demand for EUAs, not for secondary CERs. This could push CERs €10/tCO_2e below EUAs, even if some analysts expected compliance buyers to become interested in swapping EUAs for CERs once the discount hits € 3/tCO_2e.

Deutsche Bank predicts that power generators in Phase II will be short by 900m tCO2e, while other sectors will be long by 650m tCO_2e. Unused EUAs from the New Entrants Reserve, amounting to 325m tCO_2e, would make the current trading phase long overall, if the Phase III buying from utilities fails to materialise. **IS**

Cement giant to cut EU output

Lafarge, the global cement manufacturer, could cut CO_2 emissions by around 770,000 tonnes of CO_2 equivalent (tCO_2e) in the coming year, its 2008 results indicate.

The company has been hard hit by a slowdown in construction and warns that European production could fall by 15–20% in the coming year as focus shifts towards Asia, the Middle East and Africa.

This would follow a year of already drastic production cuts. Spain, previously a construction boom country, is a prime example, with volumes halving in 2008. Total EU output fell to 4.8m tonnes of cement in 2008, compared with 7.1m tonnes in 2007.

Lafarge is now likely to be a major seller of European Union Allowances (EUAs) in Phase II. The group has announced it is mothballing plants in Spain, Germany, Greece and the UK. These installations would continue to receive EUAs during the closures.

The most recently mothballed plant, in Westbury, UK, is set to receive 687,730 EUAs each year in Phase II, which can be either sold on the market or allocated to other Lafarge installations.

On top of that, the cement industry was long by 17m tonnes already in 2008, according to preliminary EU data, after 2008 emissions fell by roughly 7% year on year to 177m tCO_2e.

Lafarge would be able to sell both this surplus and the extra allowances it is set to receive for its mothballed plants. **IS**

CDM developer moves into South Africa

Project developer First Climate has made initial steps into Africa by partnering up with an investment firm to pave the way into the Clean Development Mechanism (CDM) market in southern Africa.

The firm announced a collaboration with clean technology investment management firm Inspired Evolution on Wednesday. This does not include an equity stake.

The move comes amid uncertainty regarding which countries will be able to host CDM projects under a new climate change agreement. First Climate said it was not driven solely by any proposed shifts in policy for CDM locations. "It's not the core element. We want to be present in all parts of the world. Once we are established in South Africa, we will be ready to source CERs from the region," it said.

Post-2012 proposals have suggested that the CDM focus should shift away from emerging economies and towards the world's least developed countries.

There is still no definite list of which countries will be considered as "least developed". There are four to five definitions within the UN, say legal sources. However, many African countries are expected to be within this group and the UN is in the process of pushing more CDM involvement on the continent through the Nairobi Framework. **CA**

UK SPARK SPREADS 6 MAY 2009

Period	Gas, p/th	Power, £/MWh	Spark spread, £/MWh	Diff	Clean spread, £/MWh	Diff
Day-ahead	28.82	34.61	14.60	-0.31	9.41	-0.48
June '09	28.65	35.10	15.20	0.04	9.86	-0.14
Winter 09	49.80	45.70	11.11	0.11	5.66	-0.07
Summer 10	46.10	43.83	11.81	0.24	6.23	0.05
Winter 10	63.55	54.50	10.36	0.27	4.65	0.09

UK DARK SPREADS 6 MAY 2009

Period	Coal, $/tonne	Power, £/MWh	Dark spread, £/MWh	Diff	Clean spread, £/MWh	Diff
Day-ahead	60.25	34.61	18.50	-0.12	6.53	-0.51
June '09	61.25	35.10	18.72	0.27	6.42	-0.16
Winter 09	75.00	45.70	25.64	0.19	13.07	-0.24
Summer 10	85.68	43.83	20.90	0.40	8.04	-0.04
Winter 10	92.43	54.50	29.74	0.82	16.57	0.39

GERMAN SPARK SPREADS 6 MAY 2009

Period	Gas, €/MWh	Power, €/MWh	Spark spread, £/MWh	Diff	Clean spread, £/MWh	Diff
Day-ahead	11.34	36.09	13.02	6.04	7.14	5.83
June '09	11.30	35.88	12.87	0.17	6.83	-0.06
Q3 '09	11.30	38.38	15.37	-0.54	9.33	-0.76
Year 2010	19.95	53.50	12.89	0.34	6.58	0.11

GERMAN DARK SPREADS 6 MAY 2009

Period	Coal, $/tonne	Power, €/MWh	Dark spread, £/MWh	Diff	Clean spread, £/MWh	Diff
Day-ahead	60.25	36.09	17.87	6.13	4.14	5.65
June '09	61.25	35.88	17.34	0.46	3.23	-0.06
Q3 '09	64.45	38.38	18.87	-0.36	4.76	-0.88
Year 2010	85.20	53.50	27.73	0.51	12.99	-0.02

Indian exchange to auction spot CERs

MCX, the Indian commodity exchange, may start auctioning Certified Emission Reductions (CERs), according to the Indian newspaper *Deccan Herald*. MCX would auction spot CERs every 15 days as soon as it has received approval from the Indian market regulator. At the moment, MCX quotes CERs expiring in May 2009, August 2009 and November 2009, but no spot contracts.

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1 Procter Street, Holborn,
London WC1V 6EU, UK

Tel: +44 20 7911 1920
Fax: +44 20 7911 1851
Website: www.icis.com/heren
Email: info@icisheren.com

Enquiries
ICIS Heren Customer Support +44 20 7911 1919 sales@icisheren.com

Managing Editor
Louise Boddy +44 20 7911 1948 louise.boddy@icis.com

Commercial Director
Simon Platt +44 20 7911 1957 simon.platt@icis.com

Head of Design and Production
Alexis Rendell

Head of Sales
Richard Haddrell

Editor, EDCM
Isabel Save +44 20 7911 1942 isabel.save@icis.com

Deputy editor
Catherine Airlie +44 20 7911 1933 catherine.airlie@icisheren.com

Reporters
Reg Ajuonuma, James Allpress, Ed Cox, Simon Ellis, Roman Kazmin, Daniela Latini, Tomas Marzec-Manser, Filipe Rufino, Fatima Sadouki, Charles Shaw, Robert Songer, Freddie Staermose-Johnson, Elizabeth Stonor, Karl Teofilovic, Katie Tucker, Katya Zapletnyuk

Production Editor
Joseph Williams +44 20 7911 1944 joseph.williams@icis.com

Production
Dan Bloch, Domini Down, Robert Evers, Joseph Gyure, Rachel Kemp, Fred Seelig

Sales and Marketing
Douglas Strien, Ilja Paskevic, Pedro Capella, Krystjan Chanerley, Anna Peters, Kitty Timpson, Kirsty Fleck