



No financial collapse from CO2 trading

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(Montel Powernews) Carbon market professionals have refuted recent claims made by environmentalists Friends of the Earth that carbon trading could trigger another financial collapse and would develop into a speculative "commodity bubble" due to involvement of financial speculators in the market.

"Financial institutions did not create carbon markets, democratically elected governments did," Alexandra Galin, policy and working groups manager at carbon markets and investors association (CMIA), said in response to the report on Friday.

"Carbon trading was mandated by policymakers as a tool to combat climate change," Galin told Montel Powernews.

Political will

Friend of the Earth's report failed to recognise the importance that political will plays in the establishment of a strong market, said analysts at Idea Carbon. "A cap-and-trade scheme can only be as good as the politically set targets and rules," they added.

"Markets are a means to finance emissions reductions, the actual cuts are made by changes in behaviour, in production and by technological innovation," said Galin. "The carbon market is intended to make the transition to a low carbon economy as cost effective as possible and to provide the signals for low carbon investments."

The Friends of the Earth report said the first phase of the EU emissions trading scheme (2005-2007) had failed and that phase 2 (2008-2012) looked on course for a dismal outcome.

"What Friends of the Earth failed to mention is that structural aspects such as over-allocation and the inability to bank allowances contributed to a price crash in the first phase. In the second phase, there is an almost unanimous consensus amongst analysts that fuel switching [from coal to gas] has occurred as a result of the ETS [emissions trading scheme]," Galin said.

Long-term perspective

"Let's not judge the ETS on a couple of years, but keep the long-term perspective. The EU is on track to meet its 2020 targets [of cutting emissions by 20% by 2020 based on 1990 levels]," she added. "The market is price sensitive - it is dictated by the economic environment, and adjusts to economic and political circumstances."

Others agreed. "Market prices [for carbon] have the advantage to move according to market fundamentals whereas any direct regulation cannot react to changing circumstances as quickly," said an analyst at a European utility, adding: "Market

prices up to now have reacted perfectly to market fundamentals and supply and demand circumstances.”

However increased government intervention and carbon taxes were the better way to deal with the threat of climate change than trading, the environmental group said.

“Government funding for carbon abatement has so far been woefully inadequate - markets free up government funds and tap into the huge unfulfilled private finance. Intervention is unrealistic and a short-sighted way of looking at the issue of carbon reductions,” Galin added.

She was equally dismissive of carbon taxes. “Taxes are imprecise. Under a tax regime there is no trajectory for reductions, there is no environmental goal and it does not incentivise reductions over and above the target.”

Friends of the Earth had said in its report published last week, entitled *A Dangerous Obsession*, that increased government intervention was the better way to deal with the threat of climate change.

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