

# Argus European Emissions Markets

Daily European greenhouse gas markets, news and analysis

Issue 09 — 153

Monday 10 August 2009

## Argus Emissions Indexes

 €/t CO<sub>2</sub>e

Indexes based on December 2009 contract		Period	Index (€/t)	Volume ('000t)
EUA	Daily Index	-	14.182	540
EUA	Monthly Cumulative	Aug 2009	14.389	8,055
EUA	Last Month Cumulative	Jul 2009	13.880	61,287
EUA	Year to date Cumulative	2009	12.658	489,671
CER	Daily Index	-	12.583	75
CER	Monthly Cumulative	Aug 2009	12.703	900
CER	Last Month Cumulative	Jul 2009	12.268	10,790
CER	Year to date Cumulative	2009	11.015	61,799

## Allowances slide on bearish energy

Softening prices across the wider energy complex weakened EU emissions trading scheme (ETS) allowances on Monday. Several bearish macro-economic reports, coupled with financial firms' waning interest, dampened emissions further.

Some traders interpreted the December 2009 allowance contract's close above the key €14/t CO<sub>2</sub>e support level as a bullish signal for the coming week.

But others argued that any forecasts made now will be flawed, as "it is hard to assess what the flavour of the market is at the moment with the volumes being so thin," a continental-based trader said. "The holiday mood means very few players are taking positions," he added.

The December 2009 allowance contract slid €0.15/t CO<sub>2</sub>e day-on-day, finishing at €14.20/t CO<sub>2</sub>e. Losses in the German power and crude markets drove allowances lower.

In the German power market, the calendar 2010 contract fell €0.45/MWh on the previous session, closing at €50/MWh. The front-month Brent contract on Ice slid to \$73.03/bl intra-day, before closing at \$74.06/bl — \$0.47/bl lower.

The CER market failed to match losses in the allowance market. Some traders suggested CERs may have a delayed reaction to allowances' weakness.

The December 2009 CER contract closed €0.08/t CO<sub>2</sub>e lower day-on-day, at €12.62/t CO<sub>2</sub>e.

## Argus OTC assessments

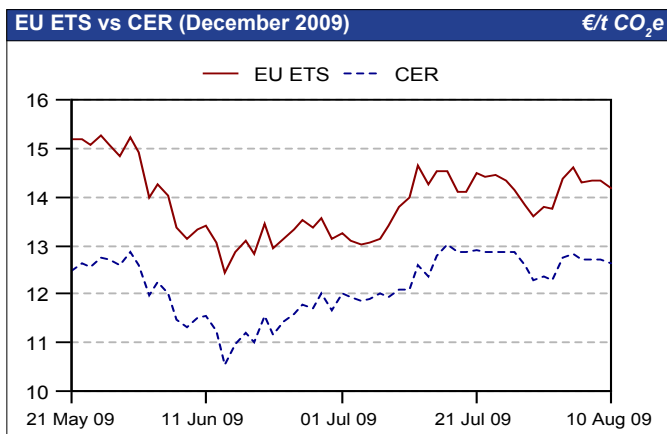
EU allowances		€/t CO <sub>2</sub> e		
Scheme	Period	Bid	Offer	Change
EU ETS	spot	14.03	14.13	-0.16
EU ETS	Dec 2009	14.15	14.25	-0.15
EU ETS	Dec 2010	14.55	14.65	-0.15
EU ETS	Dec 2011	15.25	15.35	-0.20
EU ETS	Dec 2012	16.35	16.45	-0.21

CER (secondary)		€/t CO <sub>2</sub> e		
Scheme	Period	Bid	Offer	Change
CER	spot	12.58	12.68	-0.08
CER	Dec 2009	12.57	12.67	-0.08
CER	Dec 2010	12.38	12.48	-0.07
CER	Dec 2011	12.38	12.48	-0.07
CER	Dec 2012	12.79	12.89	-0.05
CER strip	Dec 2009-12	12.53	12.63	-0.07

EU allowance - CER spread		€/t CO <sub>2</sub> e	
Period	Midpoint	Change	
spot	1.45	-0.08	
Dec 2009	1.58	-0.07	
Dec 2010	2.17	-0.08	
Dec 2011	2.87	-0.13	
Dec 2012	3.56	-0.16	

Generation economics, including cost of emissions			
UK (£/MWh)	September	4Q 2009	2010*
Electricity	32.60	40.00	41.74
Natural gas + ETS	21.18	18.32	14.11
Adjusted spark spread (49.13%)	11.17	8.03	3.81
Coal + ETS	17.05	17.58	18.76
Adjusted dark spread (38%)	5.55	12.08	10.71
Coal spread minus gas spread	-5.62	4.05	6.90
Netherlands (€/MWh)	September	4Q 2009	Cal 10
Electricity	36.65	45.80	51.35
Natural gas + ETS	15.64	21.50	25.04
Adjusted spark spread (49.13%)	10.87	8.25	6.43
Coal + ETS	19.88	20.49	21.86
Adjusted dark spread (38%)	5.11	13.24	15.20
Coal spread minus gas spread	-5.76	4.99	8.77
Germany (€/MWh)	September	4Q 2009	Cal 10
Electricity	36.65	44.25	50.00
Natural gas + ETS	15.64	21.55	25.20
Adjusted spark spread (49.13%)	10.87	6.60	4.92
Coal + ETS	19.88	20.49	21.86
Adjusted dark spread (38%)	5.11	11.69	13.85
Coal spread minus gas spread	-5.76	5.10	8.93

Fuel and electricity prices are taken from the Argus European Electricity, Argus European Natural Gas, Argus Coal Daily International and Argus European Products daily market reports. The model does not take account of local taxes and transport costs. \* UK year ahead power is average of front two seasons.



## Polish president approves AAU law

Polish president Lech Kaczynski has signed an emissions bill that was passed by parliament in July into law. The law enables the Polish government to sell the country's surplus assigned amount units (AAUs).

The Polish environment ministry is involved in ongoing negotiations to sell these AAUs, which are estimated to be equivalent to around 700mn t CO<sub>2</sub> equivalent. "We expect the first deals to be signed in two-three months," the ministry's spokeswoman Magda Sikorska told Argus.

Under the new law, Poland will set up a government agency for emissions, which will run a database on the country's emissions and its AAU credits. The law will also outline the legislative framework surrounding joint implementation (JI) projects in Poland.

Like most post-communist economies, Poland reduced its greenhouse gas (GHG) emissions significantly when the Soviet Union collapsed. They have fallen by nearly 30pc since 1990, while the Kyoto protocol obliges the country to reduce its emissions by 6pc.

## CMIA confirms board members

The Carbon Markets and Investors Association (CMIA) has announced that its 2009-10 board will comprise several financial firms, a carbon exchange and carbon project developers.

The board will meet frequently over the coming year to "formulate the strategy and direction of CMIA", manager of policy and working groups Alexandra Galin said.

US trading firm and bank Merrill Lynch global head of carbon markets Abyd Karmali is the president of CMIA. US bank JP Morgan senior climate change and energy adviser Richard Folland will be vice-president of communications, while Climate Exchange chief financial officer Matthew Whittell is vice-president of policy. Accountancy firm KPMG carbon advisory group manager Sandy Nicholson is treasurer.

The remaining seven board members are from UK-based carbon project aggregator EcoSecurities, Pan-African Standard Bank, carbon project developer Sindicatum Carbon Capital, UK lawyers Norton Rose and the Counsel of Environmental and Climate Change Practice.

## NZ plans to cut emissions by 10-20pc by 2020

The New Zealand government plans to cut the country's greenhouse gas (GHG) emissions by 10-20pc before 2020 provided a comprehensive post-Kyoto protocol climate change agreement is reached in at the UN Framework Convention on Climate Change (UNFCCC) Cop 15 meeting in Copenhagen, Denmark, in December.

New Zealand's target is due to be tabled at the UNFCCC meeting in Bonn, Germany, where Annex 1 parties to the Kyoto protocol will discuss further commitments to reducing GHG emissions.

The ruling National Party said the commitment is conditional on a global agreement being secured that limits carbon dioxide equivalent (CO<sub>2</sub>e) to 450ppm and temperature increases to 2°C, provides effective rules on forestry, and on New Zealand having access to international carbon markets.

The New Zealand government said providing a targeted range gives it flexibility to adjust its target depending on progress in the international negotiations. "Where New Zealand's final target will lie within this range will depend on the overall ambition of the agreement, what other countries are prepared to do, and the effectiveness of the rules," it said.

"If the international agreement falls short of meeting these conditions, New Zealand reserves the right to reconsider the stringency of its target," it said.

New Zealand climate change minister Nick Smith said the 2020 target will be demanding to reach as the country's gross emissions are already 24pc above 1990 levels. In addition, half of its emissions come from agriculture, a sector that has found it difficult to reduce emissions, and the country already has one of the highest proportions of renewable electricity in the developed world.

New Zealand would meet its 2020 target through a mixture of domestic emission reductions, the storage of CO<sub>2</sub> in forests, and the purchase of emission reduction credits from other countries, Smith said.

New Zealand is able to meet its Kyoto commitment through the removal of CO<sub>2</sub> through its forests, which act as a carbon sink. The New Zealand government estimates that 23.84mn t of CO<sub>2</sub>e was removed from the 1990 level through new forests that were planted after 1990, which is acceptable under the Kyoto rules — this accepts carbon reduction from afforestation and

ECX, 17:00 London Time										€/t CO <sub>2</sub> e
Month	First	Last	High	Low	EFP	EFS	Block	Screen	Total Volume	Sett
EUA Dec-09	14.25	14.18	14.30	14.11	1550	0	100	2163	3713	14.20
EUA Dec-10	14.54	14.57	14.67	14.50	275	0	0	251	526	14.60
EUA Dec-11	15.30	15.32	15.32	15.30	0	0	0	81	81	15.32
EUA Dec-12	16.39	16.41	16.42	16.39	75	0	0	182	257	16.41
EUA Dec-13	0.00	0.00	0.00	0.00	13	0	0	0	13	17.56
EUA Dec-14	0.00	0.00	0.00	0.00	0	0	0	0	0	18.78
					<b>1913</b>	<b>0</b>	<b>100</b>	<b>2677</b>	<b>4590</b>	
CER Dec-09	12.60	12.62	12.62	12.60	1435	0	0	183	1618	12.62
CER Dec-10	12.43	12.43	12.43	12.43	0	0	0	40	40	12.44
CER Dec-11	0.00	0.00	0.00	0.00	0	0	0	20	20	12.44
CER Dec-12	12.85	12.85	12.85	12.85	400	0	0	130	530	12.80
					<b>1835</b>	<b>0</b>	<b>0</b>	<b>373</b>	<b>2208</b>	

## European weather forecast

Departure from normal temperatures: 11 August											
Location	11-August		12-August		13-August		14-August		15-August		Five-day precipitation (mm)
	Average °C	Departure from normal	Average °C	Departure from normal	Average °C	Departure from normal	Average °C	Departure from normal	Average °C	Departure from normal	
Aberdeen	15.00	1.40	15.00	1.40	15.00	1.40	14.50	0.90	15.00	1.40	1
Manchester	18.00	2.20	17.00	1.20	15.50	-0.30	15.00	-0.80	15.00	-0.80	-1
London	20.00	1.60	19.50	1.10	18.50	0.10	17.50	-0.90	18.00	-0.40	-0
De Kooy	18.50	1.90	17.50	0.90	17.00	0.40	17.00	0.40	18.00	1.40	1
Paris/Orly	20.50	0.90	20.00	0.40	19.50	-0.10	21.00	1.40	21.00	1.40	1
Madrid/Barajas	22.50	-2.20	24.00	-0.70	24.00	-0.70	23.50	-1.20	24.50	-0.20	-0
Hamburg/Fuhlsbuettel	17.00	0.30	16.00	-0.70	16.50	-0.20	15.50	-1.20	16.50	-0.20	-0
Berlin/Tempelhof	18.50	-0.10	17.50	-1.10	18.00	-0.60	18.00	-0.60	18.50	-0.10	-0
Duesseldorf	20.00	1.10	19.00	0.10	17.00	-1.90	18.00	-0.90	18.50	-0.40	-0
Nuernberg	18.50	1.60	19.50	2.60	18.50	1.60	18.50	1.60	19.50	2.60	3
Prague	18.50	0.60	18.50	0.60	18.00	0.10	18.00	0.10	19.50	1.60	2
Warsaw	16.50	-0.70	18.00	0.80	16.00	-1.20	17.00	-0.20	18.50	1.30	1
Budapest	20.50	-0.40	20.50	-0.40	21.00	0.10	21.50	0.60	22.00	1.10	1
Bucharest	22.00	-0.20	21.50	-0.70	22.00	-0.20	23.00	0.80	23.00	0.80	1
Milano/Linate	26.00	3.50	26.00	3.50	26.50	4.00	26.00	3.50	26.00	3.50	4

— World Weather

reforestation under the category of land use, land use change and forestry LULUCF. The country's net position in 2007 after LULUCF activity was 51.71mn t of CO<sub>2</sub>e, bringing it under 1990 levels.

“While forestry planted in the 1990s is currently offsetting the increases in our gross emissions, the age of our trees means this will not be the case in 2020,” Smith said.

### New Zealand emissions target threatens Bonn talks

New Zealand's pledge to reduce emissions by only 10-20pc by 2020 threatens to jeopardise climate change negotiations taking place in Germany this week, Greenpeace said on Monday.

“New Zealand prides itself on its clean and green reputation and this poor showing in the global negotiations is putting this at risk and undermining the chances of a climate saving deal in Copenhagen this December,” Greenpeace international political climate adviser Martin Kaiser said.

Greenpeace blames the lack of progress at last month's G8 summit for New Zealand's inertia regarding its emissions targets. G8 leaders failed to agree on mid-term targets at the meeting held in Italy at the start of July.

This week's talks in Bonn will see countries attempt to trim a 200-page climate change document that Greenpeace describes as “more like a wish list than any real negotiation text”.

The Bonn talks will conclude on 14 August, paving the way for the next round of negotiations in Bangkok in late September.

### Australia, Indonesia submit REDD plan to UNFCCC

Australia and Indonesia have made a submission to the UN Framework Convention on Climate Change (UNFCCC) call-

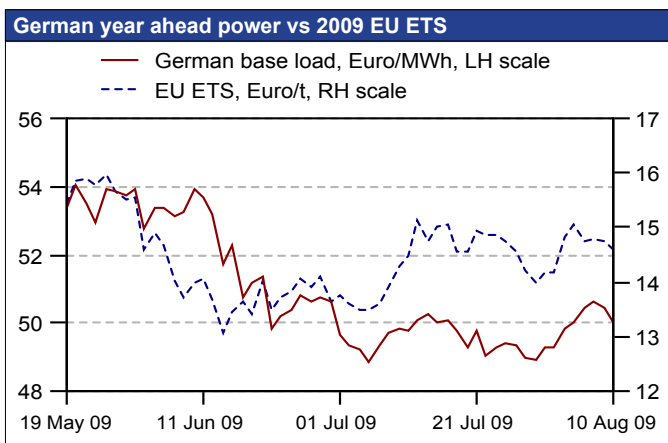
CDM CER Issuance update			t CO <sub>2</sub> e
	Issuance	Change	
Africa	4,588,174	nc	
Asia Pacific	264,584,520	nc	
Middle East	191,547	nc	
Latin America	47,454,710	nc	
<b>CERs issued</b>	<b>316,818,951</b>	<b>nc</b>	

- UNFCCC

UK Green Markets		£/MWh		
		Bid	Offer	Change
UK Rocs (co-fired)	CP8 (Apr 2009)	52.80	53.00	0.00
UK Rocs (non co-fired)	CP8 (Apr 2009)	52.80	53.00	0.00

Swedish Green Markets		SKr/MWh		
		Bid	Offer	Change
Swedish elcertificates	spot	308.00	310.00	0.00
Swedish elcertificates forwards	Mar-2010	312.00	314.00	-1.00
Swedish elcertificates forwards	Mar-2011	318.00	320.00	-1.00

Exchange Data		€/t CO <sub>2</sub> e		
Contract	Settlement	Change	Volume	
<b>NordPool</b>				
EUA:				
Dec-09	14.20	-0.15	0	
Dec-10	14.60	-0.15	0	
Dec-11	15.30	-0.20	0	
Dec-12	16.40	-0.20	0	
CER:				
Dec-10	12.45	nc	0	
Dec-11	12.45	nc	0	
<b>EEX</b>				
Dec-09	14.22	na	-	
<b>Bluenext</b>				
Spot	14.08	-0.19	1,412,000	



**ing for a robust monitoring system to ensure that emission reductions from reducing emissions from deforestation and forest degradation (REDD) projects are genuine.**

The two countries said in a three-page submission to the ad-hoc working group on long-term co-operative action under the convention (AWG-LCA) that action taken by countries needs to be measurable, reportable and verifiable (MRV).

“We consider that a successful outcome at Copenhagen should address key elements of MRV mechanisms for REDD,” Australia and Indonesia said in the second joint submission to the UNFCCC. Both countries have already called for a REDD mechanism to be part of a post-Kyoto climate change agreement.

The UNFCCC Conference of the Parties (Cop) to be held in Copenhagen in December is expected to agree on key elements of MRV mechanisms for REDD, aligned with the broader MRV framework under the Cop 15 outcome, the countries said.

Indonesia is preparing for an international REDD mechanism by developing national systems and institutional arrangements. This includes the design and development of Indonesia’s national carbon accounting system (Incas) and its related national forest resource information system (Fris). Through the Indonesia-Australia Forest Carbon Partnership the two countries are developing two REDD demonstration projects.

“In taking early action to develop national MRV systems for REDD, the system design requires sufficient flexibility to align with future REDD requirements under the COP 15 outcome, enabled and supported by financing, technology transfer and capacity building from developed countries, according to national circumstances and capabilities,” the submission said.

Australia is installing a satellite dish in the north of the country to directly receive regional satellite data tracking deforestation in Indonesia.

**Australia revises down GHG growth for 2008-12**

**The Australian government has revised downwards its increase in greenhouse gas (GHG) emissions over the Kyoto period (2008-12) to a 107pc increase compared with 1990 levels, from its target of a 108pc increase. The revision follows an assessment of emissions trends for 2008, which showed that the growth of emissions slowed as a result weaker economic growth.**

The ruling Labor party warns that if a domestic emissions trading scheme (ETS) is not started then GHG emissions are projected to increase by 20pc above 2020 levels on a business as usual basis. The government’s proposed ETS legislation, known as a carbon pollution reduction scheme, is due to be debated this week in the Australian senate where the government does not have a majority.

In a 68 page report Tracking to Kyoto and 2020 the Australian Department of Climate Change said it has revised downwards its projected increases in GHG emissions over the 2008-12 period owing to lower economic growth estimates from the previous national inventory report, which was released in April 2008.

The lower emissions projection primarily reflects lower emissions in the stationary energy and transport sectors. It said emissions from the stationary sector will fall by 12mn t of CO<sub>2</sub>e/yr in 2008-2012 to an annual average of 293mn t/CO<sub>2</sub>e, while emissions in the transport sector will fall by 6mn t/yr of CO<sub>2</sub>e to an average of 82mn t/yr of CO<sub>2</sub>e.

Despite the downward the revision, stationary energy and transport emissions account for the bulk of Australia’s rise in GHG emissions, with increases of 150pc and 133pc forecast above 1990 levels for the Kyoto period.

“While the effects of lower levels of economic activity are difficult to separate from other causes, particularly in the electricity generation sector, analysis suggests that lower levels of economic activity have reduced projected emissions in the stationary energy, transport, and to a lesser extent industrial processes sectors, by around 8mn t of CO<sub>2</sub>e,” the report said.

In contrast, fugitive, or unintended, emissions are now projected to be 4mn t/yr CO<sub>2</sub>e higher during the Kyoto period because of more emissions intensive coal mines coming into production, the report said.

“While emissions growth has slowed over the past 12 months due to the global recession, Australia’s emissions continue to rise, with an average increase of 1.6pc each year from September 1998 to March 2009,” the report said.

The report shows that to achieve the Australian government’s mandatory GHG emission reduction target of 5pc by 2020, Australia needs to avoid the creation of 138mn t/CO<sub>2</sub>e in 2020. “This is equivalent to halving the carbon pollution that comes from electricity generation and transport between 2011 and 2020,” the report said.

To achieve the government’s target of a 25pc reduction in GHG emissions by 2020, which is conditional on a global climate agreement being reached to limit the rise in global temperatures to 2°C, the economy will need to avoid the creation of 249mn t/CO<sub>2</sub>e in 2020.

**Australian coal emissions to rise over Kyoto period**

**The rise in Australian coal production in 2008-12, which will increase the number of underground thermal coal mines, will contribute to an increase in greenhouse gas (GHG) emissions over the Kyoto period, the Australian government said.**

The rise in GHG emissions from coal mining, which form the largest component of fugitive or unintended emissions, the grouping that also covers the upstream petroleum and LNG sectors, will account for the most of the increase of 4mn t of carbon dioxide equivalent (CO<sub>2</sub>e).

In a 68-page report Tracking Kyoto and 2020 the Australian Department of Climate Change said GHG emissions from coal production will average 29mn t/yr CO<sub>2</sub>e during 2008-12, up by 80pc from 1990 levels. Coal mining emissions will rise to 32mn t/yr CO<sub>2</sub>e by 2020 if a domestic emissions trading scheme is not in place by the planned start of July 2011, the report said.

“This reflects a higher average level of emissions intensity of coal production, which is due to both a higher level of emissions-intensity of existing mines than previously projected, and also a number of new projected emissions intensive mines,” the report said.

In contrast, fugitive emissions from the oil and gas sector are expected to be 14pc below the 1990 average at 11mn t/yr CO<sub>2</sub>e. Fugitive emissions will account for 6.9pc of Australia’s total emissions through the Kyoto period 2008-12, with coal accounting for 4.9pc of total emissions.

Emissions from coal mining are largely generated through the release of methane trapped near coal seams. The volume of methane released from Australia’s near 100 coal mines varies widely.

Many mines do not produce methane at all, while other mines are gassier and the methane can be removed before any mining begins. Coal mining is not particularly emissions intensive, with each tonne of coal produced in Australia, emitting about 50kg of CO<sub>2</sub>e.

**US: Push for GHG bill to protect manufacturing**

Ten senators are calling for climate legislation to maintain a “level playing field” for manufacturing and prevent the further migration of jobs overseas.

In a letter sent recently to President Barack Obama, the senators wrote that “any climate change legislation must prevent the export of jobs and related greenhouse gas emissions to countries that fail to take actions to combat the threat of global warming comparable to those taken by the United States.”

Specifically, the lawmakers suggested short-term transition assistance in the form of rebates for energy-intensive and trade-exposed industries, requiring international agreements to address manufacturing competitiveness and implementing ways to measure, monitor, verify and hold countries accountable for emissions reductions.

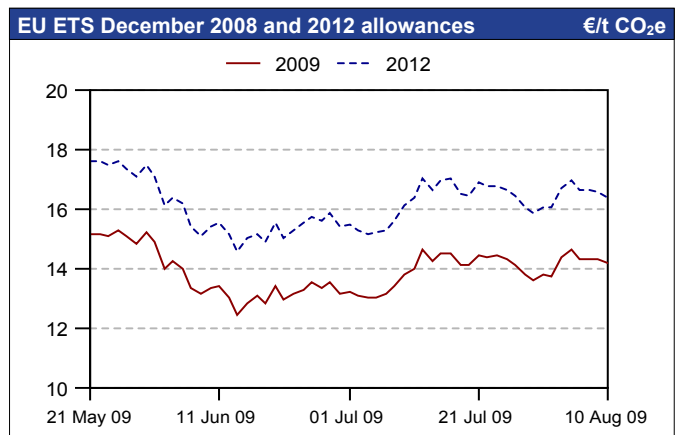
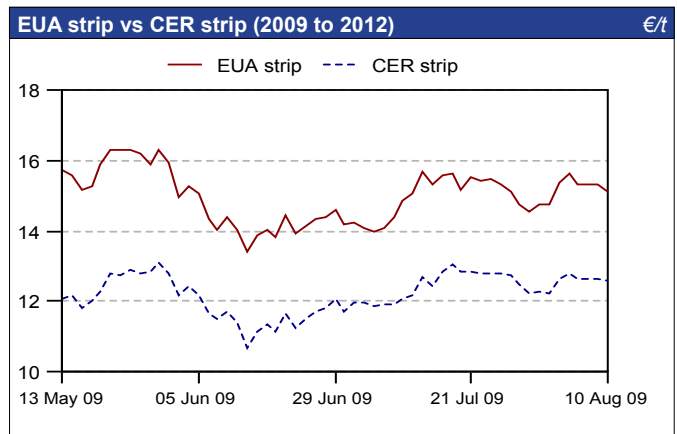
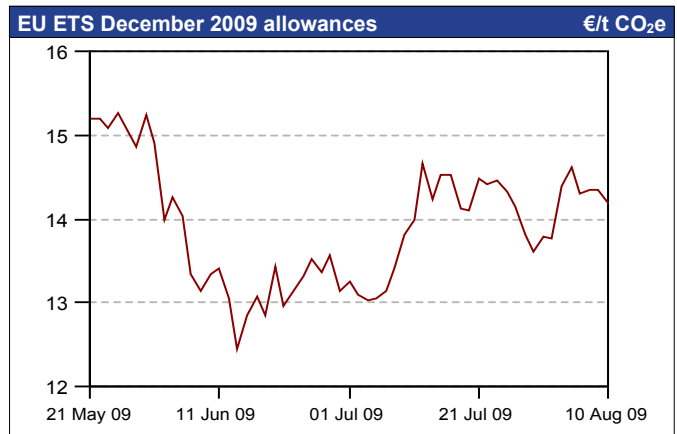
The Waxman-Markey bill that passed the House in June contains similar measures, including using 15pc of allowances from 2014-2025 to help cover costs for energy-intensive and trade-exposed industries. Those allocations would gradually phase out from 2026-2050.

The senators also called for policies that will promote energy efficiency and “clean technology manufacturing” and ways to help the sector retool in a carbon-constrained environment. Lastly, the group called for a long-term border adjustment mechanism to ensure any climate change legislation is “trade neutral and environmentally effective.”

The president has come out against the Waxman-Markey measures because they give him very little discretion in deciding whether to impose an adjustment on goods from countries that do not address GHG emissions starting in 2020.

The senators said the adjustment was needed to make the climate change measure “prevent countries from responding to climate change less rigorously than the United States and undercutting the effectiveness of our climate policy by shifting, rather than reducing, greenhouse gas emissions.”

Early last month, Sen. John Kerry, said climate legislation under development in the Senate will likely contain a different approach that gives the president greater leeway in deciding when to impose trade penalties. Kerry and Senate Environment and Public Works Committee Chair Barbara Boxer plan to introduce their version of Waxman-Markey by 8 September.



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