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Emissions Daily

Tuesday, August 4, 2009

UK move to halt VAT fraud in carbon markets not enough: lobby group

London — The threat of VAT fraud in the carbon markets has not gone away as a result of the UK's decision last week to exempt carbon trading from value added tax, a carbon market industry group warned Monday.

The Carbon Markets and Investors Association said unilateral measures by France, the Netherlands and more recently the UK to try to prevent carousel fraud in the carbon markets highlight the need for harmonization of VAT policy at EU level.

The UK announced emergency legislation exempting carbon trading from VAT on July 30, with effect from July 31.

The CMIA "recognizes that this is an interim solution pending the implementation of an EU-wide directive," it said in a statement.

"However, only three Member States have implemented legislative measures, and thereby the urgency for such an EU directive is increased substantially. That is, under current circumstances, certain cross-border transactions on non-legislated exchanges remain at risk," warned the CMIA, whose members include banks, law firms, consultants and other sectors with interests in the carbon markets.

Recent moves by these member states are intended to prevent

(continued on page 2)

EUAs go up on stronger oil, German power markets

EUA MARKET

Prices for December 2009 EU Allowances went up Monday compared to Friday's closing level of €13.75 as traders reported that stronger Brent crude oil and German power prices Monday supported the EU carbon market.

Several traders said Monday that 2009 EUA prices opened strongly around €14.00 and broke through several minor technical levels in early morning trading as market players worked to position the contracts for a bull run as strong macro economic news on the day coming from bank financial results and other places served to buoy buying sentiment.

Other traders reported that the OTC market for spot and 2009 EUAs was healthier than usual Monday due to a technical problem with the French emissions registry, which prevented France-based carbon exchange BlueNext from recording strong spot EUA volumes on the day. One trader said Monday that the UK-based ECX became the hub for exchange-traded EUAs in

(continued on page 2)

Platts daily EUA assessments, Aug 3 (€/mt)

Delivery	Assessment	Midpoint	Change
Phase 2			
EUA 2009 Dec	14.350-14.390	14.370	0.620
EUA 2010 Dec	14.780-14.820	14.800	0.630
EUA 2011 Dec	15.580-15.620	15.600	0.640
EUA 2012 Dec	16.660-16.700	16.680	0.660
Monthly Rolling Average			
EUA 2009 Dec	Aug-09	14.370	0.473

Forward market daily assessments: The low end of the range reflects prices for larger parcels, while the upper end reflects prices for smaller parcels. The typical size range is 5,000 to 50,000 mt. Monthly Rolling Average: This is a mathematical average of assessments for the most actively traded contract each month, usually the next December contract.

Platts daily CER assessments, Aug 3 (€/mt)

Delivery	Assessment	Midpoint	Change
CER 2009 Dec	12.540-12.640	12.590	0.240
CER 2010 Dec	12.330-12.430	12.380	0.280
CER 2011 Dec	12.320-12.420	12.370	0.290
CER 2012 Dec	12.630-12.740	12.685	0.285
Monthly Rolling Average			
CER 2009 Dec	Aug-09	12.590	0.162

Platts daily EUA/CER spread, Aug 3 (€/mt)

Delivery	Spread	Change
2009 Dec	1.780	0.380

EU CO_2 price trend

Source: Platts

BlueNext's absence from the day's play.

Several traders reported that utilities were on the buy side for 2009 EUAs Monday along with some financial players, but because of the summer holiday season in Europe, the traders said that liquidity in the market overall remained low and would likely stay low for at least another week.

"With this lack of liquidity and a lack of activity in the spot, we saw EUAs go up in a financial game; there were some utilities, less sellers than buyers," one trader said, adding that the 2009/2012 EUA strip "did not trade too much" Monday after seeing heavy play last week.

"We've had a technical level that has been tested in the last few days, just a break away to the downside and it feels like it has gone through €14.00 on German power, which probably led the shorts to cover and then industrial buying and compliance buying gave it a good upside today," another trader said.

EUAs for December 2009 delivery were quoted at €14.37 at the close of trading, up €0.62 on the day.

CERs rise in price as EUA swap widens, overall CER curve flattens

CER MARKET

Certified Emission Reductions for December 2009 delivery rose in value Monday compared to Friday's closing level of €12.35, but traders said that continued wide bid/ask spreads for CERs, a widening CER/EUA swap level, a continued flat overall CER curve and a long-running supply shortage of 2009 CERs continued to impact front-year contract prices.

One trader said Monday that many market players are becoming "worried" about 2012 CER prices, which last week began to flatten sharply with the 2009 CER price in a move that could have resulted in the overall CER curve going into full backwardation. On July 28, the 2009/2012 CER spread was just €0.02.

Another trader said that the 2009 CER/EUA swap "is getting wider."

"When EUAs are €0.65 up, the CERs are only €0.30 up. For once this is a natural, expected move," the trader said.

The 2009 CER/EUA swap was quoted at €1.78 Monday, up €0.38 on the day compared to Friday's closing level.

Another trader said that 2009 CERs were quoted at between €12.50 and €12.65 for most of the day, signalling little interest in the contracts.

December 2009 CERs were quoted at €12.59 at the close of trading, up €0.24 on the day.

Generating fuel cost comparisons, Europe (Aug 3)

Fuel	/MWh	Plus CO_2	Total /MWh	Profit/Loss in £	Profit/Loss in €	in $
UK Baseload (£)						
Gas						
Next month	15.40	4.73	20.13	12.37	14.47	20.51
Next Q	25.90		30.63	9.22	10.78	15.29
Coal						
Next month	16.84	12.47	29.31	3.19	3.73	5.29
Next Q	17.39		29.86	9.99	11.69	16.57
NW Europe Baseload (€)						
Gas				**€**	**£**	**$**
Next month	16.62	4.98	21.60	14.60	12.49	20.71
Next Q	27.60		32.58	11.62	9.93	16.47
Coal						
Next month	19.70	14.59	34.28	1.92	1.64	2.72
Next Q	20.33		34.92	9.28	7.94	13.16
NW Europe/UK Peak load						
Fuel Oil 1%S				**NWE €**	**UK £**	
Next month	79.39	10.93	90.32	-44.42	-36.42	
Next Q	80.71		91.64	-32.84	-29.65	
Fuel Oil 3.5%S						
Next month	77.79		88.72	-42.82	-35.05	
Next Q	77.37		88.29	-29.49	-26.79	
Gasoil 0.1%S						
Next month	108.21		119.13	-73.23	-61.06	
Next Q	104.80		115.73	-56.93	-50.25	

Note: Based on typical kg CO_2/mmBtu rates of 101.5 for coal, 55 for natural gas, and 72.5 for oil; and on generating efficiencies of 49% for UK gas plant, 54% for western Europe gas plant, 34% for all coal plant, and 32% for all oil-fired plant. Benchmark coal and distillates are priced at ARA. Details of methodology at www.platts.com

EUROPE

VAT fraud ... from page 1

carousel fraud, which involves a company importing goods from a country in which VAT does not apply, selling the goods in a country where VAT does apply, with the VAT cost included, and then disappearing or being declared bankrupt before paying the VAT to the relevant government. The buyer then reclaims the VAT back from the government, robbing it of revenue.

The CMIA broadly welcomes moves to limit VAT fraud in the carbon markets, but the group wants to see the issue dealt with at EU level, rather than see a flurry of countries going it alone.

And until an EU-wide position emerges on VAT, the threat of fraud in the carbon markets looms large. That situation means the European Commission should take interim measures, according to the CMIA.

"Comprehensive Know Your Client procedures remain as the primary means to safeguard against malignant counterparties. As such, CMIA urges the European Commission to take swift measures on two fronts: The establishment of a clear program for counterparty screening, and monitoring controls focusing on irregular trading activities; and the legislating of clear and inclusive tax treatment of carbon market transactions within the EU," the CMIA said.

"Insofar as the [EU Emissions Trading Scheme] was created to serve the needs of industries of 27 Member States, it is imperative that there is no disparity created by unequal tax treatment of transactions," the group said.

"While we support the interim measures taken as immediately available tools to prevent suspicious and fraudulent activities, we would encourage the EC to act quickly and expediently on an issue that affects not only direct EU ETS participants, but carbon market service providers and investors of all descriptions," it said.

"In the interests of market integrity and efficiency, the environment must be stabilized and equalized — and swiftly," the CMIA said.

The CMIA represents approximately 75% of the global carbon market, valued at roughly $100 billion (€69 billion) in 2008.

The CMIA's statement follows comments from an EC source last week stating that the EU has already agreed legislation that aims to counter VAT fraud, which will take effect January 1, 2010.

Two EU directives coming into force on that date will mean information on intra-community supplies of services will be systematically collected and exchanged between member states, according to the EC source.

Furthermore, the EC aims to propose a "reversed charge" mechanism to various markets, which could include carbon trading, on an experimental basis later in 2009, the source said. The reversed charge, recently employed by the Dutch government, involves shifting the VAT burden from the seller to the buyer, removing the ability to conduct carousel fraud.

'Criminals got smarter': UK firm

In reaction to the UK's move on VAT, UK-based accountancy and financial services firm Smith & Williamson said: "The UK government has sought a derogation from EU law to cover this short-term action pending agreement with EU on an EU-wide solution, effectively cutting through EU bureaucratic red tape associated with introducing new VAT legislation."

"It is important to note that this should not affect genuine businesses as a zero rated supply is still a taxable supply which means that although no VAT is charged, the seller can generally claim VAT on any purchases that relate to those sales," the company said.

"However, it is extremely short notice and businesses will have to change their systems quickly especially when [Her Majesty's Revenue and Customs] have confirmed that any VAT paid in error from July 31 2009 will not be recoverable," said Smith & Williamson Director Hannah Dobson.

"This is the latest example of Missing Trading Intra Community fraud, which has already cost the Exchequer millions of pounds of taxpayers' money," the company said.

"As always seems to be the case, the criminals got smarter. On reflection you probably couldn't have thought of a more vulnerable target for VAT fraud, a potentially high value intangible asset with no easy way of tracking and measuring the asset or its delivery," said Dobson.

"This is a welcome move for UK businesses in this sector. HMRC recently issued a warning that genuine businesses may be jointly and severally liable for any VAT that went missing as a result of any fraud along the supply chain. This means that business owners and managers can concentrate on their businesses instead of carrying out time consuming verification on each of their suppliers," the company said.

European exchange data, Aug 3

	Settlement (€/unit)	Volume
ECX/ICE		
Futures		
CFI Dec 2009	14.41	4,281,000
CFI Dec 2010	14.85	612,000
CFI Dec 2011	15.63	337,000
CFI Dec 2012	16.75	298,000
CFI Dec 2013	17.97	0
CFI Dec 2014	19.19	0
CER Dec 2009	12.68	778,000
CER Dec 2010	12.48	58,000
CER Dec 2011	12.47	31,000
CER Dec 2012	12.80	30,000
Nord Pool		
EUA spot	14.25	20,000
Forwards		
EUA Dec 2009	14.35	331,000
EUA Dec 2010	14.80	0
EUA Dec 2011	15.55	0
EUA Dec 2012	16.65	0
EUA Dec 2013	17.85	0
EUA Dec 2014	19.05	0
CER Dec 2009	12.60	0
CER Dec 2010	12.40	0
CER Dec 2011	12.40	0
CER Dec 2012	12.70	0
EEX		
EUA spot	14.25	0
EUA auction	13.92	0
Forwards		
EUA 2009	14.34	114,000
EUA 2010	14.78	0
EUA 2011	15.56	0
EUA 2012	16.68	0
CER 2009	12.60	0
CER 2010	12.38	0
CER 2011	12.38	0
CER 2012	12.70	0
Bluenext		
EUA spot	14.30	698,000
Futures		
EUA 2009	14.35	0
CER spot	12.67	210,000
CER 2009	12.57	0

ECX emissions trading volume hits 470 million mt in July

London — Average daily trading volume of greenhouse gas emissions contracts on the European Climate Exchange topped 20 million metric tons of CO_2 equivalent for the sixth straight month in July, the ECX said in a statement Monday.

Traded volume of EU Allowances and UN Certified Emission Reductions carbon offsets, including spot, futures and options contracts, totalled 470,914 contracts in July, or 470.9 million mt CO_2e, the bourse said.

Average daily trading volume for 2009 as a whole stood at 21.3 million mt, it said.

Year-to-date volumes stood at 3.2 billion mt of EUAs and CERs, surpassing the corresponding 2008 total of 2.8 billion mt, the ECX said.

Total open interest in ECX futures and options exceeded 700,000 contracts on July 8 and currently sits at a record high of 726,106 contracts. Open interest levels grew 7% in July compared with June, the ECX said.

The exchange also launched new quarterly options expiring into the December futures, called "ECX Serial Options Contacts" on July 10 and the first trade was transacted between RNK Capital and Citigroup, it said.

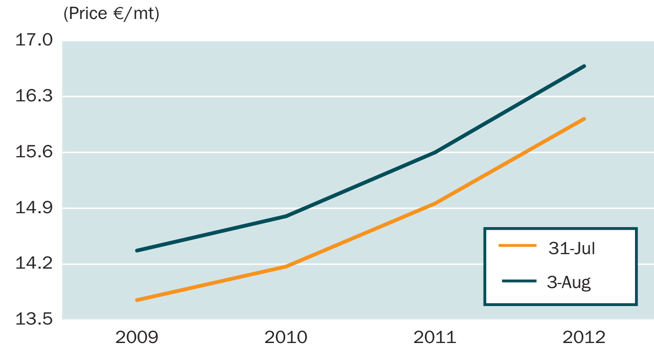
The trading volume figures released for July add to an ongoing long-term growth trend seen on the ECX. 2008 volumes increased by 171% year-on-year, according to the exchange.

The ECX said it holds 98.2% of Europe's market share of EUA futures and options, with Norway's Nordpool holding 1.2% and Germany's EEX with 0.6% of market share.

On spot EUAs, France's Bluenext holds the dominant position with 82.9% of market share, followed by Netherlands-based Climex with 8.7%, ECX with 7.3% and EEX and Nordpool holding 0.8% and 0.3% respectively, according to the ECX's latest figures.

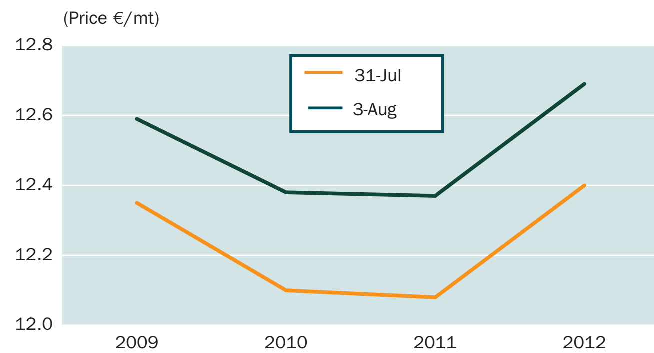
The London-based ECX is a member of the Climate Exchange group of companies, whose member companies also include the Chicago Climate Exchange and the Chicago Climate Futures Exchange.

EUA forward curve



Source: Platts

CER forward curve



Source: Platts

European July spot gas falls 13% on month, 62% on year

London — Average spot gas prices in Europe in July were down by about 13% on the previous month, but down by a much larger 62% on July 2008, an analysis of Platts data revealed Monday.

The average UK day-ahead gas price in July 2009 was 22.96 pence/therm ($0.386/therm), down 13% from 26.46 p/th in June 2009 and down 62% from 60.01 p/th in July 2008.

The changes were similar across Europe's main other spot gas hubs: Zeebrugge in Belgium, the Dutch TTF, the German BEB and EGT hubs and the French PEG Nord.

The only exception was Italy's PSV. Prices there were down about 55% on the year, but only dropped by between 1 and 4% from the previous month. Italy is the least liquid spot gas market, and so can be slower to react to change in the market.

Prices in July were lower than June as the market continued to receive steady supplies, with few major problems reported, and storage stocks building ever higher.

The UK commissioned a new LNG terminal in Wales, which received its first cargo from the Methane Lydon Volney. Meanwhile four LNG cargoes were delivered into the UK's South Hook and the UK's Grain LNG terminals. Zeebrugge LNG in Belgium was thought to be active too.

UK gas storage was 96% full July 27, according to latest data from Gas Storage Europe. Italian storage was 82% full. German and French storage was less full, at 64% and 65% respectively. Throughout July, the UK was exported gas to the continent throughout July.

The change on the year before is much larger, but easy to explain. In July 2008 oil prices peaked at more than $147/barrel, despite the worst aspects of the economic crisis having not yet hit, with Lehman Brothers collapsing in September.

Gas prices are often index-linked to oil in Europe. At present oil prices are much lower than in 2008, at about $70/barrel, coupled with a slash in gas demand on the back of the global economic crisis.

AMERICAS

Offsets in US House bill would lower CO_2 allowance prices: CBO

Washington — A US House of Representatives climate change bill's carbon offset provisions would keep allowance prices under a carbon cap-and-trade program drastically lower than if the offsets were not allowed, according to a Congressional Budget Office issue brief released Monday.

CBO estimated an allowance price of $40/metric ton in 2030 under the offset provisions of the House climate change bill (H.R. 2454) passed last June, with $136 billion generated in allowance auction revenues and $101 billion in net cost. That price would rise to $138/mt in 2030 without the use of offsets, it said, with auction revenues being $474 billion and a net cost of $248 billion.

Under the House bill, up to 2 billion mt of offsets can be used by greenhouse gas emitters each year to defray their allowance purchasing. That amount is split equally between offsets generated domestically or internationally.

CBO estimated that 52% of the required GHG reduction by 2030 could be achieved through the use of both types of offsets. It used a $5/mt CO_2 equivalent transaction cost for offsets in its calculations.

Without offsets, CBO estimated that 3.555 billion mt of emissions would occur in 2030, equal to the number of allowances distributed for free and the bill's GHG cap at 3.427 billion plus 128 million allowances banked by emitters from previous years and used that year.

With the House provisions for offsets and the same 3.427 billion mt GHG cap, CBO estimated that emission production would be 5.031 billion mt in 2030 and emitters would purchase offsets totaling 1.790 billion mt.

"If the offsets represent true incremental reductions, then net emissions would be 3.241 billion mt (5.031 minus 1.790)," it said. "The sources subject to the cap would use 3.241 billion allowances to cover their net emissions and would bank 186 million allowances (3.427 distributed minus 3.241 used) to cover future emissions."

CBO concluded, "In 2030, the net cost in the US for the program would be $101 billion, about 60% less than if offsets were not allowed."

IN-BRIEF

■ Manufacturing activity in the 16 countries using the euro rose to the highest level for 11 months in July, a survey showed Monday in a sign of improved economic health for the eurozone. The index of purchasing managers' activity in the manufacturing sector (PMI) rose to 46.3 points, higher than a previous estimate of 46 for the month of July in the analysis compiled by the Markit survey company. The new level was a major increase from June when it stood at 42.6 points and marked a fifth straight monthly rise in the index. The index however still indicates a recession as it remains below a threshold of 50 which would mean a return to growth. The figures point toward a possible recovery in industrial activity in Europe, which is expected to raise demand for EU Allowances under the EU Emissions Trading Scheme as power consumption returns to normal levels.

■ Spain's Union Fenosa raised its H1 net profit by 3.1% year-on-year to €672.5 million ($960.6 million), largely due to increased capital gains from the sale of non-strategic assets, the Spanish power producer said July 31. EBIT increased by 0.1% to €805.3 million and EBITDA by 1.0% to €1.112 billion, while revenues fell 4.7% to €3.263 billion. Besides higher capital gains from the sale of assets in Spain and Colombia, factors affecting Fenosa's results included reduced overall power output, offset by rises in lower-cost hydroelectric production and decreased fuel prices, lower pool prices in Spain and the weak performance of its gas division. By key business division, H1 net profit was: domestic generation, up 2.4% to €135.9 million; domestic distribution, up 41.3% to €142.8 million; gas activities, down 40.1% to €61.5 million; and international operations, up 12.2% to €100.8 million. Gross financial debt at June totaled €7.074 billion, up from €6.885 billion at the beginning of the year. Fenosa is an affiliate of Gas Natural.

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