

All you ever wanted to know about carbon trading 5.3

The future, delayed - ALERT

The EC has today published the last of the regular phase 2 NAPs. The data confirm the assumptions underlying our phase 2 €25/t and phase 3 €30/t CO₂ price forecasts – although uncertainty on German CER/ERU levels remains. Next CO₂ news is the UN conference in Bali on Dec 3, and EC announcement on phase 3 directions delayed to early January.

- **NAP 25 – Portugal in-line:** The European Commission has now published the 25th phase 2 NAP – that of Portugal. The allocation of 34.8mt/year is in line with our 35mt/year expectation, with 10% CER/ERU allowances also as per forecasts. This brings the aggregate “cut vs ask” to 9.2%, and confirms our “EC will be tough” hypothesis (see table 1 below).
- **2 NAPs and German CER/ERU levels to go:** The EC has yet to confirm the NAPs for Romania and Bulgaria, and is still only showing German CER/ERU allowances as 12%. The latter is relevant, as we have discussed in previous research, as we assume the allowance will be increased to 22%. If it stays at the lower level (and we had hoped for confirmation one way or the other by now) we may need to add c€2.8/t to our CO₂ forecast for phase 2.
- **Retain forecasts for phase 2:** Barring any last minute upheavals – particularly in relation to German CER/ERU allowances – we confirm our €25/t phase 2 CO₂ price forecast.
- **Retain phase 3 forecast - confirmation now early January:** We had originally hoped for newsflow from the Dec 3 Bali UN Conference (which will discuss the post-Kyoto period) and the Dec 5 EC presentation (which would discuss phase 3 trading dimensions) to help confirm our €30/t CO₂ forecast. The former is still on schedule, but is unlikely to reach a “hard number” given the experience of the APEC, recent UN and US-sponsored talks. The EC talks have been put back to early January from early December, to allow more intra-EU consultation on targets, burden sharing and trading systems. We stay with our €30/t phase 3 CO₂ price forecast for now ahead of these events.

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Table 1: Phase 2 (2008-2012) European Union 25 ETS CO₂ National Allocation Plans

| mt CO ₂ / year eq | NAP1+new installations | Proposed cap 2008-2012 | NAP2 | % cut vs proposed | Cut vs proposed - mt | JJ/CDM limit % NAP | JJ/CDM limit - mt |
|------------------------------|------------------------|------------------------|----------------|-------------------|----------------------|--------------------|-------------------|
| Germany | 510.0 | 482.0 | 453.1 | -6.0% | -28.9 | 12.0% | 54.4 |
| UK | 254.8 | 246.2 | 246.2 | 0.0% | 0 | 8.0% | 19.7 |
| Poland | 245.4 | 284.6 | 208.5 | -26.7% | -76.1 | 10.0% | 20.9 |
| Italy | 223.1 | 209.0 | 195.8 | -6.3% | -13.2 | 15.0% | 29.4 |
| Spain | 181.1 | 152.7 | 152.3 | -0.3% | -0.4 | 20.0% | 30.5 |
| France | 161.6 | 132.8 | 132.8 | 0.0% | 0 | 13.5% | 17.9 |
| Czech Rep. | 97.6 | 101.9 | 86.8 | -14.8% | -15.1 | 10.0% | 8.7 |
| Netherlands | 99.3 | 90.4 | 85.8 | -5.1% | -4.6 | 10.0% | 8.6 |
| Greece | 74.4 | 75.5 | 69.1 | -8.5% | -6.4 | 9.0% | 6.2 |
| Belgium | 67.1 | 63.3 | 58.5 | -7.6% | -4.8 | 8.4% | 4.9 |
| Finland | 45.9 | 39.6 | 37.6 | -5.1% | -2 | 10.0% | 3.8 |
| Portugal | 39.7 | 35.9 | 34.8 | -3.1% | -1.1 | 10.0% | 3.5 |
| Slovakia | 32.2 | 41.3 | 30.9 | -25.2% | -10.4 | 7.0% | 2.2 |
| Austria | 33.4 | 32.8 | 30.7 | -6.4% | -2.1 | 10.0% | 3.1 |
| Hungary | 32.7 | 30.7 | 26.9 | -12.4% | -3.8 | 10.0% | 2.7 |
| Denmark | 33.5 | 24.5 | 24.5 | 0.0% | 0 | 17.0% | 4.2 |
| Sweden | 24.9 | 25.2 | 22.8 | -9.5% | -2.4 | 10.0% | 2.3 |
| Ireland | 22.3 | 22.6 | 22.3 | -1.3% | -0.3 | 10.0% | 2.2 |
| Estonia | 19.3 | 24.4 | 12.7 | -47.8% | -11.66 | 0.0% | 0.0 |
| Lithuania | 12.4 | 16.6 | 8.8 | -47.0% | -7.8 | 20.0% | 1.8 |
| Slovenia | 8.8 | 8.3 | 8.3 | 0.0% | 0 | 15.8% | 1.3 |
| Cyprus | 5.7 | 7.1 | 5.5 | -23.0% | -1.64 | 10.0% | 0.5 |
| Latvia | 4.6 | 7.7 | 3.4 | -55.5% | -4.27 | 10.0% | 0.3 |
| Luxembourg | 3.4 | 4.0 | 2.5 | -36.7% | -1.45 | 10.0% | 0.3 |
| Malta | 2.9 | 3.0 | 2.1 | -29.1% | -0.86 | 0.0% | 0.0 |
| Total EU25 | 2,236.0 | 2,162.0 | 1,962.7 | -9.2% | -199.3 | 11.7% | 229.1 |

Source: European Commission, JPMorgan estimates

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