



Reports of the death of the Phase 1 market are an exaggeration

By Liz Bossley, director of London Climate Change Services (LCCS) and CEO of CEAG

It was inevitable that installations and countries would over-estimate their emissions first time round. Hence the recent price collapse as the 2005 verifications emerged. The same will happen with the non-European Annex B countries in the 1st Kyoto commitment period.

It is too soon to write off Phase 1. Many installations will have used 2006 allowances to comply with the end-April 2005 deadline and may have to buy later. We don't know what 2006 and 2007 will bring. Cold winters or stronger than expected economic growth could really boost demand. We have already experienced a warm summer in 2003 that made the rivers too hot to cool nuclear plants. That too could increase Phase 1 demand.

Sharp price moves like this present new trading opportunities. For example, it seems that allowances held by French installations may be banked into Phase 2. However, French allowances sold to third parties in Phase 1 cannot be banked. French installations that have credit capacity should be buying the Phase 1/Phase 2 spread and pocketing the contango. This may also apply to Polish allowances.

The EC may wish to consider allowing all Phase 1 allowances to be banked, then slash the Phase 2 NAPs. That would restore a balance to the market.

EUA closing prices - historical

EUA 2006 prices. The graph below shows daily bid-offer close EUA Dec 2006 prices from December 2004 in the OTC market. The data was updated 11 May 2006. The data is published daily at www.pointcarbon.com.



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