

## Market impact of publication of verification data

- ▶ Release of data was unprofessional but not catastrophic to market function. It will never happen again.
- ▶ Physical emissions data could be reported on more frequent basis. But do costs outweigh benefits? And what about legislation.
- ▶ Is it better for private sector to improve data reporting?



## EUETS drives CDM success

- ▶ EUA price trading > 10 in 2005 drove commercial demand.
- ▶ Energy companies, banks, hedge funds hire teams and deploy capital
- ▶ UNFCCC project flow now excellent: 750 projects at validation, 229 projects registered
- ▶ Results in 196m CERs projected to flow by end Phase 1
- ▶ Capital flow approx 3bn by end Phase 1



## But Governments could do so much more...

1. International Transaction Log
2. Phase 2 NAPs: as soon as possible
  - ▶ Complementarity – price impact in EU and demand impact on CER/ERUs
  - ▶ Clarity about auctions and disposal of NERs
3. Annex 1 DNA authorization capacity
4. Article 17 “eligibility to trade”
5. Signal Phase 3 targets

*Not bad..... must do better!!*



## Implications of “Supplementarity” in EU

- ▶ Total supply of ERU/CERs = approx 424m pa
- ▶ Total capacity in EU = approx 290m pa
- ▶ But markets not perfect so = 150m pa demand for CER/ERU in EU
  - Implication 1: EUETS Phase 2 short = maybe 50-200m pa so CER/ERU determines Phase 2 price?
  - Implication 2: CER/ERU supply significantly more than EU demand



## Do EU Governments have the right “supplementarity” policy?

- ▶ Distributional differences create winners and losers
  - ✦ UK: 8%
  - ✦ Germany, NL: 12%
  - ✦ Sweden, Austria: 20%
  - ✦ Spain, Ireland: 50%
- ▶ UK companies face robust allocation and tighter constraints on use of CERs compared to any similar country. But this just raises transaction costs to UK companies relative to competitors. It can't stop the de facto flow of CERs/ERUs into UK.
- ▶ If EUETS has a cold winter, high oil, fast econ growth period then EUA prices may spike. CER/ERU supply provides a safety valve. But tight supplementarity constraints have closed this. Costs versus benefits?

