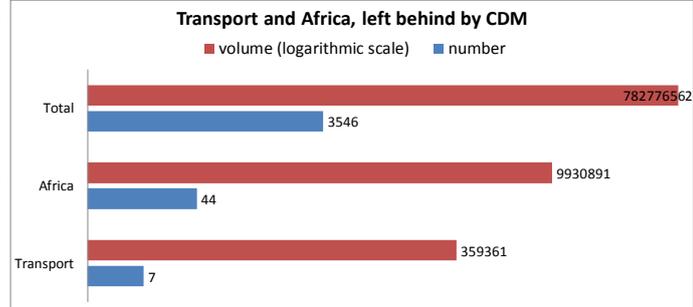


New promising schemes, competing or parallel to CDM?

While the Clean Development Mechanism's fate seems bleaker and bleaker as the negotiations progress in Durban, new alternative opportunities appear. Whether they are direct competitors or complementary is not yet crystal clear.

While CDM is criticised for its lack of penetration in African countries, or because some sectors such as transport are left apart, the Japanese Bilateral Offset Credit Mechanism (BOCM) might be seen as a complementary alternative. Indeed, Japan supports feasibility studies in Africa, and at the same time supports enhanced efficiency transport systems in Laos, Thailand, Vietnam and Indonesia. Thus, Japan found a way to export its technology to poorer nations without interfering with the UN scheme. Furthermore, the Japanese scheme claims to be less bureaucratic. The red tape involved from validating an emission reduction project to the UNFCCC executive board issuing credits is often blamed for lessening the mechanism's potential.



Other possibilities are explored in California. Last week the Climate Action Reserve released a protocol to generate offset credits from forest projects. Starting in 2013, California's emission trading scheme will be the first compliance market to accept credits from forestry projects, with a longer term ambition to have its protocol recognized in international carbon markets.

EU, EUR, EUA: A coin with three faces

EU, EUR and EUA are three abbreviations that face the same dialectic over the last quarter. The economic survival of the EU economic space faces its biggest challenge since Maastricht. The main European indices had dropped significantly more than the American pairs with much higher volatility. EUR, the common European currency, has taken a deep in the money vanishing option even if its quotation is pretty stable around 1.3 US\$. Nevertheless the EU countries CDS spreads are much wider than the US equivalents for the same rating level. The EUA plays this month its final countdown as the actual level of prices will drive a massive withdrawal of investments from this market.

The issues share a common origin: a convergence problem in the EU common political and economic strategy. It is hard to imagine how a country that does not have a unique international phone prefix is supposed to work. More, it's even harder to imagine a country with 27 prime ministers 27 foreign affairs offices and 27 regulations. A robust cap-and-trade system is difficult to apply within a range of 27 economies with different abatement curves and growth perspectives. For some of these countries (ex-Soviet block) the EUA is a heavy charge more than an environmental perspective.

Confidence is the bottom line word. A currency, or a marginal abatement cost cannot inspire confidence without a unique common drift. For the EUA there are two main caps: first the debt crisis, which will probably end in the Q1 of 2012 and the economic growth challenge, as it needs a strong equity market in order to inspire momentum around EUA. As a proxy, a CAC40 over 3500 points would be a strong leverage for the EUA. This might not be seen before Q4 of 2012.

Forecast (€)	EUA _{spot}	CER _{spot}
1 week	9.10	6.40
2011	9.50	6.70
2012	13.00	11.50
2013	23.00	20.00

Weekly figures

1.3 (bn \$)

Money earned by India thanks to the CDM up to now, according to a Fitch report.

783 (MT)

Issued CERs thus far.

300 (MT)

Issued CERs since January 2011. In comparison, 156 MT were issued in 2010.

23,7 (MT)

Issued CERs in November 2011.

21,7 (MT)

Forecast issuance of CERs by the end of December