

2011, a record year, for better or worse

Weekly figures

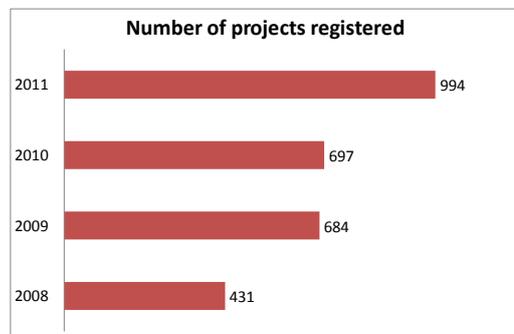
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Value lost by CERs in a year due to uncertainties about the future of the CDM.

815 (MT)

Issued CERs thus far.

Last year was full of surprises, good and bad included. Of course, for worse, prices of CERs have lost two-thirds of their value within a year, from almost 14 EUR/t in June to less than 4,5 EUR/t in the end of 2011. On the other side, the CDM pipeline operated at full capacity in 2011. While 130 millions CERs were issued on average for the last 3 years, 319 millions emission reduction credits were dished last year alone, an all time high.



This issuance spike is explained by two main reasons: firstly, by the registration and issuance process optimization by the UNFCCC, but most of all, by the project developer's rush to registration (see the opposite chart) led by the post 2012 uncertainties.

Indeed, despite record long negotiations in Durban, the fate of the Kyoto Protocol is still mined by the major issue of visibility. Albeit the CDM is reaffirmed as the main market tool to reduce emission globally, the question of the lack of concrete pledge, and hence concrete level of demand for credits is still open.

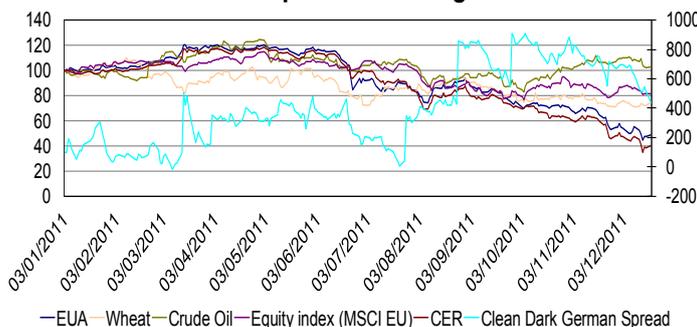
2011 Market flashback: The carbon market received the "margin call"

319 (MT)

Issued CERs since in 2011. In comparison, 132 MT were issued in 2010.

Globally, 2011 was characterized by a global torment on the capital markets mostly on the second semester. The main causes were the debt crisis and the increasing fear for the Euro zone dismantling. These facts put a very pessimistic perspective on the global growth, thereby pushing the main markets into negative territory. Nevertheless, both carbon underlyings EUA and CER plunged deeper than other commodities or equities. Meanwhile the crude oil remained in a stable range over the past 12 months. The overreaction of the carbon prices was also augmented by the lack of stability of the regulatory framework and by the uncertainty of the market after 2012. The negative returns/high volatility couple was also supported by the fundamental decline of the carbon prices and by the increased technical trading compared to the physical demand. The historically low prices only 12 months before the beginning of the more penalizing phase II showed, in fact, the weakness in the ETS designs. A price decreasing exponentially, even if theoretically the phase III has a higher deficit, underlines the fact that the cap and trade framework is not stable and needs to be revisited. In fact under the fixed allocation established in 2005 the decreasing price is completely inappropriate for the actual conditions.

EUA and CER vs commodities, Clean Dark German spread on the right axe



10.76 (MT)

Issued CERs last week.

26.7 (MT)

Forecast issuance through the end of January.

What is a cap and trade framework if not an option on the carbon abatement? Obviously the allocation of the cap and trade system determines the value of this option and should be revisited dynamically depending on some macro economic factors. Thus, as long as the allocations are fixed, then the installation will always have an option to create a surplus, thereby putting pressure on the ETS prices. A dynamical allocation reviewed periodically would be in the actual state the best solution in order to give momentum to the EUA.

Forecast (€)	EUA _{spot}	CER _{spot}
1 week	6.90	4.15
2012 Q1	8.25	5.25
2012 Q2	8.75	6.00
2012	10.00	7.75
2013	13.00	11.00