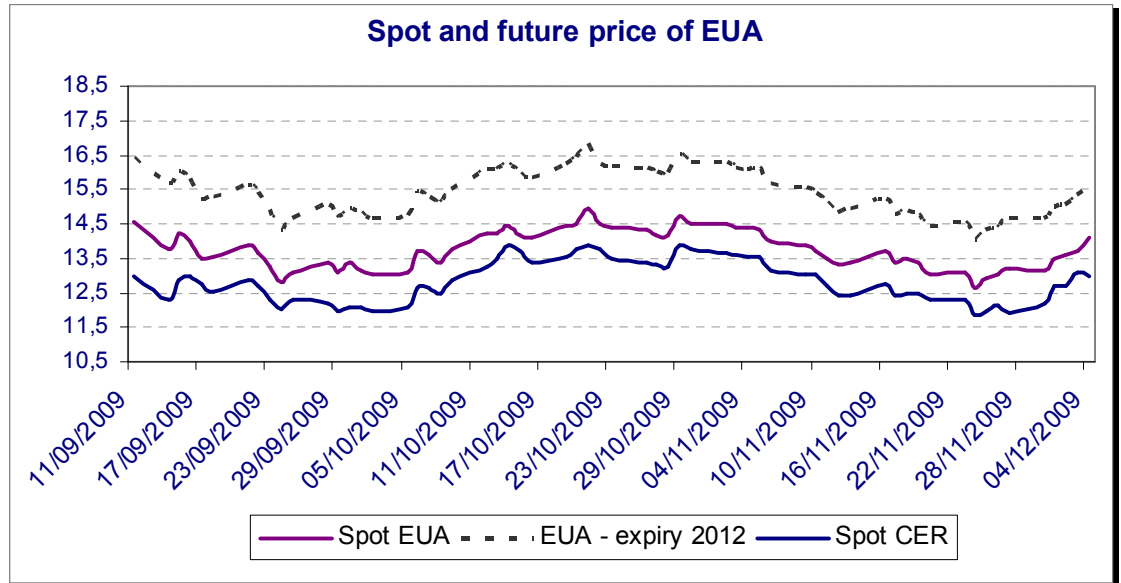


Carbon price summary

While the past two weeks were driven by increasing uncertainty and pessimism over potential agreement in Copenhagen, the past few days were characterised by growing optimism and significant increase in EUA and CER prices. The EUA increased from 12 EUR/unit to 14 EUR/unit and closed last week just slightly above 14 EUR/unit. CER prices moved very much in line with EUA prices and have increased to 13 EUR/unit. The spread – the price difference between the EUA and CER – stayed close to 1 EUR/unit. There are spikes and bottoms in the carbon spread therefore careful execution could even create a swap value of slightly over 1 EUR/unit.



Growing prices were accompanied by growing volumes in the various markets. According to recent data carbon market saw an increase in trading volumes in November compared to previous month (around 18 million compared to 16 million units a day in October) however they were still significantly lower than in first seven months of this year. Additional technical movements might also have been helping the jump in prices as many OTC (over the counter as bilateral agreement between two parties) futures contract for December 2009 were settled in the past few days.

Background of the climate talks in Copenhagen

Climate change policy talks started this week in Copenhagen as world leaders' gather to discuss potential agreement which would replace Kyoto Protocol after its expiry in 2012. A final legally binding treaty is very unlikely to be agreed however EU is determined on ambitious political agreement which may then be followed by a legally binding agreement in the coming years.

After more than two years of hard work, and 12 years after their last attempt, 190 nations meet in Copenhagen from Monday in order to reduce the probability of dramatic climate change. The conference runs between 7 and 18 of December and will draw 15,000 officials, campaigners and journalists, making it the biggest climate summit ever. Some believe this meeting will be crucial for the future of the humanity – comparable with the negotiations in Potsdam.

The most important issue right now is related with “who pays the bill”. The bill is not small as the planet has already been damaged to an extent that the required measures are significant. The theoretical and the financial difficulties on how to determine the splits between rich and poor nations may eventually mean that a historic U.N. pact to fight against global warming and ease dependence on fossil fuels may be put off in favour of a less binding "declaration".

U.N. scientists predict even more intensive heat waves, floods, desertification, storms and rising sea levels for this century. But recession has sapped willingness to invest in a green future, and many opinion polls suggest that public concern about global warming is declining. Whether will a politician act in the interest of long term future over the short term goals? It is unlikely. A leader may do that therefore many cry out for leaders who may accomplish this act.

Besides political and financial debates, scientists and policy makers cannot come to an agreement on how and how much to change. For instance James Hansen – a leading U.S scientist who helped alert the world to dangers of global warming said in an interview that current plans are so bad that it would be better not to reach any agreement and start over from scratch: "This is analogous to the issue of slavery faced by Abraham Lincoln or the issue of Nazism faced by Winston Churchill," he said. "On those kind of issues you cannot compromise. You can't say let's reduce slavery, let's find a compromise and reduce it 50 percent or reduce it 40 percent." However opinions as such leave how the non-compromising solutions would look like is shade. Obviously going back to the middle age technology would reduce greenhouse gas emissions however at what costs? The goal is to find the vehicle which in one hand helps the planet to survive and on the other hand it does help the economy via innovation, job creation and investments.