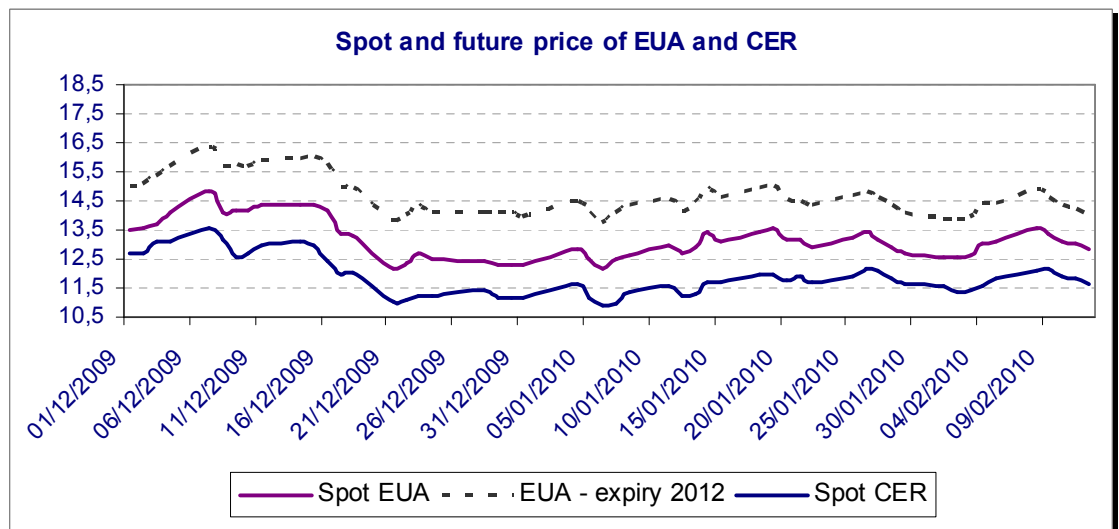


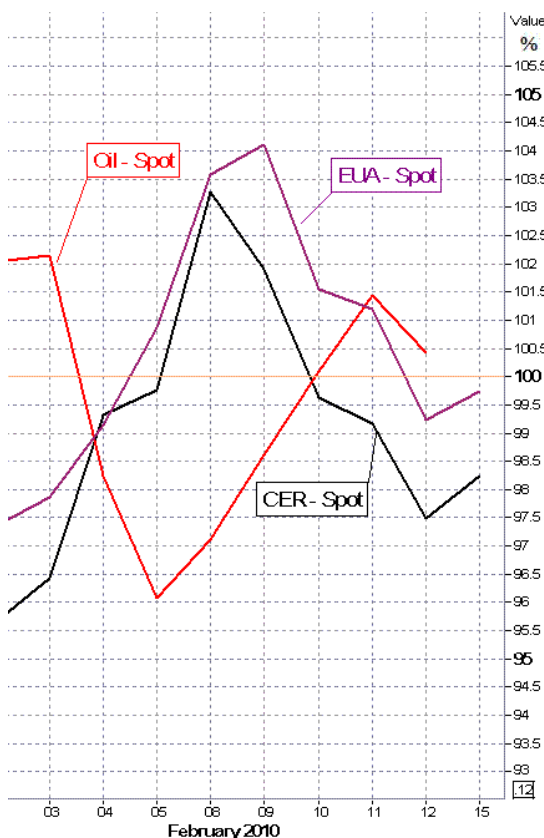
### Carbon price summary

The first two weeks of February were characterised by hectic and rapid price movements in all major financial markets. The public finance problems in Greece and the increasing fear over government's ability to repay debt increased the price of US Dollar compare to Euro to the highest level of the past year and this price movement has greatly influenced all commodity prices.

The closing price of EUA last Friday (12 February) was 12.8 EUR/unit even if it was traded as high as 13.7 EUR/unit last Tuesday (9 February). The closing price of the CER on 12 February was 11.6 EUR/unit which is 60 euro cents less than the highest price of the last two weeks 12.2 EUR/unit (also on 9 February).



### Is there any correlation between oil and carbon prices?



It is believed by many market participants that oil and carbon prices correlate. As it can be seen from the relative price changes - which are shown in the diagram - this was definitely not the case in the past two weeks. Interestingly spot carbon prices (purple and black lines) moved exactly in opposite direction with oil prices (red line). The most likely explanation of this phenomenon is that while oil is denominated in US Dollar the carbon is one of the few commodities which is denominated in Euro. Therefore if a market player wishes to maintain a certain commodity position expressed in some kind of „global currency” then a drop in the price of Euro needs to be followed by a downward adjustment in oil position, while an upward adjustment in carbon position.

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### **Short term outlook**

Most market participants believe that it is very difficult for carbon to break out of the channel in which it is currently traded. Therefore most players do not expect big price changes. The upcoming allocations and the last year surplus of industrials may create a downward pressure for the carbon prices. Meanwhile improving economic conditions and increasing production may create a higher demand for power which may result in upward pressure from the compliance players. It is very difficult to judge how long these two forces will keep the price in the current channel and in which direction it will eventually break out.

### **The past and the future of the European Union Emissions Trading Scheme (EU ETS)**

A recently published research confirms that the EU ETS is a success and the minor difficulties have not harmed its basic aim of reducing carbon dioxide emissions. An international research team, the Association for the Promotion of Research into the Economy of Carbon (APREC) – with Vertis contribution – collaborated to evaluate the scheme's first trading phase ran from 2005 to 2007, which has widely been viewed as a failure. *"The sometimes voiced argument that the EU ETS has been a failure cannot be sustained on the basis of the evidence,"* the research authors said.

Emission cuts were achieved in a cost-effective way, without losing competitiveness, they said. The cost of carbon is also now a firmly established factor in the European power market's investment decisions, the research concluded. The main accomplishment of the trial period (2005-2007) was the successful creation of a regulatory mechanism, which will serve to deliver more ambitious emission cuts and will be the cornerstone of a potential global carbon market.

*"The EU ETS is a path-breaking policy experiment whose implications will extend far beyond the EU,"* the authors said. The current mechanism will be further refined in the next period by increasing the role of auctioning. The EU plans to release an auctioning regulation text for Phase 3 (2013-2020) of the EU ETS by the end of February 2010, then the regulation could be adopted in June 2010. The European Commission is not willing to commit that auctions will start in 2011 however some market observers see it happening only in 2013. If auctions start in 2011 the Commission will publish volumes for the 2011 and 2012 auctions in September 2010. If no auctions are taking place before Phase 3 starts then volumes will be announced only in January 2012.