

# CarbonExpo Australasia2008

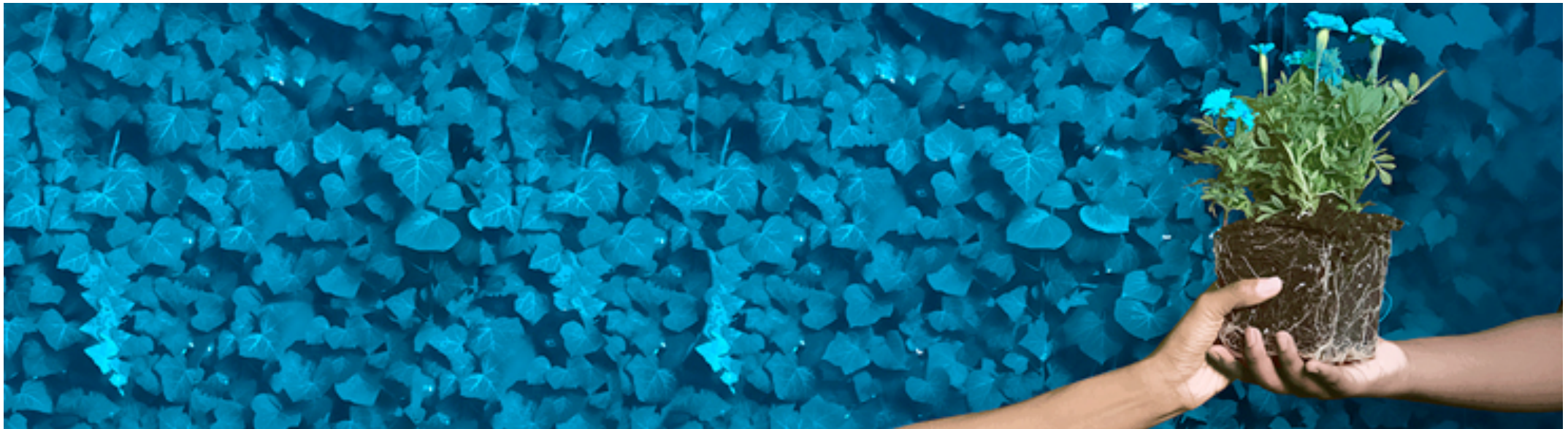
## The EU Market Policy to Practice

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Chris Leeds

Head of Environmental Markets Sales

Thursday 30 October 2008



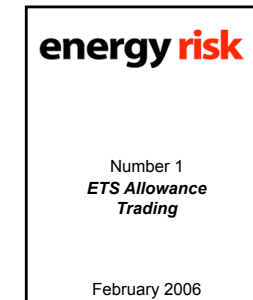
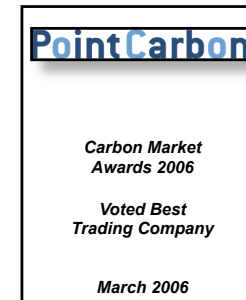
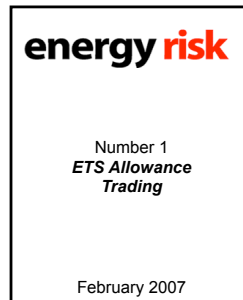
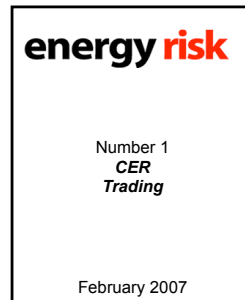
# Executive Summary

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- Barclays Capital's Capabilities
- The EU Emissions Trading Scheme
- The Key Components
- Cause and Effect
- EU ETS for Phase 2
- EU ETS for Phase 3
- What are the lessons for Australia?

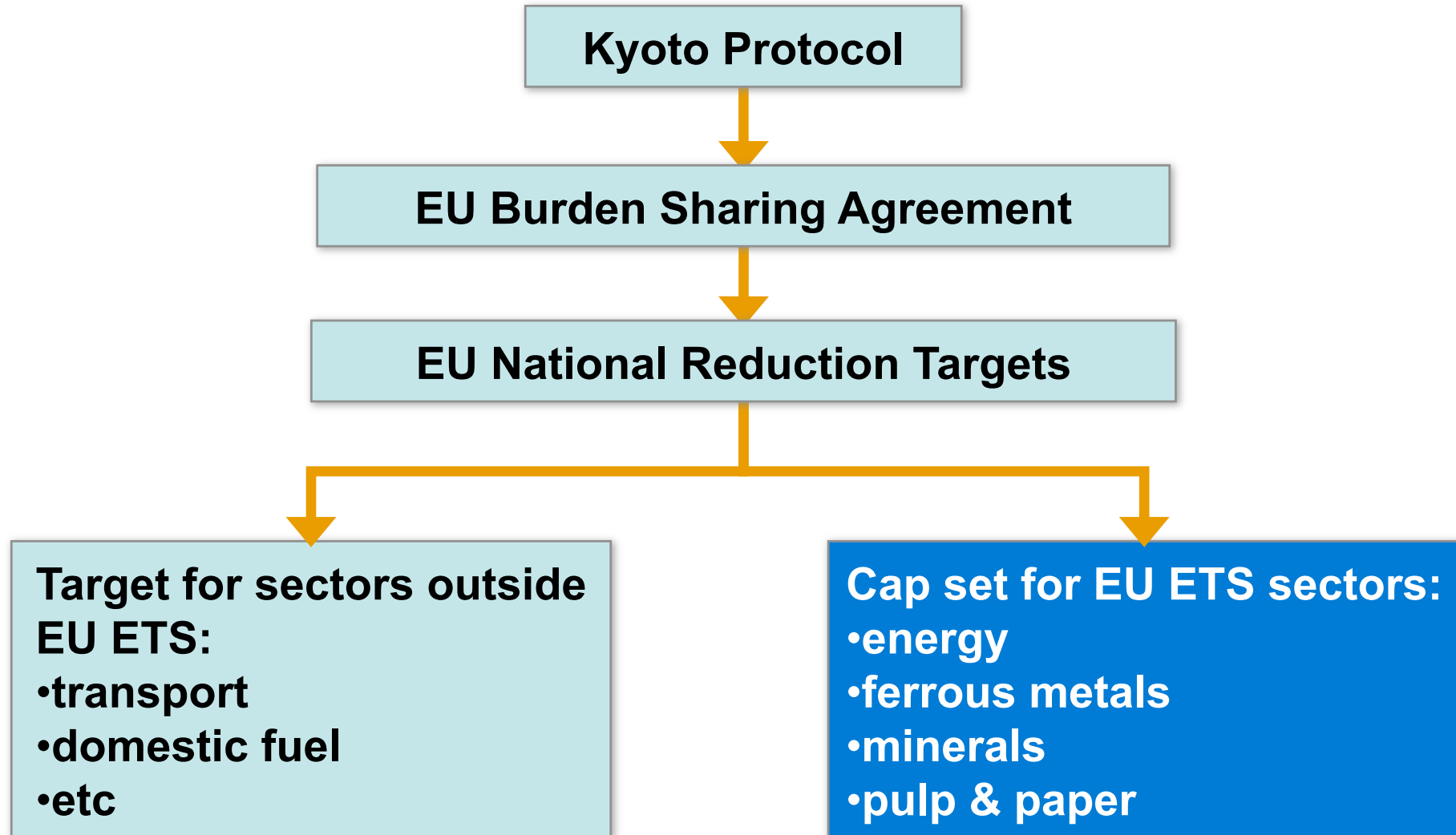
# Barclays Capital's Capabilities

- Barclays Capital has been at the forefront of emissions trading since the inception of the EU emissions trading scheme in 2004
- Barclays Capital is one of the largest liquidity providers in the carbon market
  - Number 1 trading house for EUAs (market share of 17.4%) and CERs (market share of 21.7%), having traded more than 900m allowances (*source: Risk Magazine 2007*)
  - Access to a large network of customers / counterparties across all industries within Europe and beyond
  - Standardised the secondary CER market with the launch of the “Standard CER forward agreement”
  - Recognised as the industry leading player for its emissions capabilities by several awards
  - Ability to work with Utility A in structuring the optimal transaction structure
  - Directorship of the International Emissions Trading Association (IETA)
  - Actively pursuing a build out strategy in Australasia

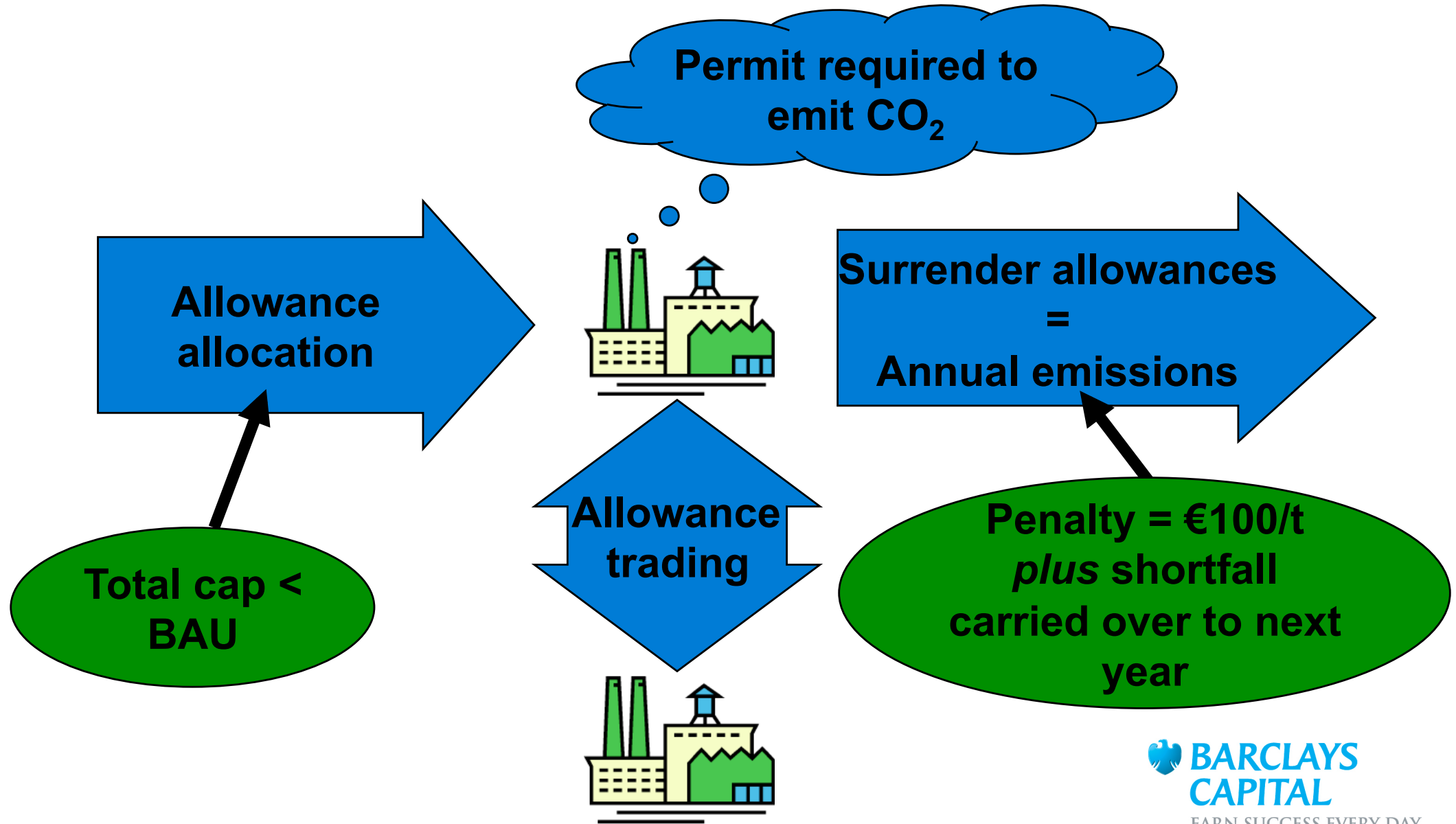


# The EU Emissions Trading Scheme

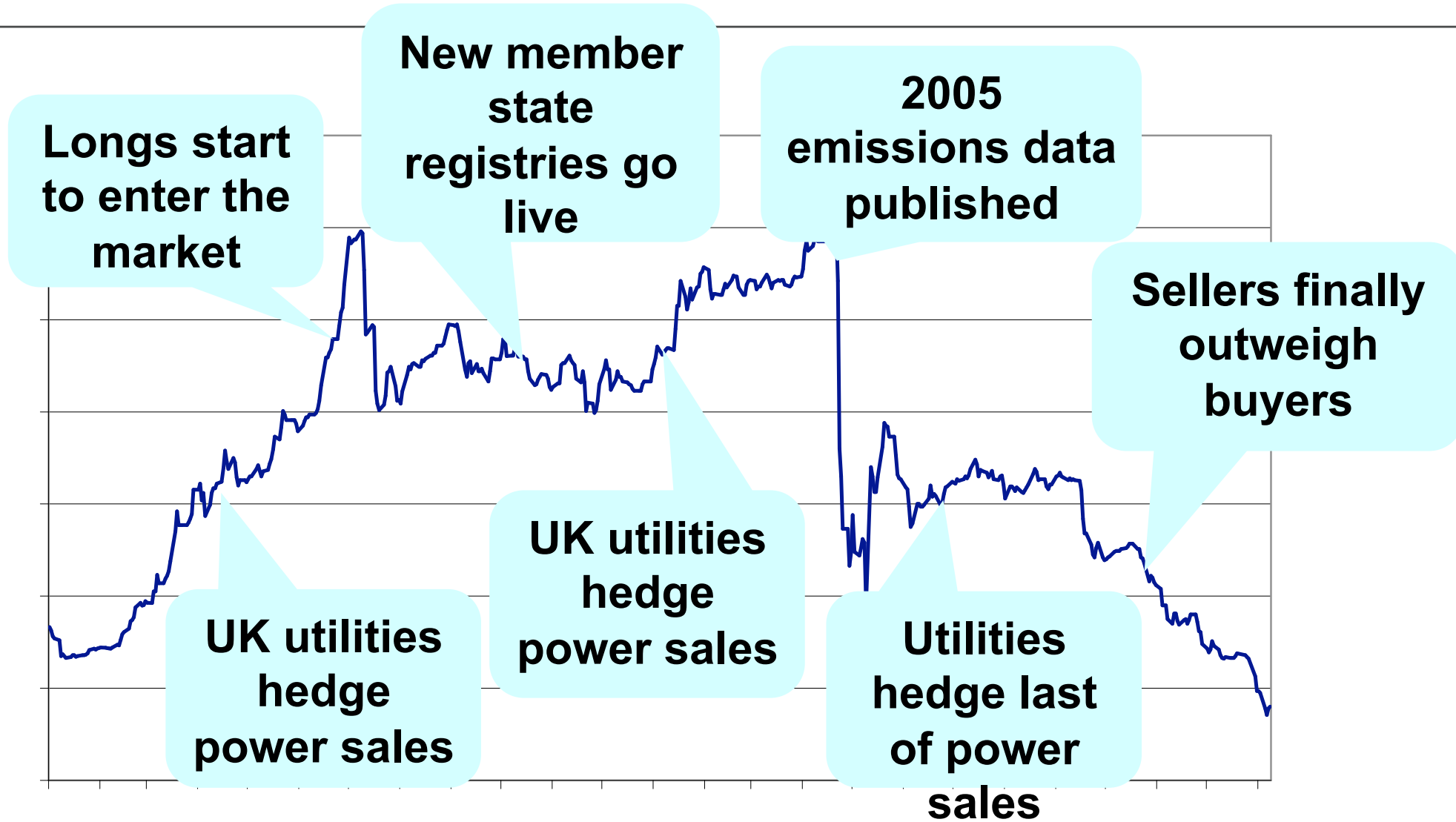
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# The key components



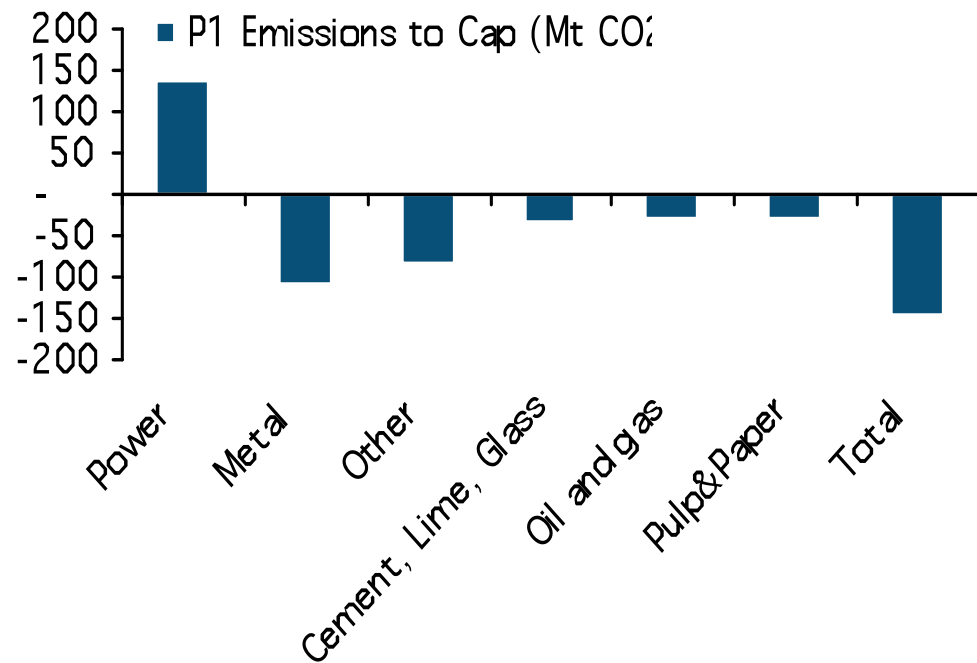
# Cause and effect – hedge timing effects



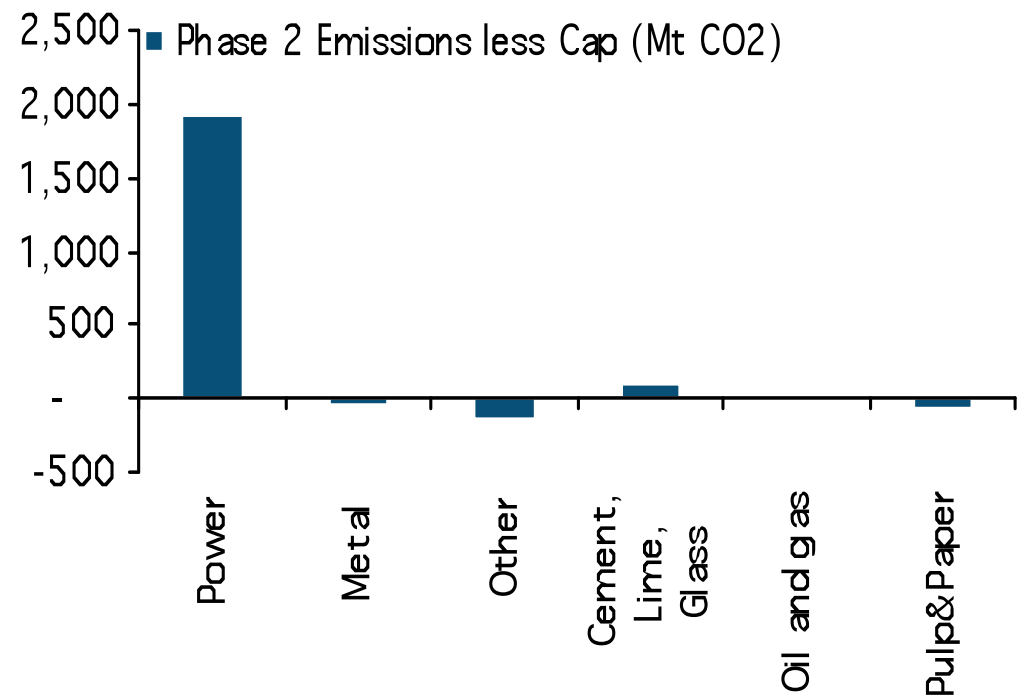
— Phase 1 Carbon

# EU ETS Phase 2 - key changes

Over Allocation in Phase I....

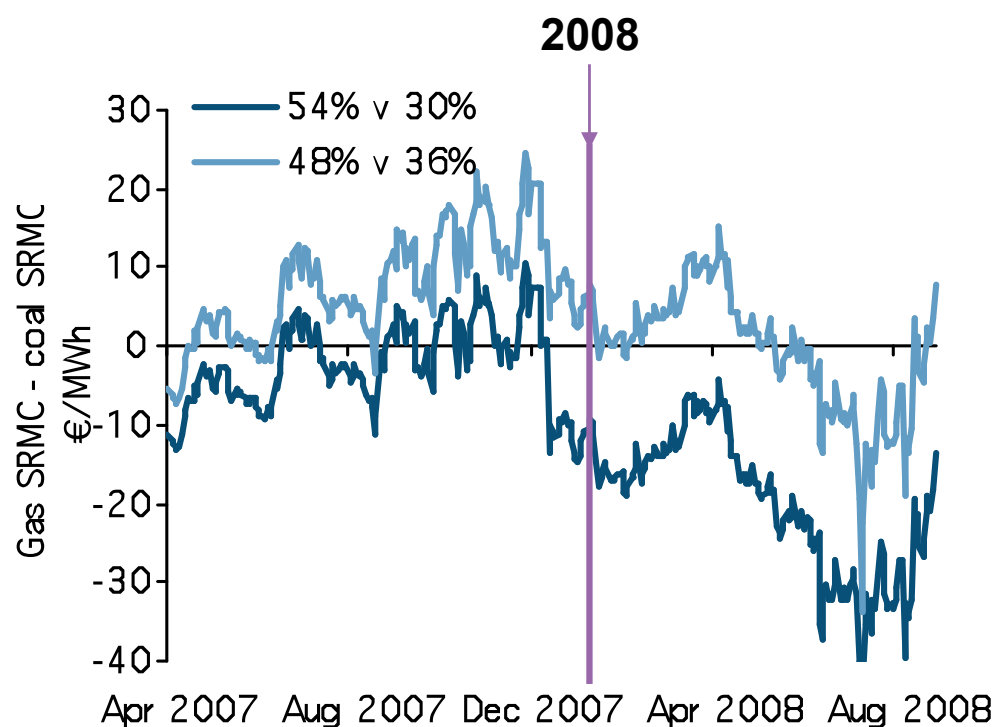


...has been addressed in Phase II

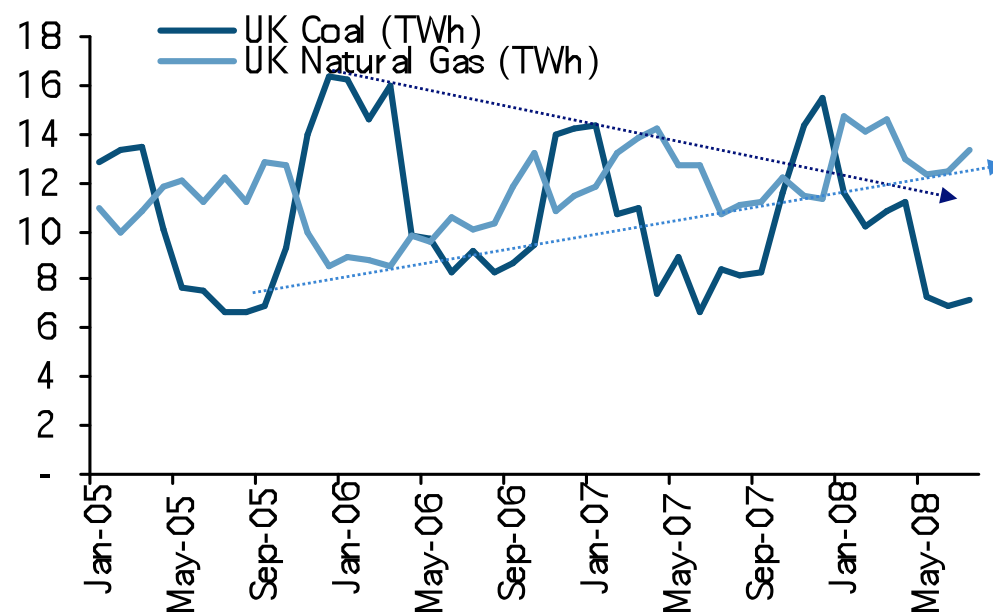


# EU ETS Phase 2 -The story so far

So far, the average level of spot fuel switching has changed...

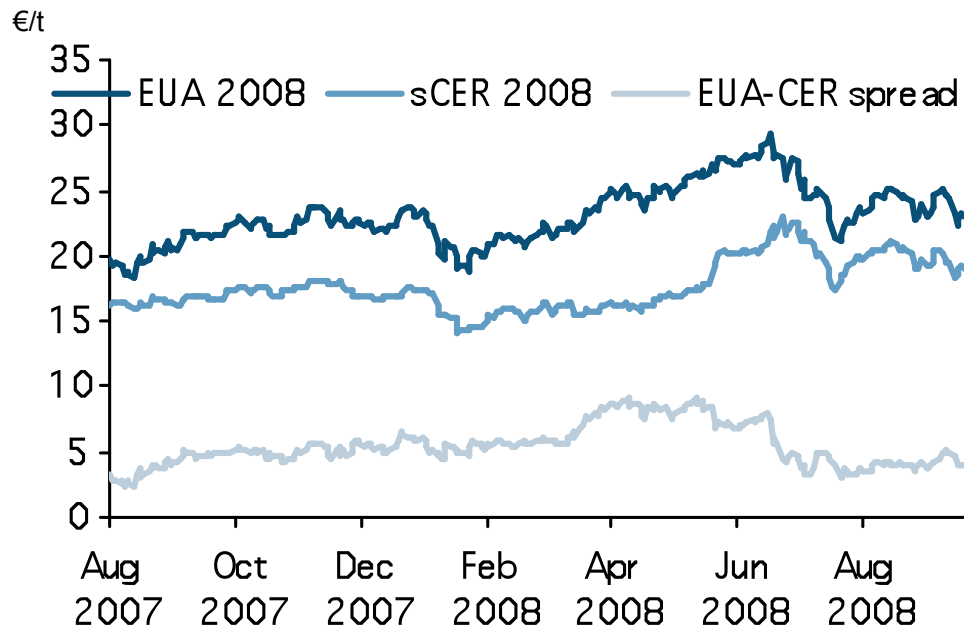


Coal use down y-o-y in UK: coal down 10% and natgas down 1% – overall gen down 4% for Q1 & Q2

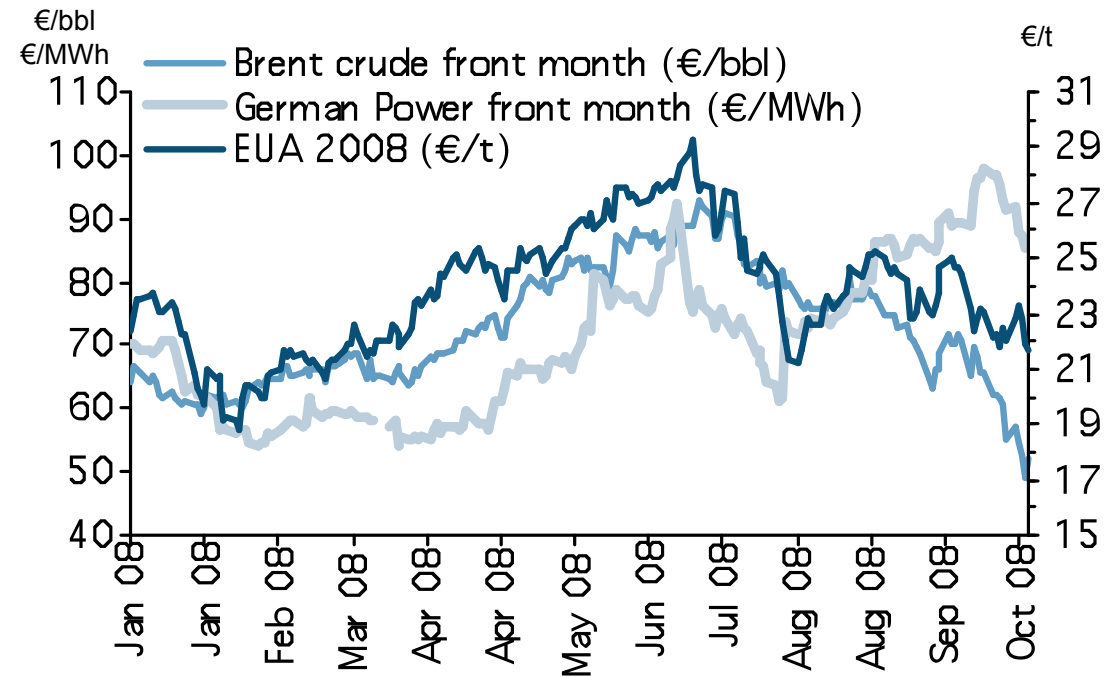


# EU ETS Phase 2 - price behaviour and correlation

## Dec 08 EUA and CER prices

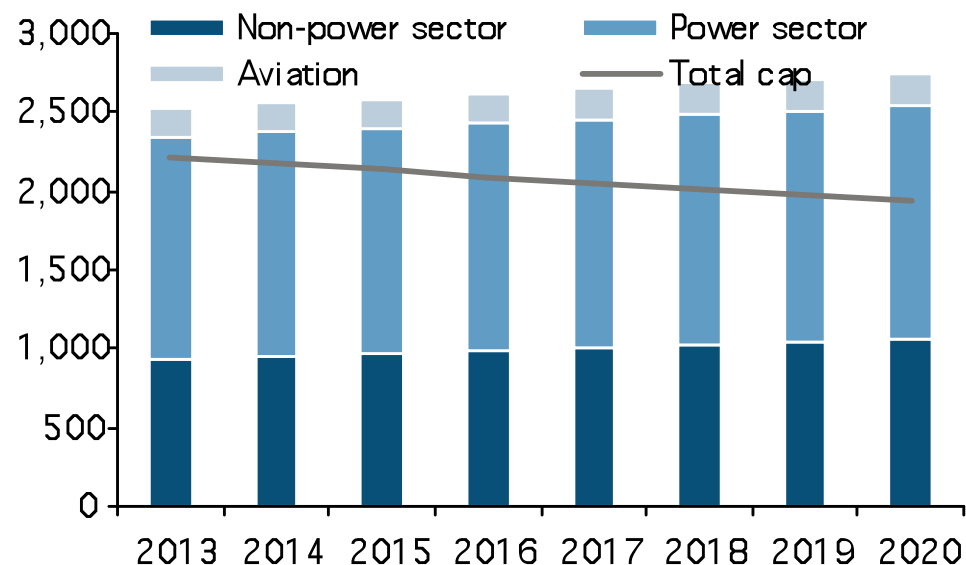


## EUAs GY Oil



# EU ETS Phase 3 - where next post 2012?

Phase 3 looks to be either very short...or very, very short



With a high carbon price needed ...

	2013-2020 (Mt CO2)
Phase gap to cap	5275
Banked EUAs / CERs + ERU allowances*	500-900
CCS abatement	200
Energy efficiency – Power	255
Energy efficiency – Industry	177
Extra abatement required	4143-3743
Average annual short	518-468

Barclays Capital Research price forecasts (EUR/MT)			
	2008 (Dec 08)	Phase 2 (2009-12)	Phase 3 (2012-20)
<b>EUA</b>	26	34	55
<b>CER</b>	21	26	30
<b>EUA-CER spread</b>	5	8	25

# What are the lessons for Australia?

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- Scheme design is critical
- Don't overallocate
- The allocation methodology will create winners and losers
- Use international trading as a safety valve
- Make the rules clear and don't keep tinkering
- Encourage trading – it is how the system works best

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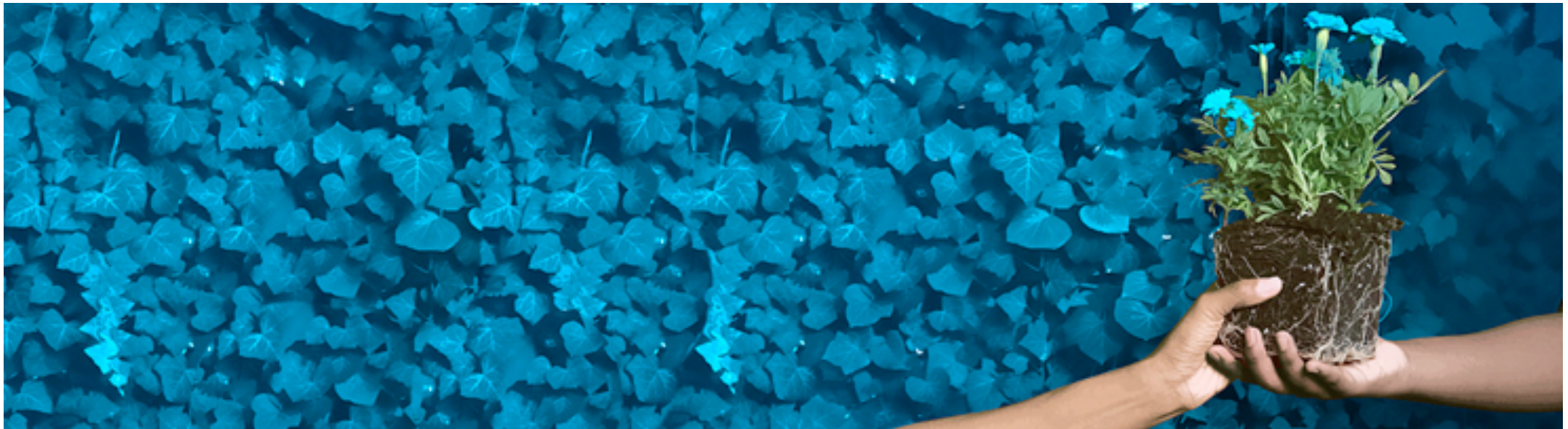
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