

Press Release

For immediate release, 18 January 2010

The global carbon market increases by 5% in 2009

Market growth slowed in 2009. Despite an increase in traded volume of 96% from 2008, the market gained just 5% in value, from \$119bn to \$125bn. But with the fraudulent VAT trading activity removed from the market and an outlook for stable prices, even this growth could stall in 2010. Our longer-term outlook remains good however, despite the poor outcome of Copenhagen, with prospects for US cap-and-trade firmly on the horizon.

Key messages from Bloomberg New Energy Finance's 2009 analysis of the carbon market are:

1. Growth was maintained in 2009, supported by fraudulent VAT-related trading

The carbon market maintained growth through a year of severe economic downturn. Indeed, traded volumes increased by 96% from 2008. However, this growth was supported by VAT-related trading activity which, Bloomberg New Energy Finance estimates, could have accounted for some 13% of all carbon trades in H1 2009.

Despite the significant increase in annual traded volumes, the market grew just 5% in terms of value, compared with 83% in 2008. The recession and associated decline in buyer appetite for carbon products placed downward pressure on carbon prices across all major markets, including the EU ETS and the secondary CER market. Compared with a weighted average EUA price of €24/t for 2008, 2009 saw prices drop as low as €8.2t on 13 February with an average traded price of €14/t across the whole year.

2. 2010 could be the first year of negative growth for the carbon market

With the VAT-related trading largely eliminated in 2010, following changes to the treatment of carbon products across EU Member States, we expect trading volume in 2010 to be lower than in 2009. Although we expect increased activity from utilities to cover their exposure under the Phase III auctions, this will only generate some 100Mt in additional traded volume – insufficient to offset the VAT-related trading which clocked over 400Mt's worth of transactions. And assuming stable prices across all carbon products in 2010 (not an unreasonable assumption), the market as a whole could see a modest contraction in 2010. Looking forward to 2011, activity is likely to pick up again, driven by the need for power companies to ensure further cover for themselves in the post-2012 auctions, and increased activity in anticipation of new trading schemes in Australia and the US.

3. The Regional Greenhouse Gas Initiative is unlikely to relive the highs of 2009

Sale of RGGI credits soared in 2009 on the back of speculation of a potential grandfathering scheme into a future federal cap-and-trade scheme. The front-running legislation in the US, the Waxman Markey and Kerry-Boxer bill, has since laid such speculation to rest as it became clear that holders of RGGI credits would be compensated on a value basis. This was followed by a slowdown in transaction volumes and a steady decline in price across the Chicago Climate Futures Exchange.

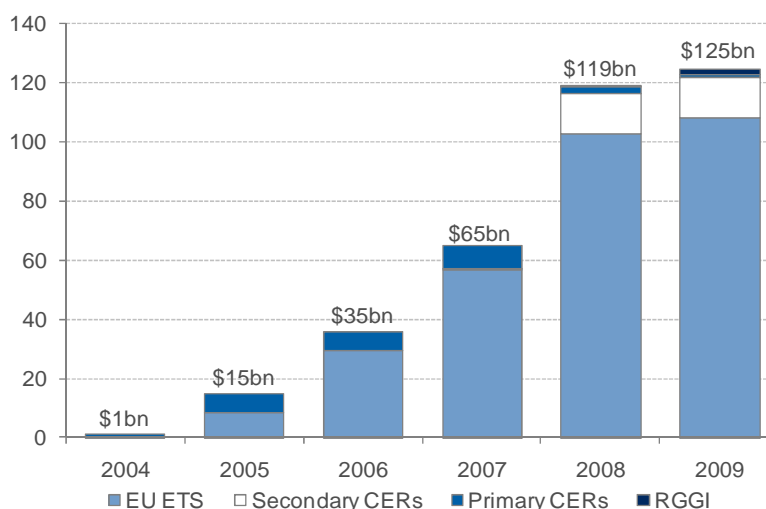
4. Long-term prospects for the carbon market remain good despite the poor outcome from Copenhagen

Our longer-term projections indicate that the global carbon market could be turning over up to \$1.4 trillion per year by 2020. Though Copenhagen failed to deliver a comprehensive global agreement, including emission reduction targets for all developed countries, there have been positive policy developments at national level. The EU ETS has confirmed its position out to 2020 under the Climate and Energy Package. The US is closer than ever to passing cap-and-trade legislation with Senators Lieberman, Graham and Kerry set to draft a filibuster-proof bill to hit the floor sometime this year or, considering the looming mid-term elections, in 2011. Though the Carbon Pollution Reduction Scheme (CPRS) was voted down for the second time by the Australian Senate in 2009, it is scheduled for reconsideration in February this year. The future growth of the world's carbon markets will not be determined by the success, or indeed likely failure, of the UN-led process to deliver a legally binding agreement but rather progress in climate legislation at national level.

Guy Turner, director of carbon market research at Bloomberg New Energy Finance said "2009 was an unusual year for the carbon markets in many respects. Although the value of the market could end up lower in 2010, the long-term prospects are sound as targets get tougher in Europe and several other countries are considering their own cap-and-trade schemes."

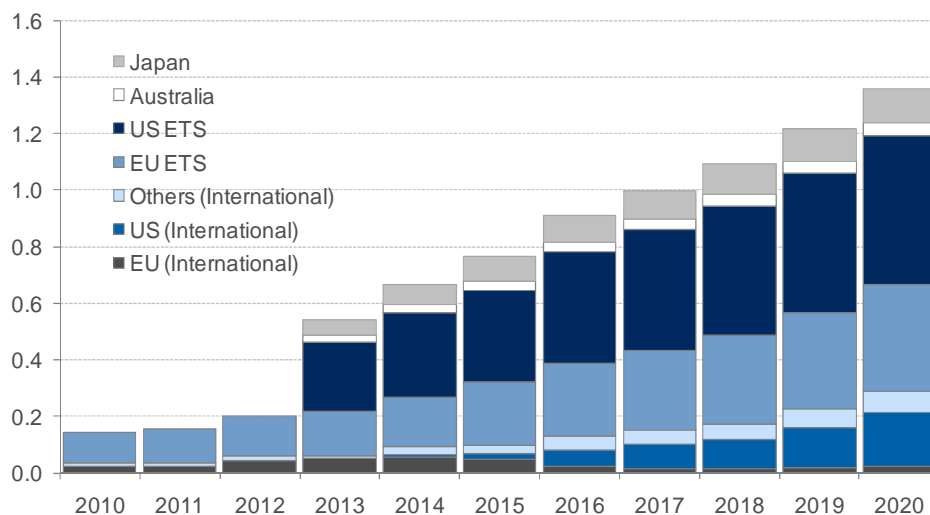
Charts and tables

Global carbon market size 2004–09 (\$bn)



Source: Trading figures taken from ECX, Bluenext, EEX, Reuters, CCX, LEBA

Potential growth in the carbon market 2010–20 (\$ trillion)



Source: Bloomberg New Energy Finance

Carbon market volume (MtCO₂e)

		2008	2009	% change
EU ETS	Exchange traded	1,155	2,928	154
	OTC, cleared across exchange	236	409	73
	OTC	1,521	2,090	38
	Auctioned	44	72	64
Total		2,956	5,499	86
sCERs	Exchange traded	151	211	40
	OTC, cleared across exchange	68	91	34
	OTC	300	474	58
Total		519	776	50
pCERs		117	73	-37
Total CER market		636	849	33
AAUs		48	136	183
RGGI	Exchange	8.2	700	-
	Auctioned	40	109	173
CCX		69	41	-41
NSW		31	33	6
Voluntary market		8.7	8.3	-5
Total		3,797	7,375	94

Growth in carbon market, value (\$bn)

		2008	2009	% change
EU ETS	Exchange traded	40	58	45
	OTC, cleared across exchange	8.6	8.1	-6
	OTC	54	42	-22
	Auctioned	—	—	—
Total		103	108	5
sCERs	Exchange traded	4.1	3.8	-7
	OTC, cleared across exchange	1.8	1.6	-11
	OTC	7.9	8.3	5
Total		13.9	13.6	-2
pCERs		2	0.8	-60
Total CER market		15.9	14.4	-9
AAUs ¹		0.57	1.6	181
RGGI	Exchange	—	2.3	—
	Auctioned	0.15	0.33	120
CCX		0.3	0.01	-96
NSW		-	—	—
Voluntary market		0.07	0.04	-43
Total		119.9	126.6	5.5

Source: Bloomberg New Energy Finance, trading figures taken from ECX, Bluenext, EEX, Reuters, CCFE, LEBA

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¹ Assuming an average transaction price of €8/t



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