

The return of negotiations at Cancún

Preparations for Cancún proved difficult. In the aftermath of the Copenhagen negotiations, Parties continued to discuss whether they could build on the main elements of the Copenhagen Accord. These discussions as well as the parallel negotiations in two tracks –under the auspices of the UNFCCC and the Kyoto Protocol– rendered progress complicated, exposing continued uncertainty over the future of the Kyoto Protocol, the international carbon market and more broadly, the multilateral process. While this led to low expectations of tangible outcomes from COP16/CMP6, a failure to produce substantive results would have risked further loss of confidence in the UNFCCC process.

Cancún has yielded some successes and disappointments:

- **Cancún has put the UNFCCC negotiations back on track.** With contentious issues such as the continuation of Kyoto and a binding all-inclusive agreement put to the side, Cancún made significant progress by bringing the essential elements of the Copenhagen Accord back into the UNFCCC framework as Decisions, and as such, can now start to be operationalized. Notably, the 2°C goal has been enshrined under the UNFCCC.
- **No decision on legal form going forward.** Mitigation targets (of developed and developing countries) and financial support were formally noted, but remain unbinding and often unspecified.
- **Lots of work ahead.** Although decisions on many issues were agreed upon, the wording is often very vague. Cancún thus marks the start of a very busy and challenging year to set up institutions and modalities related to REDD+, financing, adaptation, MRV, technology and CDM reform.
- **Reassurance of carbon markets.** While there was little progress on deciding the future of the Kyoto Protocol, the agreements indicate that the flexible mechanisms it created (at least CDM) could continue even in the absence of a second commitment period. The establishment of new market-based mechanisms is being considered.
- **Signs of trust.** The Mexican presidency was praised for excellent diplomacy and negotiation skills during the conference, which helped to build trust between Parties and achieve consensus.
- **Progress for UN procedures?** The treatment of the Bolivian objection (currently being challenged by Bolivia) may redefine ‘consensus’ in international negotiations and help overcome some future stalemates.

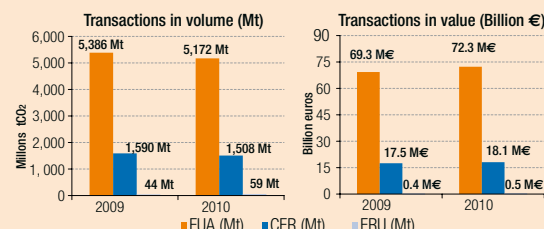
In short, the Cancún agreements mark a step forward. While the main crunch issues including the legal form of the future climate agreement and the fate of the Kyoto Protocol are still up for debate and will render 2011 another year of busy negotiations, this outcome is important because the public considers the climate change issue through this process. The failure of the process would not have stopped the growth in bottom-up action, but it would have had significant implications regarding the credibility of dealing seriously with this issue in the eyes of the public. Notwithstanding this success, the negotiations have once again stressed the importance of near-term concrete action to ensure that the long-term targets supported in the lengthy negotiations can actually be met – action cannot wait until the final details are agreed under the UNFCCC but must continue to happen now, building on the example of the many pilot initiatives already underway in many areas (e.g., REDD+).

Barbara Buchner¹,
Climate Policy Initiative (CPI), Director of Venice Office
barbara.buchner@CPIVenice.org

1. The author thanks Angela Falconer, CPI Venice, for her help on this article.

Chart of the Month:

Allowances and credits transactions, 2009 vs 2010

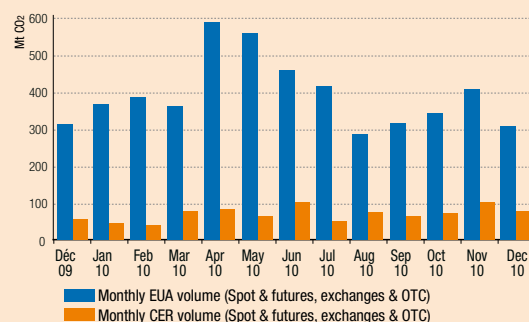


In 2010, the EU ETS has undergone a slight decline in volumes of traded EUA by 4% compared to 2009 against an increase of 4% in value. Transaction volume of CERs related to CDM projects have also dropped by 5% against an increase of 3% in value. Trades of ERU from JI projects should grow with the first delivery of ERU from Russia on December 20th.

Source : CDC Climat Research, data from Point Carbon

Monthly volumes:

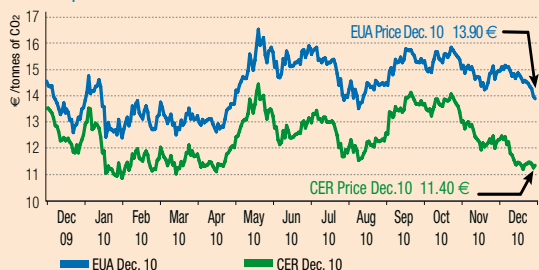
Significant drop: EUA -26% and CER -37%.



Source: ECX, LEBA, NordPool, PointCarbon

Carbon prices:

Closing of the December 10th contracts: the EUA contracts fell by 6.3% while the CER contracts stabilised at around €11 per tonne.



Source: ECX

EUA – CER price spreads:

Maximum level of €3.40 on December 7th, which was last achieved in October 2008.



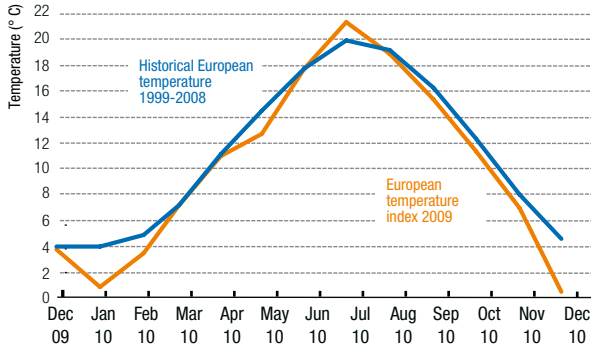
Source: ECX, LEBA, NordPool, PointCarbon

Temperatures (°C)

- Average of BlueNext Weather indices* – France, Germany, UK and Spain – weighted by the allowances allocated to each country.

	November	December
Monthly average (°C) - 2010	6.9	0.4
Monthly average (°C) - 2000-2009	7.9	4.5
Monthly minimum – 2010	-0.9	-4.5
Monthly maximum – 2010	14.9	5.5

Source: CDC Climat Research, based on data provided by Météo-France and BlueNext



Precipitation (mm)

- Average of precipitation indices for Lyon, Oslo, Turin**, Vienna and Madrid, weighted by the hydroelectric share in each country's electric power mix.

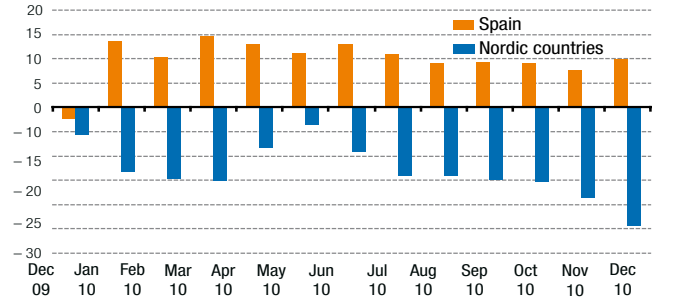
	November	December
Monthly precipitation – 2010	64	36
Monthly precipitation - 2000-2009**	85	54
Cumulative over 12 months	510	395
Cumulative over 12 months 2000-2009**	498	432

Source: CDC Climat Research based on data provided by Météo-France

** Precipitation for Turin Bric della Croce, a new observation point for Turin, was not available prior to 2006.

Reservoir Content for Electricity Production

- Spread between the monthly rate of reservoir levels (%) and the ten-year average rate (%).



Source: CDC Climat Research based on data from Nord Pool and Spanish Ministry of environment.

Our European index was 4.1 degrees below the ten-year average. The gap was particularly pronounced in Germany (-5.2°C) followed by the United Kingdom (-4.9°C) and France (-3.2°C). These very low temperatures led to high electricity consumption and large demand peaks, particularly in France, which experienced the coldest month of December in the last 40 years. These peaks are likely to have a significant impact on the demand for allowances from most energy producers. Rainfall data was relatively stable, showing a slight 20 mm drop compared with the ten-year trend. The most significant shortfall was in Oslo, where rainfall was 45 mm lower compared with the ten-year average, which resulted in a record shortfall of 24.3 points at the dams in the Nordic region compared with the ten-year average levels, a level last reached in August 2006.

* The BlueNext Weather indices are defined on the basis of average temperatures, weighted by the population of the representative regions making up each country.

Production Indices

EU27 (base year 2005)	October 10	Change over last month (%)	Change over 12-month average (%)
Indust. prod. (excl. construction)	98.8	0.8%	2.6%
EU ETS sectors production*	93.3	-0.9%	-0.1%
Electricity, gas and heating	97.7	-0.6%	-0.6%
Cement	71.4	0.3%	0.5%
Metallurgy	92.0	-0.7%	4.9%
Oil refinery	88.5	-4.3%	-2.9%
Paper and cardboard	97.6	-0.9%	-0.4%
Glass	90.4	-1.7%	1.6%
Ceramics	88.6	-2.7%	3.4%
Metal ore	98.8	1.5%	-1.6%

* Index weighted by EU ETS sectors' weight in average total allocation over 2005-2007.

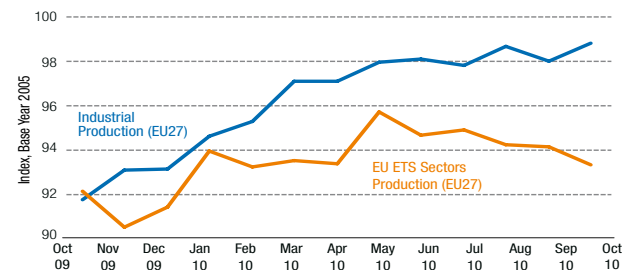
Source: Eurostat

Opinion of Business Leaders

EU 27	Oct. 10	Nov. 10	Dec. 10
Industrial Sentiment Indicator	0.0	0.5	4.0

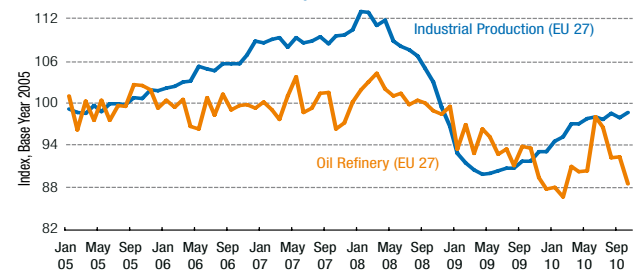
Source: European Commission

Total Production and Production by EU ETS Sectors



Note: Data reflect a new classification of economic activities that was implemented in May 2010.

Sectoral Focus: Oil refinery



Source: Eurostat

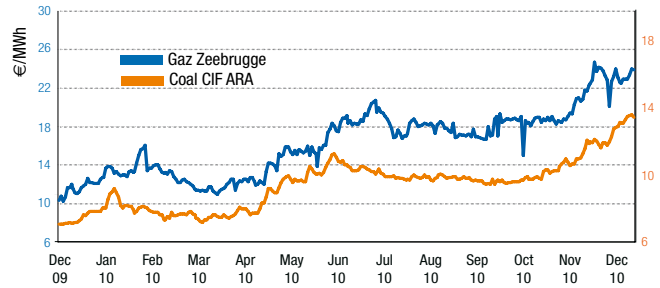
In October 2010, the European Industrial Production Index registered a monthly increase of 0.8% compared with a 0.9% decrease for the EU ETS sectors, which have been contracting continuously since the month of May. Over the past twelve months, the output of the EU ETS sectors is down 0.1% compared with an increase of 2.6% for the rest of the economy. Among the sectors that are subject to allowances, only ore minerals and cement saw their output increase, by 1.5% and 0.3% respectively. All the other outputs are down on a monthly basis, with the refinery sector registering the most significant decrease (-4.3%). Over the past twelve months, the sector that registered the best performance was the metalworking sector (+4.9%). In December, the industrial confidence index climbed to 4.0, a level not seen since August 2007. The recovery was confirmed by the improvement in the order books of industries which reached -7.2 in the euro zone, an increase of 84 points compared to January 2010.

Energy Prices

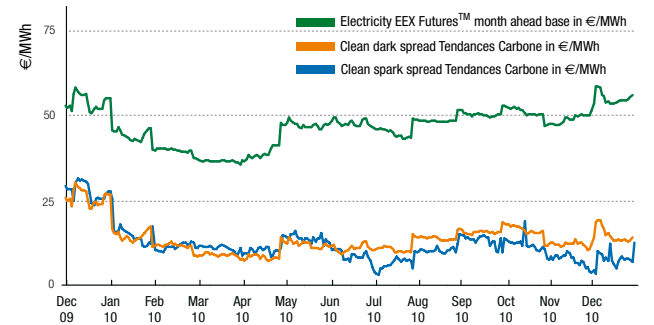
	November 10	December 10
Average closing price		
Brent, in \$/barrel	86.15 \$/bbl	92.4 \$/bbl
Natural gas Zeebrugge month ahead	5.71 €/MMBTU	6.79 €/MMBTU
Amsterdam coal CIF ARA month ahead	77.86 €/t	91.41 €/t
EEX Futures™ month ahead	Base	48.03 €/MWh
	Peak	58.17 €/MWh
BlueNext spot price	14.77 €/t	14.22 €/t
Clean spark spread	7.27 €/MWh	6.86 €/MWh
Clean dark spread	11.49 €/MWh	13.94 €/MWh
CO2 switch price coal/gas	23.30 €/t	28.44 €/t

Source: Reuters, BlueNext, EEX, CDC Climat Research

Primary energy prices



Price of electricity and price difference between electricity and primary energy prices



The price of Brent Crude increased sharply in December, rising above US\$95 per barrel on January 3rd for the first time since October 1st 2008. This increase is explained by the economic recovery and the rate of growth in emerging countries, two trends that should continue in 2011. Flooding in the State of Queensland in Australia stopped coal exports, and therefore contributed to the 15% increase registered by the price of coal over one month, reaching a record level of US\$131.50 per tonne on December 30th. The price of Zeebrugge gas followed the upward trend, rising by 19% compared with the previous month. The combination of rising energy and raw material costs and the exceptional weather conditions in December resulted in a sharp increase (+13%) in the price of electricity for January 2011 delivery in Germany.

Availability of Kyoto credits and allocation of allowances in the EU ETS

CDM / JI credits	As of December 2010	As of January 2011	Change
Number of projects in the pipeline: CDM - JI	6,857 - 399	6,977 - 414	+120 / +15
Of which : - number of projects registered: CDM - JI	2,558 - 193	2,703 - 206	+145 / +13
- number of projects with CER - ERU issued	817 - 86	844 - 90	+27 / +4
Cumulative volume of CER - ERU issued (Mt)	475 - 20.8	496 - 25.3	+21 / +4.5
CER/ERU available 2008-2012 UNEP Risoe estimate	962 - 209	953 - 225	-9 / -16
CER available until April 2013 CDC Climat Research estimate	1,150	1,125	-25

European Union allowances	Jan. - Dec. 2009	Jan. - Dec. 2010	Phase II til Dec. 2010
Allowances auctioned/sold (Mt)	72	76	192
Total revenues of the allowances auctioned/sold (M€)	909	1,073	3,306

Source: CDC Climat Research, UNEP-Risoe CDM Pipeline and European Commission

To prepare the phase 3, on December 15th, the Climate Change Committee adopted the Commission's proposal for allocation rules to installations exposed to carbon leakage. Regarding auctioning, the EU Commission has launched stakeholder consultation (open until the 7th of February) concerning the early auction of phase 3 allowances. On December, 31st, a Cooperation Agreement between the European Investment Bank (EIB) and the EU Commission on the sale of 300 million allowances from the reserve to new entrants was published in the Official Journal of the EU. On the side of the regulation, resulting from an incidence of VAT fraud, transactions on the GME exchange were suspended on December 1st with the Italian Government currently drafting legislation to rectify the situation. The Commission equally issued a statement on December, 22nd, on the regulatory oversight of the EU ETS in preparation for a consultation in the first quarter of this year on whether to support a legislative proposal to this effect in 2011. In France, the Financial Markets Authority (AMF) and the Energy Regulation Commission (CRE) have signed a cooperation agreement to audit and monitor the energy and EU ETS markets.

Dashboard

European Union Emissions Trading Scheme

		Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Spot Market BlueNext	Phase II Average closing price in €	13.48	12.98	12.87	12.87	14.25	15.30	15.32	14.22	14.63	15.31	15.26	12.27	14.22
	Total monthly volume in kt	33,587	30,949	30,129	40,500	44,527	24,671	23,344	13,769	10,414	12,928	11,816	18,875	8,001
Futures Market ECX	Dec. 2010 Average closing price in €	13.78	13.70	13.04	13.05	14.41	15.50	15.48	14.34	14.71	15.39	15.30	14.79	11.69
	Dec. 2012 Average closing price in €	15.14	15.48	14.13	14.16	15.59	16.55	16.42	15.20	15.55	16.17	16.09	15.57	13.73
	Total monthly volume in kt	270,710	320,398	337,559	295,072	508,756	515,409	400,298	385,045	255,262	284,029	302,357	370,865	278,825
Total European market volume in kt (PointCarbon)		315,097	367,578	385,878	362,044	592,305	559,106	462,248	428,658	286,110	316,286	346,213	418,992	308,676

Source: BlueNext, ECX, Point Carbon

International Kyoto Credit Market

		Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Spot Market - BlueNext	Average Closing Price in €	12.24	11.68	11.64	11.74	12.91	13.16	12.98	12.17	12.77	13.75	13.38	12.27	11.27
	Total monthly volume in kt	2,385	2,860	4,210	6,901	4,308	2,455	4,750	3,038	4,343	2,786	1,682	3,688	5,145
Futures Market - ECX	Average Closing Price in €	12.24	11.51	11.47	11.52	12.73	13.10	12.98	12.12	12.69	13.72	13.38	12.22	11.37
	Total monthly volume in kt	54,807	42,244	35,857	71,310	80,425	64,493	86,516	50,822	69,284	62,448	67,133	105,238	66,152

Source: Reuters, LEBA, NordPool, Nymex

Weather

Temperatures (°C)		Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Germany - difference monthly and decennial average		-0.8	-4.4	-2.4	0.1	-0.1	-2.9	0.0	2.7	-0.9	-1.5	-1.3	-0.5	-5.2
Spain - difference monthly and decennial average		0.2	-0.5	-0.7	-1.2	0.7	-0.7	-1.2	1.1	0.6	0.2	1.4	-0.8	-0.3
France - difference monthly and decennial average		-0.3	-2.8	-1.5	-0.8	0.4	-2.0	-0.2	1.5	0.6	-0.8	1.6	-0.7	-3.2
UK - difference monthly and decennial average		-1.6	-3.5	-2.4	-0.4	0.2	-1.1	0.8	1.2	-1.1	-0.6	1.0	-2.1	-4.9

Source: BlueNext

Precipitations (mm)		Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Vienna - difference monthly and decennial precipitation		-7.4	-2.2	-12.4	-38.8	47.3	55.8	3.5	36.7	96.0	16.6	16.9	-11.2	-3.4
Madrid - difference monthly and decennial precipitation		58.0	15.5	64.1	16.7	-5.0	-24.1	12.6	7.0	-6.8	-2.2	-41.0	-25.5	19.0
Lyon - difference monthly and decennial precipitation		15.4	15.3	31.0	8.0	-36.9	54.0	31.8	-30.8	-33.0	27.5	-31.0	-1.8	-18.0
Oslo - difference monthly and decennial precipitation		-7.8	-64.0	-16.6	-3.7	-22.3	-26.7	17.3	19.5	-5.3	8.8	-20.5	-83.0	-44.4
Turin - difference monthly and decennial precipitation		-45.0	5.5	47.2	20.1	-68.0	40.2	110.6	-24.8	27.9	-86.2	79.4	101.2	14.8
Hydraulic Reservoirs – Spread between the monthly rate of reservoir capacity and the decennial average rate		Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Spain		-2.2	13.5	10.3	14.5	12.9	11.2	12.9	10.9	9.1	9.4	9.2		
Nordic countries		-5.6	-13.1	-14.6	-15.1	-8.3	-3.6	-9.1	-14.1	-14	-12.6	-15.4	-18.5	-24.3

Source: Météo-France, NordPool, www.mamr.es

Economic activity

		Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Total industry production index (excluding construction and seasonally adjusted), base year 2000 = 100														
Europe 27		92.52	94.51	94.19	95.98	96.41	97.56	97.69	97.63	98.68	97.97	98.79	-	-

Source: Eurostat

Energy prices

		Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Brent crude oil, 1 st maturity, in \$/baril		75.21	77.01	74.79	79.93	85.84	77.00	75.66	75.36	77.14	78.42	83.50	86.15	92.40
Natural gas Zeebrugge, 1 st maturity date, in €/MMBTU		3.41	4.05	3.85	3.41	3.71	4.45	5.26	5.45	5.32	5.05	5.43	5.71	6.79
Coal CIF ARA, 1 st maturity date, in €/tonne		53.62	60.18	55.50	54.36	59.37	71.20	77.00	72.86	71.78	70.36	70.48	77.86	91.41
EEX FuturesTM month ahead, in €/MWh	Base	53.50	49.78	39.22	37.97	37.97	46.62	47.26	44.43	47.83	49.77	50.73	48.03	54.07
	Peak	74.37	63.64	48.09	46.14	46.97	57.95	60.32	55.80	58.83	61.74	61.69	58.17	69.06
Difference in prices of electricity and of natural gas, corrected for the price of CO ₂ : Clean Spark spread in €/MWh		27.38	19.94	14.14	12.34	9.57	13.27	9.13	5.75	9.34	12.82	11.55	7.27	6.86
Difference in prices of electricity and of coal, corrected for the price of CO ₂ : Clean Dark spread in €/MWh		25.30	20.20	13.93	10.27	7.56	11.67	10.52	9.91	13.30	15.07	16.05	11.49	13.94
CO ₂ switch price coal/gas in €/tonne		9.40	13.39	13.80	9.02	9.69	11.85	17.81	23.13	22.15	19.69	24.35	23.30	28.44

Source: Reuters, EEX, CDC Climat Recherche