The list of final free allocations for the years 2013-2020 for German plant operators was published on 27.01.2014. By applying the correction factor from an average of 11.5% - and the resulting reduction in allocation numbers - one or the other operator could rub his eyes the next morning, when looking at the events on the price trend.

Since on 30.01.2014 the Environment Committee of the European Parliament decided for an early start of backloading, the EUA price was driven up from its already high level once again to 5.82 EUR/t.

Now also German operator (with a few exceptions) have the assurance about the quantities of allowances that must be purchased in addition to 2020 - or how long their stock of own EUA will last - the immediate decision is when and at what price certificates should be purchased.

The resulting alternatives and perspectives will be explained by our Emission Letter 2-2014 and also the unpleasant mail that some plant operators received in this eventful week from the DEHSt that invalid CER/ERU must be removed within 40 days from the account.

Completed testing of the national allocation table (NAT)

The national allocation table (National Allocation Table, NAT submitted by Germany) on 25.11.13, has been approved by the EU Commission. Thereby the changes made in November 2013 by Germany regarding the operational data of the plants in 2012, have been reviewed and approved by the Commission. The approval was already granted on 19.12.2013, but now released on 20.01.2014. There will be further reviews which could result in more changes, but only in plants whose status has changed in the years ‘12 or ‘13.

With this update of the allocation overview on 27.01.2014, 22 of 28 Member States have obtained a final decision on the allocation of quantities of the European Commission and 14 of 28 Member States have received a final decision for all plants from the EU Commission.
The 14 states whose decision is final have already assigned the certificates to their plant operators physically (19. December 2013 and 18. January 2014). Thereby 358 million EUA certificates have already been issued to free allocations, further 486 million (the Allocation 2013) are to follow. Together with the allocation for 2014 are thus already 716 million EUA arrived on the accounts of the plant operator.

**Problem case Poland**

If you look at the status of the EU national allocation (see page before) the viewer eye catches particularly the situation in Poland. The Member State has, to date, with the EU Commission not agree on a common version can and can therefore not officially present a table with the allocation of data to its operator.

Whether and how around 64 million allowances will arrive at the operators (128 million for 2013/2014) is unclear at the moment and causes in one way or another quite a bit of worry. It must be said according to the opinion of "Legal specialists" that in regard of rumours over the liability for 30.04.2014 of the emission in 2013 there is no sure link between the allotment time and any possible agreement between Poland and the EU Commission.

Such a worst-case scenario - which is off the table now in Germany because of the allocation chart - makes plant operators in Poland especially nervous because horror scenarios are particularly popular. This, in the opinion of most of people in Poland is very possible because of the (un)reliability of the Polish authorities and government representatives.

**The further progress of the allocation**

Regardless of the unclear situation in Poland and Cyprus, three Member States Bulgaria, Croatia and Italy still lack the European Commission approval of its amended NAT allocation tables. If this is present, these States may begin with the announcement of their allocations to their operators.

For the 7 states with a pending EUA issuance to operators that have already received approval for its NAT (now including Germany), there will be most likely an appointment until the mid/end of February to which the Commission gives its unconditional consent for the final allocation at all operators, that is including those who had ceased operations in 2013/2014 or had operational changes and capacity changes, as reported (MzB, Message for the operation).

Only then according to the complex system of EU-wide allocation rules one can calculated a legal binding total allocation amount which can be sent by the relevant national authority end of February. Thus then, for 28. February 2014, the second allocation and the delayed the first allocation will be distributed to the register accounts.

Operators which according to the current NAT table only now realize, what impact their allocation request for the period 2013-2020 had should contact from the receipt of the allocation an Administrative Law legal advisor.

The former claims that have been made n the application and are now leading to unfavourable fall-back scenario (for example boiler efficiency of 70%) now show their effect.

An effect which, however, affects all, is the correction factor of average 11,5% of the EU. This is little consolation that this factor starts off slowly with 5,72% before he arrived in stages in 2020 at 17,56%. This also explains then next to a "Non-CL- Status" the unequal allocation amounts per year on the NAT list.

**Infobox**

**Airlines should pay more**

The Environment Committee of the European Parliament decided in its meeting held on 30.01.2014 that airlines still have to provide for more flight certificates, as previously planned.

After the EU has been able to carry only their minimum position that the flights take offs and landings within the EU are mandatory emissions trading, this should also be extended to countries in Europe now but are not yet in the EU.

Therefore this includes not only the EU-28 but in particular flights via/to Norway, Liechtenstein, Iceland and over marine areas between States as well.

To what extent also flights over the Atlantic Ocean, Greenland, Switzerland, the Azores and the Canary Islands and the non-EU countries of the former Yugoslavia are covered or included, could not be found out by Emissionshändler.com®.
Early backloading drives the price

That backloading comes is a done deal. There are 900 million EUA less issued in auctions in the coming years than initially planned but for 2018-2020 a higher number will be auctioned instead. The question at present is whether the backloading in the 1st quarter of 2014 comes into play or not until the 3rd quarter from July 2014.

After in the morning of 23.01.2014 the Industry Committee of the EU Parliament surprisingly clear agreed (with 30 votes to 19) for a late backloading, the price of 5,38 EUR/t crashed to 5,03 EUR/t and exited with 5,08 EUR/t from the market.

After the clear vote for an early backloading by the environment committee of the Parliament on 30.01.2014, EUA has increased from 5,43 EUR/t steeply to 5,82 EUR/t, the absolute highlight of the EUA since 12 months.

Konrad Szymanski, a polish member of the Committee on Industry, Research and Energy and advocate for a late backloading expressed to the media that he would do everything to ensure that the advocates for an early backloading will not prevail. Thus, only 300 million EUA would then be retained in July 2014 instead of 400 million as early as March 2014.

The respective chairmen of parliamentary committees will meet on 4th February in order to find a compromise. If this does not come about, then the decision is up to the Parliament at the end of February. If at that point in time 40 or more MPs decide against a fast backloading, Szymanski would have achieved his goal.

However since the market tends to not believe in this scenario at the time and is based on an early backloading and hence to have 400 million EUA "disappear" from 2014, the price increased since 13.01.2014 from 4,55 EUR/t to now up to 5,82 EUR/t on 30.01.14, a rich increase of almost 22%!

**Correction factor and early backloading act together**

Once the preliminary decisions for backloading will be made in a trading week from now and in addition the allocations are made public, you can assume that it may well result in a reversal in the price trend. Of course also other market participants will be seizing this opportunity to fuel the market with purchases, especially if they do not belong to the plant operators.

The signs of a currently excessive price and overbought market are piling up. Volatility of up to 7% per day are a clear sign that some speculators are active in the market and want to drive up the price in one as in the other direction.

On how fragile the current trend upward is can also be seen by the outcome of the primary auctions once you take a DEC14 almost every day at 11.00h (end of the auction), the more nervous and volatile
the market will be. A distance of 9-10 Eurocent from primary spot price for DEC14 is currently normal due to the time for the realisation of the December contract at the EUA.

If, however, as happened on 31.01.2014, the auction result of the German primary auction is 15 Eurocent lower than the DEC14 of 11.00h (5.60 EUR/t), then this is a clear sign that the auction participants classify the secondary price of EUA to be too high or at the time do not necessarily need to replenish their stocks of EUA further over charge.

Consequently, this knowledge dawned upon all other market participants on 31.01.2014, so that following from 11.00h the same price fell by 3.5% to 5.55 EUR/t in relation to 5.75 EUR/t earlier. Thus, the auction participants had shopped around 20 Eurocent too pricey which sometimes even resulted in 920.000 EUR more in favour of the Federal Republic of Germany at 4.6 million tonnes volume for.


Valid and invalid marked CER/ERU on a EU-account

The eventually still existing invalid CER/ERU in the registry account are marked red in the new software version. All other valid CER/ERU, are shown highlighted in green. EUA and aEUA certificates have no colour coding, as all EU emission allowances listed in the registry account are to be used for the delivery until at least the end of the period.

The already send e-mail invitation of the national authorities on 30.01.2014 immediately starts the period of 40 days.

Therefore for the relevant account holders the question arises, to which KP-account this transfer of invalid (ineligible) CER/ERU is to be made. Although initially each plant operator had received a KP-account set up in addition to his ETS-account, it would have been better, to conclude this KP-account in 2012 to avoid the account management fees payable for the 3rd VP.

In the event that the account holder will not follow the call for transfer he will be "expropriated" in...
accordance with directive 389/2013 article 32, because the certificates are transferred to the National State: "If the account holder has not complied to this call of the administrator within 40 working days, the administrator shall transfer the allowances or Kyoto-units to its national holding account".

This would directly impact on the accounting of allowances, as these would be "gone" if no evidence is applied. To avoid possible inconvenience and discussions with auditors, this variant is not recommended to choose.

Exactly for this reason a deletion of the remaining grey CER/ERU in the EU-registry account should also be avoided, because recognised certificates should not simply be "deleted" to avoid internal discussions and explanations here.

Since in the case of a re-opening of a KP-account (Koyoto-protocol-account) charges would apply again (see our emission-news 11-2013), a higher internal expenditure of the institution threatens and also the whole problem is only moved backwards, it seems, in the opinion of Emissionshändler.com® to give only one alternative: The rapid sale of these invalid certificates against bill to third parties.

As such, these worthless grey CER/ERU can be sold to a purchaser, provided that he:
- Has a personal account outside of the EU-ETS
- Creates a valid invoice for the seller
- Sets the total value of the certificates at at least 1 EUR (so that the accounting methods zero value, time value and sentimental value are covered)

The only slight drawback of the variant "sale to third parties" is that a new trust account of the recipient of the grey CER/ERU must be set up by the authorised representative of the register account. Usually just a matter of minutes, but to be done early since a period of up to 10 days applies to the newly established trust account to be active and the transfer of the grey certificates can be started.

If the account holder needs help in setting up the necessary trust account that is also a free assistance and solution offered by Emissionshändler.com®, even when only one authorised representative to the operator is present (see Infobox right).

The CER/ERU exchange function is available
Since the EU-register is back online starting 30. January 2014, the long awaited replacement function has also been implemented. This means that green (eligible) CER/ERU that are to be used for submission until 30.04.2014, must be exchanged on your own register account in EUA before that, which means an automatic conversion is not provided.

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system displays to the account representative how much CER/ERU in the second trading period 2008-2012 were used and whether a residual potential for CER/ERU use is still possible. If this is the case, this number is shown in the box "Remaining Limit". Now, a converted quantity can be defined ("located in exchange") which will then be listed in the box 'exchanged CER/ERU in 2013-2020' after April 2014.

It should of course be noted that plants, that already were in the emissions trading in 2008-2013 only a certain amount of CER/ERU can be exchanged which would be the amount of total dispensed certificates at maximum. Plants that are new to emissions trading since 2013, the amount of exchanged CER/ERU in April must not represent more than 4,5% of the emitted CO2 amount of each previous year.

**Conclusion on price trends and the 40-day period**

Plant operators in Europe, which currently consider to buy certificates due to the now published NAT-list - in which the effect of the correction factor shows numerically for the first time - should seek do not be nervus of the current price level. Since there is still a surplus of over 2 billion EUA available in the EU-ETS, in the opinion of Emissionshändler.com® it is a hasty purchase at a price of about 5,20 EUR/t and is not recommended. Prerequisite is of course that the plant operators own certificate stocks are sufficient for delivery to 30.04.2014, including the now coming double allocation for 2013 and 2014 at the end of February.

Provided that in the EU-emission trading will not change anything fundamentally, a plant operator can most likely assume that in the long term until 2020, a price of EUR 4,50 to 6,00 is appropriate. Whether a backloading of short and medium term for the next 2-3 years, would have a price effect on driving up to 7-8 EUR/t, is not ruled out.

Certainly lately there were advances that had the goal of tightening the certificates in a real way. This included, for example, the experiment, to decrease the carbon-leakage list from 2015 to allow more industries to get a degressive free allocation. However, this was quashed on 22.01.2014 by the EU-Commission.

Or also the new foray to take certificates back from the market temporarily starting 2021 and to pack up in a "Reserve".

All this will not change that the excess stock of EUA certificates degrades very slowly, partly because more green CER/ERU flow into the system, which can still be used to a greater extent by previous operators and also can be used by companies newly-down in the emissions trading. This also allows companies – that still have outstanding exchange potentials - some regulating effect on the price level by getting their maximum CER/ERU amount on the market themselves in 2014, so that the liquidity of the freely rotating EUA is increased and thus a price increase is reduced.

Holders of EU-register accounts in which remainders of grey/ineligible CER/ERU are present should consider actions in accordance with the options displayed by us as soon as possible, as to how the corresponding certificate stocks should be removed from the account. The statutory period of 40 days starts from the 30.01.2014, and will expire on 11.03.2014.

Whether the relevant national authority will set a grace period before the certificate will be confiscated is not known. If the holders own KP-account is no longer present, it seems to be the only reasonable alternative, to put the certificates clean and sorted for sale to possibly avoid trailing, unpleasant tasks and problems arising from a thoughtless deletion or state "Expropriation" resulting in their own balance sheet (see also Infobox page 5).
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All price curves shown here are based on data from the ICE London, generated from a Reuters information system.

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Kind emission regards
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