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Emission News 01-2016

Practical Information for Emission Trading

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Source: ICE London

Paris Agreement Could Downsize Carbon Leakage List - Integration of Road Traffic into EU-ETS Can Push Up Prices

Considering the Paris Agreement's results in detail and reflecting who made which statements on site not only to the Agreement but also about future plans in the EU-ETS, certain subjects attract attention. These are worth being scrutinized closer with regard to the European Trading System and its possible price development.

Especially the intended linking of a Chinese ETS with the EU-ETS being planned for 2017 could lead to stronger shortenings on the CL list which consequently could cause a shortage of emission rights thus producing a price increase.

But also various statements of the EU Commission's responsible Chief Executive Jos Delbeke make us listen carefully. Mr Delbeke considers the integration of road traffic into the emission trade as definitely positive even if it will primarily only be realised in Germany. This possibility having been proposed by the bvek already years ago could still withdraw additional emission rights from the EU-ETS, if requested.

Furthermore Emissionshändler.com® list up in their Emission News 01-2016 how certificate amounts and price information can be detected at the beginning of the year in order to integrate them into the balance sheet.

The following report refers to the Paris UN climate Change Conference which lead to the "Paris

Agreement" on 12th December, 2015. The report was written by Jürgen Hacker, Chairman of bvek (*Federal Association for Emission Trade and Climate Protection, registered association*). Mr Hacker was an official participant of the Paris Agreement and speaker on a side event. The article treats aspects of the negotiation result and further discussions which could be relevant for a price development of EU emission rights.

The Paris Convention and its possible impact on the EU system of tradable emission rights

The Climate Paris Agreement drafted by the Conference of the Parties of the UN Framework Convention on 12.12.2015 is thanks to the diplomatic skills of the Conference President, French Foreign Minister Fabius, a masterpiece of opportunity. Everyone can interpret into it what pleases him and serves his or her selfish interests serves. One might as well characterize the agreement as an of all-and-nothing piece, because everything is possible in the future, and nothing is really secure! In light of these facts, it is not easy to assess the impact on the EU system of tradable emission allowances (EU ETS). Impact in terms of the following four aspects seems possible:

1. Intensification of the EU climate target for 2030 and consequently greater reduction of the annual emissions budget for the EU ETS from 2021
2. Reduction of "carbon leakage risk" and thus reduce the free allocation of emission allowances after 2020



3. Linking the EU ETS with corresponding systems of other countries
4. Extension of the EU-ETS

1. Intensification of the EU climate target for 2030

The EU Council approved in its conclusions of October 2014, the aim of the EU, by 2030 to reduce the EU internal greenhouse gases by at least 40% compared to 1990 levels. He has this goal divided into a target for the EU ETS by 43% and for the non-ETS sectors by 30% respectively compared to 2005. The "minimum" refers to the fact that was emphasized at the same time that the EU Council after could the UN Climate Change Conference in Paris check out these targets and tighten them if necessary in an ambitious climate agreement.

If the Paris Agreement is now sufficient for this "ambitious"?

The answer is

- the 2 ° C target, but goes with the initial declaration of a "aspired possible" 1.5 ° C target beyond. And for this goal ranging
- the old 2 ° C target was to be "voluntary" will by the commitments to limit emissions by 2030 from about countries.

So it depends on what "ambitious" relates to - on a promise to strive binding commitments to limit their greenhouse gas emissions by the other States?

Most climate groups reflect expectedly on the former and are now calling for an intensification of the EU-target for 2030. BDI President Grillo however warns against single action in Germany and the EU and he warns hastily think about new or let alone national targets. And in fact the O.A. Review clause of the EU Council refers to "ambitious goals and strategies" of the Contracting States and not on an all-inclusive global goal. The currently present national commitments of other countries do equal ambitious emission limits compared to the 30% of the EU -Emission reduction target. Although by means of the entry into force of the Paris Convention these voluntary commitments chance the status from being no longer a voluntary national commitment, it the intensification of the EU target for 2030. Thereupon, the Eastern European countries with

the at the top can invoke the right and block any corresponding suggestion of individual other EU countries.

Although it may be noted now that the Paris Agreement contains a process that checks with the national obligations every 5 years and this can be "voluntarily" exacerbated if needed. The ambition of other States could therefore increase. Even if this should be done to a relevant degree, a corresponding mandatory verification is only due for year 2023. It would therefore too late for the legally binding definition of the annual emissions budgets of the EU ETS for the next commitment period of 2021 to 2030. This determination by the EU Parliament and EU Council is expected to take place until the end

A subsequent budget reduction later would be very difficult from the legal aspect and feasible tidily and system technically correctl only by means of an EU-ETS enlargement for further sectors (see also Chapter 3)

2. Reduction of Free Allocation of Emission Rights After 2020

On the occasion of a Side Event during the Paris climate Change Conference the responsible EU Commission's Chief Executive Jos Delbeke see the possibility of a reduction of the emission rights' budget within the coming commitment period. This was at least his answer to my question for probable effects of the Paris Agreement on the EU-ETS. He just considered it as possible that the Carbon-Leakage (CL) risk for ETS systems

Because the Paris Agreement will modify the present not obligatory voluntary self-commitments for emission limitation and the intended national actions to binding duties under international law - which will lead in one way or another to a pricing of emissions in those countries being of importance for the designation of future CL lists.

As this CL list needs to be established by the EU commission and confirmed by the EU committees

also those implementing measures being taken so far can be considered in other countries, too, for example the national ETS for China being announced for 2017 and its resulting price formation for Chinese national emission rights or the results of negotiations between China and



South Korea about the linking of their mutual national ETS having been announced in Paris.

The result to be achieved would be

CL list thus obtaining a significant volume of free allocations for emission rights to ETS systems which consequently will be brought to the CL status.

However, it remains to be seen to what extent the CL list will be achieved. It depends on the question how many of the national and/or regional ETS having been announced numerously will be realised until the end of 2020.

3. Linking the EU-ETS with Appropriate Systems of other States

The EU aspires for the linking of its ETS with appropriate systems of other states for quite some time already. At present negotiations are taking place with **Australia** and **Switzerland**, for example. Until now it was not clear how such linkings and corresponding transfers of emission rights between the linked ETS in the UN rules are supposed to be treated.

Without explicit mention "linking of ETS" and beside some self-evidences as for example the participation in interstate co-operations which is "optional", article 6 of the Paris Agreement now includes also some frame-setting rules which may simplify the negotiations about ETS linkings a little bit.

On one hand a new name will be introduced for such transfers: "internationally transferred mitigation outcome" for which a new abbreviation "ITMO" has been created in the meantime. Beside some principles to be observed as there are environmental integrity, transparency, avoidance of double counting etc. which, however, remain to be made clear on the occasion of future conferences for being made operational, it will be laid down that these co-operations are supposed to be supervised by an institution and under guidelines which still need to be determined and an **international register for ITMOs** is supposed to be elaborated as well as a fee to be paid which, beside the covering of the corresponding administration costs, is destined to finance supporting measures for adaptation to the climate change in developing countries being particularly affected by it.

Such linkings of the EU-ETS with other states' ETS are not only destined to reach the mutual climate change level of the linked ETS but also to equalise the resulting prices for emission rights in comparison with separate ETS together with the same climate protection level. It depends essentially from the configuration of the linkings and the resulting new mutual climate protection ambitions' level how ETS linkings will affect concretely the emission rights' pricing. No further information about the EU commission's conducting negotiations and its aims has been published so far.

In any case new emission rights for emission rights will be generated for the linking and not much courage is needed to predict that rather a significant volume of free allocations will be the result.

Infobox

In January 2016: Eventual Update Monitoring Plan, Creation of the Message for Operation and annual Report 2015

According to the relevant EU laws and the national implementation of these laws is the requirement to submit the MzB for any operator of a facility which free allocation in the 3rd trading period 2013-2020 and operate a facility subject to emissions trading.

This obligation also exists in principle, if there is no change in the operation was found and also when no CO₂ was emitted. This release includes all the operating allocation elements and their activity rates in the past and future as well as any technical changes to system components or the operation of the plant or individual system parts.

*The MzB must be create in a software management system provided for this purpose (FMS) by each operator and **to 31.01.** leave a year for the previous year (§§ 19 - 22ZuV2020).*

In the case of incorrect, not consistent or not timely fill out the FMS form a reduction of the allocated free emission rights is possible: a so-called ex-post-correction. An ex-post-correction can be made even if the capacity of the plant has been reduced.

Even then, at first created in the summer of 2014, it made sense for many operators to transfer the tasks of creating the MzB to an external consultant in order not to be subject to involuntary allotment reduction or to miss the chance of an allocation increase.

To request a quotation or further inquiries, interested operator contact as possible in January Emissionshändler.com® under +49 (30)398872110.

4. Enlargement of EU-ETS

Independent from the Paris Agreement, the EU-ETS's enlargement for further economic sectors as especially the inclusion of traffic fuel is meaningful



in any case and should be achieved as fast as possible for common good interest.

The bvek made this clear in various meetings and was able to communicate it successfully in public during the last weeks (see Handelsblatt from 3rd December 2015 "Autofahrt mit Zertifikat" (*car ride with certificate*) and DIE WELT from 11th/12th December 2015 "Autofahren ohne Angst ums Klima/Diese geniale Idee hätte VW alle Skandale erspart" (*Car ride without fear for the climate/This brilliant idea would have saved VW from all scandals*).

The bvek will be supported by all relevant environmental economists.

Also the responsible Chief Executive of the EU Commission repeated several times in public on the already mentioned Side Event of the Paris climate Change Conference that "the Commission is not against it", neither against a short term, unilateral enlargement which means only adapted by one EU member state.

Just a few items would have to be settled by the commission which have no priority at present as no member state expressed an according intention. Even representatives of the BMUB which presently (still) decline the inclusion officially is principally considering this enlargement as correct but estimate a rapid implementation as unlikely due to the rejection of the German Chemical Industry Association and most of the climate protection organizations. Due to the Paris Agreement and due to the probable increase of the other states' ambition level in several years an aggravation of the climate change target could take place at the beginning of the 2020 years.

The technical system of the EU-ETS would allow such an aggravation simply by including further sectors into the EU-ETS and a budget increase of emission rights

As a result the Paris Agreement could lead faster to an enlargement of the EU-ETS for further sectors than many of us can imagine at present. But we must consider here like for all above-mentioned aspects: The Paris Agreement could quickly develop a momentum of its own and contribute to a

fast and essential progression of the EU-ETS - emission rights, free allocations, linking with other ETS and But nothing of it all could happen, too. The Paris Agreement is an Agreement.

Article by Jürgen Hacker, Chairman of the bvek and Participant of the UN climate conference in Paris

Conclusion of Emissionshändler.com® regarding the report of Mr. Jürgen Hacker, bvek

When reading Mr. Jürgen Hacker's assessment, that focused on behalf of Emissionshändler.com® on issues that have a pricing relevance for the EU ETS, one can get the impression that all of this points more likely towards prices.

Nevertheless, the reader should also be aware that a price levels of EU emission rights also depend on how much the climate protection target is increased. If the 2 ° C target, or even a 1.5 ° C target is to be achieved, the level of savings must be and prices will

In the longer run we might reach euros or more, depending on the

Since neither Emissionshändler.com® or someone else can see the future, no one can predict the exact price development.

Only a price factors is clear: With a global system, prices will be than with separate national emission trading systems. However, this should be, in the opinion of Emissionshändler.com®, compared to other price-driving factors, one of the price aspects.

Determination of Certificate Volumes and Prices for Integration into the Balance Sheet

At the end of a calendar year (most the time also at the end of a marketing year) enterprises of the obliging emission trade use to have certificate stocks in their register accounts which could be of interest for a balance.

According to corresponding advising professions, the value of such stored certificates could be a , a one, or a

If the time value is of importance the question arises what the relatively accurate value of a



If we base upon an approximate interest rate of 4.5%, the official final price of 12.50 Euro/t resulting from the 13.00 Euro/t price can still be discounted for 4 Cent/t in order to achieve a comparatively accurate spot EUA price of approx. 12.50 Euro/t as per 31st Dec. 2015.

If we apply the same method for aircraft certificates aEUA, we will reach a price of 12.50 Euro/t which means a final spot price of 12.50 Euro/t after discount.

The same method can also be applied for CER2. After a long-term drop in prices over the last 6 years a price of 12.50 /t results per 31st December 2015 which leads to a final spot price of 12.50 /t after discount.

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Kind emission regards



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