

# European Emissions Trading Market



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**The European emissions market is booming.** Trading volumes have soared as top utilities, banks and investment funds have built bigger businesses. Established brokers and exchanges are tussling for large shares of the market, while potential newcomers in trading services circle with rising interest.

*In the CDM and JI projects markets, dozens of independent developers, investment funds, governments and utilities are investing billions of euros and secondary trading of credits is growing.*

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This 152 page report is structured as follows:

**Chapter 1 - The Kyoto Protocol Policy Framework:** this chapter begins with a review of the goals set by the Kyoto Protocol and participating countries' compliance options. Next it covers the rich countries that have not ratified the protocol, rising emissions in China and India, and the many difficult challenges of climate change diplomacy. A review of the developed world's emissions performance since 1990 follows, including a close look at the record of EU member states. Finally, the chapter examines international emissions trading in the AAU market.

**Chapter 2 - EU Emissions Trading Scheme:** this chapter reviews the implementation of the European Union's Emissions Trading Scheme (ETS). It begins with industrial sector coverage and compliance mechanisms. Next it assesses EU member states' proposed allowance allocation plans and the European Commission's judgements, for both the first and second phases of the ETS, in the context of trading market developments. Next the chapter profiles the position of the power industry, the most important sector of the ETS. Fuel choices around the EU, the long/short position of major utilities, and allowance pricing analysis in the context of the power business are covered.

**Chapter 3 - EU ETS Trading:** this chapter begins with a profile of the ETS market within the global emissions market context. Next it sketches the routes to market for emissions traders – auctions,

brokers, exchanges and bilateral trading. Next trading volumes in the brokerage and exchange sectors from 2005 up to October 2007 and leading individual brokers and exchanges are presented. Finally, leading trading players are covered.

**Chapter 4 – Emissions Exchange Profiles:** this chapter profiles western Europe's seven operating emissions exchanges. In descending order by volumes in 2007, they are ECX of the UK, Nord Pool of the Nordic region, Powernext of France, EEX of Germany, the Climex Alliance of the Netherlands, EXAA of Austria, and IPEX of Italy. Each profile covers the exchange's existing and planned trading products, clearing arrangements, and technology providers; trading volumes from the exchanges' launches up to October 2007; fees for trading and other services; participants by sector; and exchange shareholders. As this is a time for alliances and consolidation, strategic developments and plans are noted throughout the profiles.

**Chapter 5 – The Kyoto Projects Market:** this chapter begins with a look at the potential for project credit sales to ETS participants from 2008 to 2012 – this is the biggest single market for credit sellers. Next project market opportunities and risks for ETS participants are examined. A review of CDM and JI processes, pipeline volumes, and geographic markets follows. The rest of the chapter provides an extensive review of project market players, including governments, development banks, public and private sector carbon funds, independent companies, utilities, and trading houses.



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## About the Authors



Prospex Research analyses the European energy business, focusing on wholesale markets for power, gas, coal and emissions allowances.

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