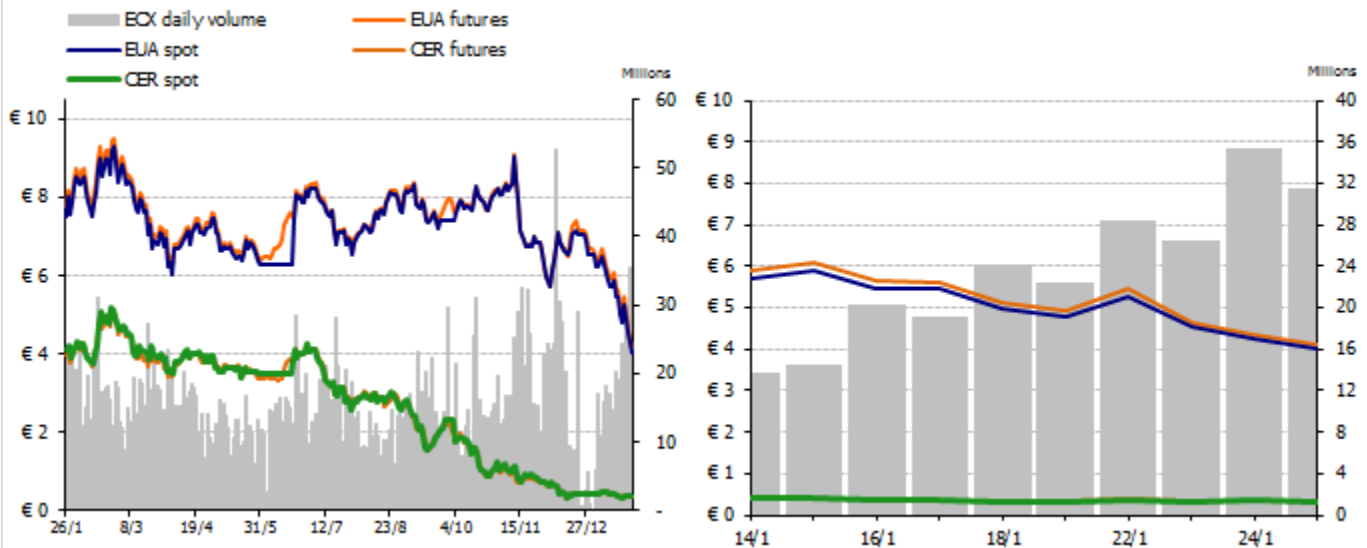


Carbon market noted the worst week since last months of Phase I (2005-2008). Due to oversupply, moderate interest in auctions and legal problems with backloading the price of EUAs dropped to 4,01 euro/t. CER and ERU credits stayed low, reaching record lows on Mar13 contracts (ERU – 0.04 euro/t on Thursday). Due to weak performance of EUA, CER/EUA spread dropped to -3,67 euro/t.



| SPOT | | | | FUTURE | | | |
|------------|------|------|----------|------------|------|------|----------|
| | max | min | wkly chg | | max | min | wkly chg |
| EUA | 5.26 | 4.01 | -19% | EUA | 5.45 | 4.11 | -20% |
| CER | 0.38 | 0.33 | 6% | CER | 0.37 | 0.34 | 9% |

EUA dropped to 2.81 euro/t

After negative vote on backloading proposal by MEP Industrial committee, bearish trend flooded the market. In couple of minutes Dec13 price dropped by 40 percent to 2.81 euro/t – the lowest since 2007 (Phase I). There were over 350 lots traded below 3 euro/t. At the end of the day market recovered up to 4.4 euro/t.

MEP Industrial committee rejects backloading

Last Thursday European Parliament's industrial committee in non-binding vote rejected the proposal of backloading reform of EU ETS. Advisory body did not approve removing 900 mln allowances from the market. Lack of recommendation can make the EC proposal more difficult to pass. Reaching of majority of votes in QM process is still far away to achieve. No decisive actions in EU ETS legal framework can drag the prices further down.

UK will support backloading only if exceeded to 1.2 bln

On Wednesday the UK government official announced that Britain will only support backloading proposal if the amount of allowances to be withdrawn from the market is enlarged from 900 mln to 1.2 bln allowances. UK is not satisfied with the current proposal of the EC, stating that it is not too ambitious and will not result in expected effect which is giving a positive impulse for the price. Although the EU commented positively on UK's announcement, the market reacted negatively.

'Risk of total collapse', analysts cut their forecasts

Last week even more pessimistic prognoses could be observed in the carbon market. Both analysts and decision-makers were commenting on worsening situation of EU ETS. Due to problems with backloading Barclays has cut their price forecast for end of 2013 from 8.50 to 5.50 euros. EU officials, quoted by Bloomberg, commented last week that the system is at the 'risk of total collapse'. Connie Hedegaard again called for action, as the prices dropped to 2.81 euro/t.

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