

By Mathew Carr

Nov. 20 (Bloomberg) -- European Union carbon dioxide emission permits had their biggest one-day fall in more than 18 months as oil dropped below \$50 a barrel and concern increased that lower economic activity will erode industrial output.

EU allowances for December fell 1.41 euros, or 8.6 percent, to close at 14.92 euros (\$18.74) a metric ton on London's European Climate Exchange, their biggest drop since May 30 last year. That's the lowest close in 21 months. United Nations certified emission reduction credits for December fell 1.46 euros, or 9.9 percent, to 13.35 euros, their largest daily fall since trading began on the ECX in March.

EU permits may fall almost 50 percent to about 8 euros a ton by the end of next year, because of a potential oversupply, according to investment bank Pravda Capital SRO. They've already dropped by half since July 2, their highest this year, as crude plunged. The EU program is the world's biggest greenhouse gas trading system.

The oversupply will likely emerge should developed nations seek to meet their greenhouse gas targets without using credits that can be used for compliance in the EU, Jan Pravda, a partner at the investment bank in Prague, said today by telephone.

Factories and power stations in the EU, as well as developed nations with targets under the 1997 Kyoto Protocol, can use so-called CERs.

Nations including Japan and Spain may buy another type of credit, known as assigned amount units, instead of CERs, in which case CER prices "will go down and drag EU allowances down with them," said Pravda, who in August forecast a narrowing in the price difference for EU allowances and CERs. The spread was yesterday at a record low of 1.52 euros.

#### 'Natural Barrier'

Should EU and UN credits reach 13 euros, "we have reached a natural barrier, as from this point onwards, I expect CER projects to be cancelled" said Katrin Fuhrmann, an analyst at Fortis Bank in Amsterdam. "There is a strange mood in the market that the economic crisis is taken as an excuse not to tighten the emission-reduction targets."

Dennis Mignon, a trader with First Climate in Bad Vilbel, Germany, said the December EU contract may fall as low as 13.25 euros a ton before expiring next month.

Crude oil in New York fell 4.4 percent to \$51.27 a barrel, after earlier today reaching \$49.75 a barrel. Natural-gas prices in Europe are linked to oil products, and utilities need only about half as many emission permits to burn gas as they do to use coal.

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