UN Emission Traders Start Abandoning 2012 Phase on Surplus

By Mathew Carr

July 22 (Bloomberg) -- Interest in United Nations emission credits for 2011 and 2012 has waned after prices dropped to a two-year low and traders began to transfer positions into later years to avoid an oversupply exacerbated by the recession.

Open interest, a measure of trading positions that have not closed, dropped 8.1 percent for so-called Certified Emission Reductions for December 2011 to 69.4 million metric tons through July 20 from its peak on May 9, according to data from the ICE Futures Europe exchange in London. December 2012 interest for CERs has dropped 5.2 percent, while interest in 2011 European Union carbon permits has risen 15 percent since May 9.

Utilities in the bloc that need credits after 2012 are shifting their focus to that period because the market is so oversupplied in the second phase, the five years starting in 2008, said Matthew Gray, an analyst at IdeaCarbon in London, which rates credits. “Get past phase two and the market is a lot tighter,” he said July 20 in an interview.

CERs for December dropped to 9.56 euros ($13.77) a metric ton on July 13, the lowest level since March 2009 on ICE, the biggest exchange for carbon trading. They closed at 10.17 euros yesterday, down 11 percent this year and still close to the cost of producing the credits in developing nations, currently about 9.54 euros, said Gray.

Industrial-Gas Ban

The overhang of carbon permits and credits in phase two is exacerbated by a ban on some industrial-gas credits starting May 2013, which means these offsets have to be used for compliance before the third phase. “We have masses of industrial-gas CERs to get rid of,” Gray said July 20 in an interview. Buyers include utilities RWE AG and Enel SpA.

The surplus is estimated at 954 million tons of allowances and credits in the five-year period, according to an estimate by Bloomberg New Energy Finance in London. That’s 9 percent of the EU-permit cap of 10.7 billion tons in the period.

With UN credit prices in the secondary market at close to cost, some traders may have made money this month and last by buying back hedges for about 10 euros a ton after selling them earlier this year for as much as 13.50 euros, Gray said. That would lower the volume of open positions.

The ban on the most plentiful hydrofluorocarbon-23 offsets and potential plans by EU lawmakers to change the program's rules has accelerated the exodus from phase two, said Jan Pravda, director of Dublin-based CO2 brokerage Carbon Warehouse and investor. "I've looked into hundreds of securities and I can't see anything that's more vulnerable to regulatory risk," he said July 20 in a telephone interview from Prague.

2013 Premium

Prices and open interest after 2012 have fared better. The premium of 2013 CERs over those for this year widened by 41 percent to 89 euro cents a ton since June 27, when it was at its narrowest since February. Open interest in December 2013 credits has jumped 19 percent since then to 14.5 million tons. Interest in December 2014 credits has more than doubled.

UN credit prices will rise to 11.58 euros by December 2015, according to ICE data. UN regulators have granted 170 million tons of offsets this year, already a record for a year, according to data from the Bonn-based UN Framework Convention on Climate Change. EU factory and power station carbon-dioxide output fell 11 percent in 2009 during the economic recession and recovered 3.2 percent last year.

"We get approaches often" for credits that will be delivered after 2012, Scott McGregor, Camco International Ltd.'s chief executive officer, said by telephone July 12. London-based Camco develops greenhouse-gas credit projects in nations including China and Vietnam.

The proposed Australian and California carbon markets will probably add to demand, McGregor said. "We'll wait for the price to come up. We're not forced to sell credits" at current levels, he said.

Camco has a window of about 18 months in which the company can lock in prices of its credits while the projects gain regulatory approval and begin to reduce greenhouse gases, McGregor said. The approval process, governed by the Clean Development Mechanism executive board based in Bonn, can take more than a year.

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