



European Climate Exchange

Neil Eckert , Chairman

**Ministerial Meeting within the
North Sea Conference**

Gothenburg 4/5 May 2006

MIND THE GAP!



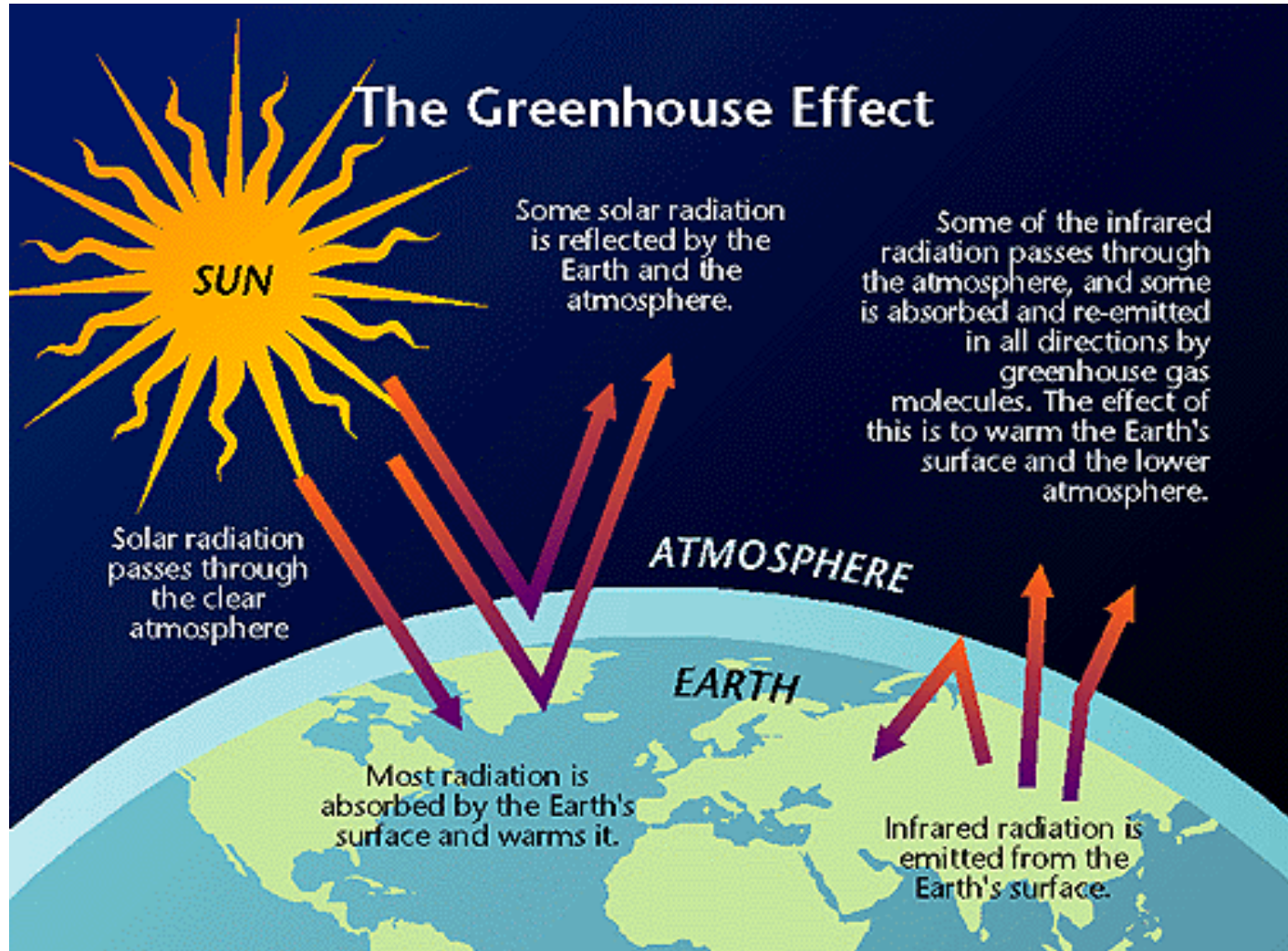
Introduction

- CCX
- Richard Sandor
 - Pioneer of interest rate future
 - Cap & trade US Sulphur Market
- Climate Exchange Plc - £100m market cap. AIM listed
- ECX – 85% of European CO₂ exchange volume



Background to Greenhouse Gas Emissions Reduction

- 1992 – UN Framework Convention on Climate Change – industrialised countries called upon to reduce greenhouse gas (“GHG”) emissions
- 1997 – Kyoto Protocol called for a @5% reduction (relative to 1990 baseline) in net GHG emissions by industrialised countries by 2012
- Kyoto Protocol not ratified by US but Bush administration calling for voluntary approach to reduce GHG emissions intensity
- In addition, Directors believe industrial companies are facing demand from their customers and investors to reduce GHG emissions
- In late 2004 Russia agreed to become a participant in the Kyoto Protocol thereby achieving the required global commitment to ensure ratification



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Emissions Reduction & Trading Schemes

- Involves setting an overall emissions reduction target for a group of emitters and then permitting individual emitters to decide how each achieve that target
- Individual emitters can meet targets by choosing to make “in house” reductions or by buying tradable emission instruments
- Emission instruments can be emission allowances assigned for achieving reductions or credits generated by mitigation projects
- Estimates of potential global market size for trading GHG emission allowances range up to £2.3 trillion by 2012* – although estimates range widely the rate of market development in Europe is currently at the higher end of many commentators expectations with 1.5 million tonnes traded at approximately

* 2012 refers to Phase I of Kyoto and is particularly relevant to the European schemes. However, it is not specifically relevant to a number of the voluntary market places in which it is intended that TEI will operate in.



Emissions Reduction in the United States

Clean Air Act 1990

- Addressed five main areas:
- air quality standards
 - motor vehicle emissions and alternative fuels
 - toxic air pollutants
 - acid rain
 - stratospheric ozone depletion

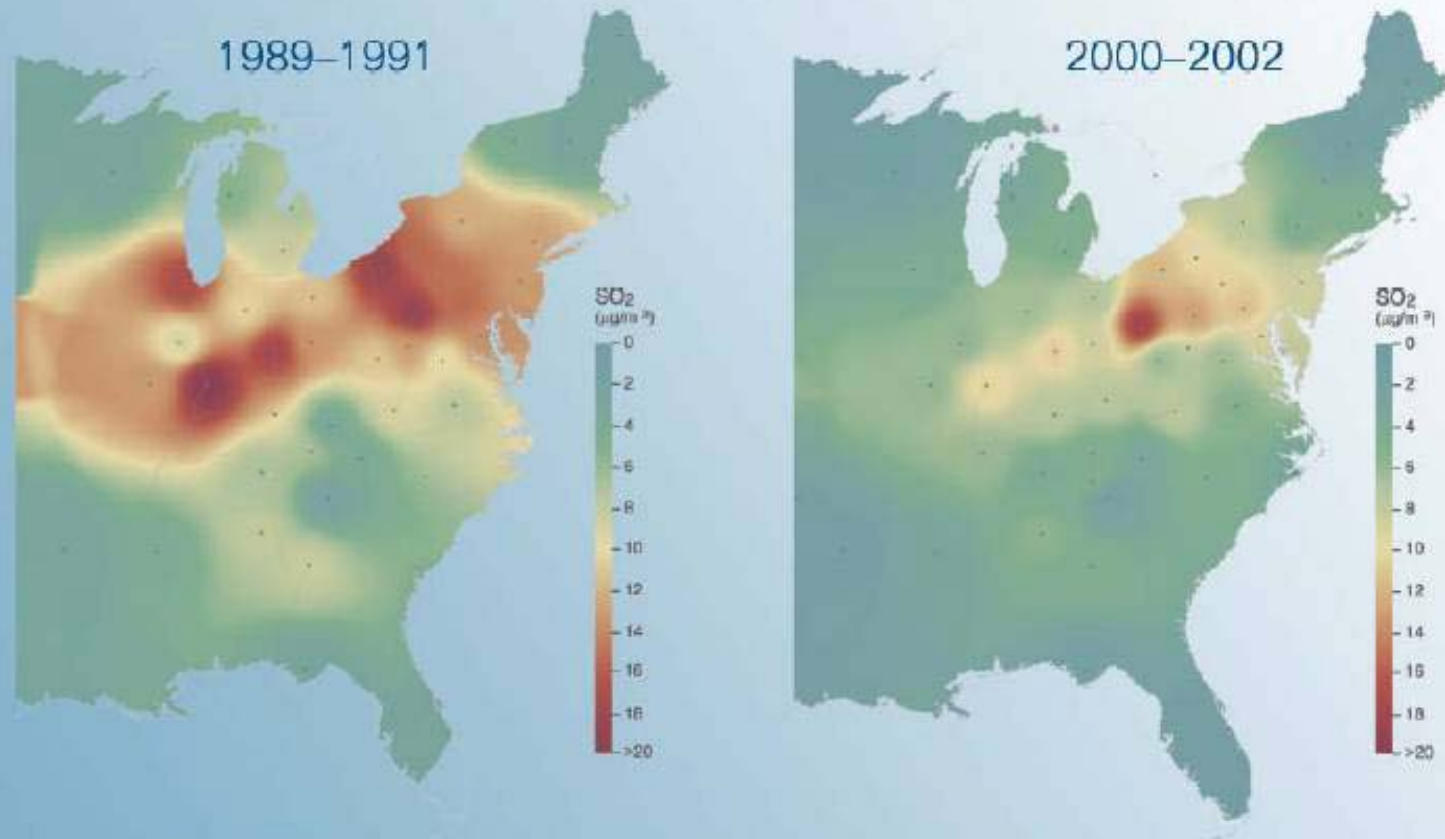
Phase I (1995 – 1999) Addressed 110 high emitting plants (mostly east of the Mississippi)

Phase II (2000 onwards) All fossil fuel power plants larger than 25 megawatts capacity

Clean Air Interstate Rule 2005

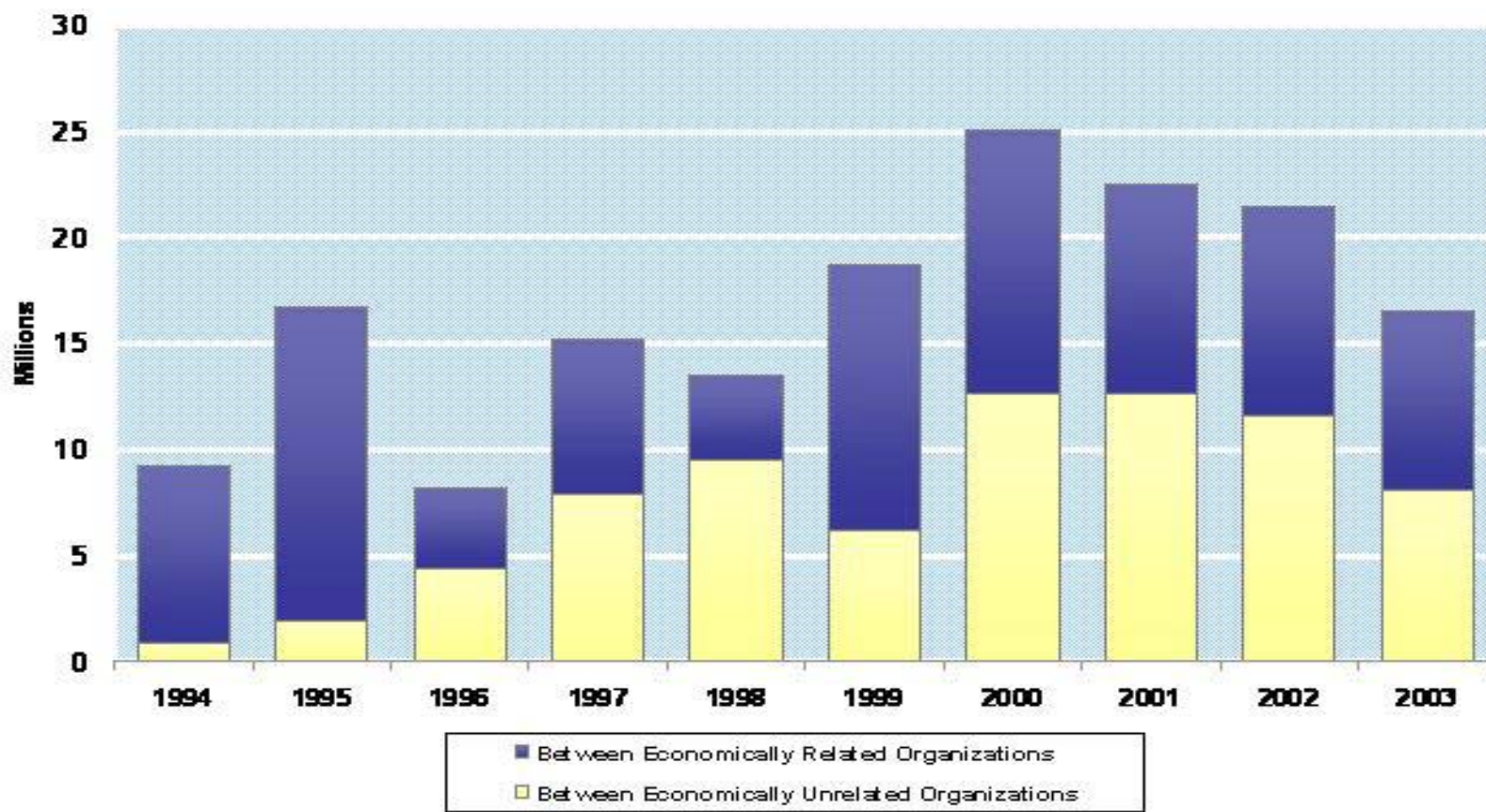
After 2010, allowances devalued by 50% (two allowances forfeit for each ton of SO₂ emitted)

FIGURE 16. Comparison of annual ambient sulfur dioxide (SO_2) concentrations in the rural eastern United States



Source: CASTNET

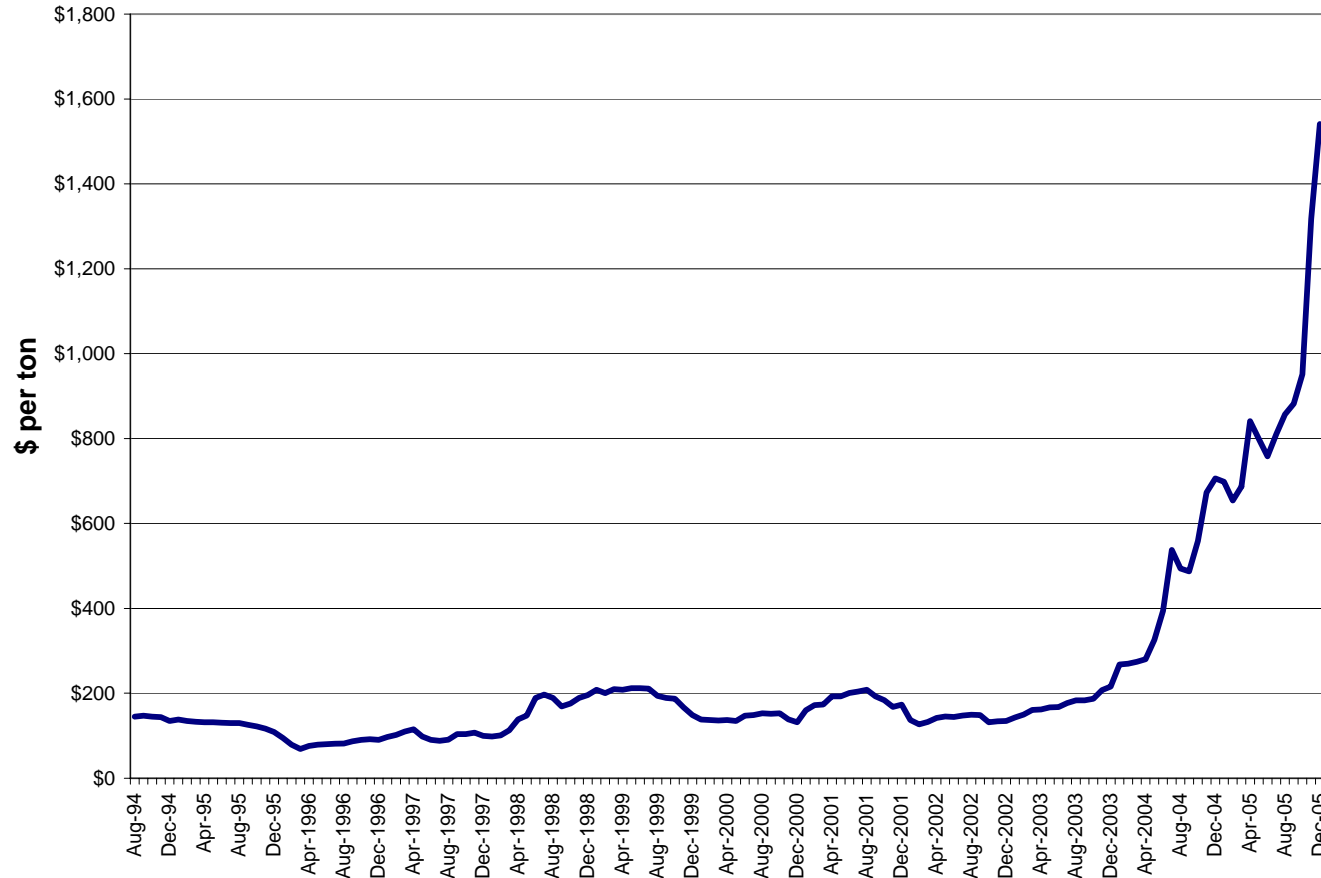
SO₂ Allowances Transferred Under the Acid Rain Program





US SO₂ Emission Allowance Price History

Monthly Average Prices



Trades 2006 (per ton)	
Jan	\$1,503.25
Feb	\$998.42
Mar	\$894.46
Apr	\$745.00



Ability to Pre-empt EU Law and Drive Effective Change

- Only organisation to invent, build and launch a new contract and exchange
- Business partnership with major potential host exchanges
- Technology to launch exchange
- Membership - liquidity



CCX/ECX pitch to work with PWC on next phase

- Economics of Cap & Trade
- Cost of U.S. programme
- Benefit
- Ability to assist PWC to build economic model
- Marginal Cost of Abatement



CCX and ECX

- Can host the exchange
- Understand emissions
- Understand voluntary markets – 10 year U.S. sulphur/NOX track record
- Can help industry monetise reductions
- Need government support and ultimate mandate to help cut SOX/NOX



SOX and NOX can be eradicated in the EU

It does not need law, but a voluntary exchange!

- Early adopters have been penalised in emissions market
 - We need political support for grandfathering credits into the inevitable mandatory system
- A voluntary system needs buyer and sellers. Financial markets will invest in credits up to the “marginal cost of abatement”
- At this price all industries invest in technology that can achieve substantial reductions in SOX and NOX