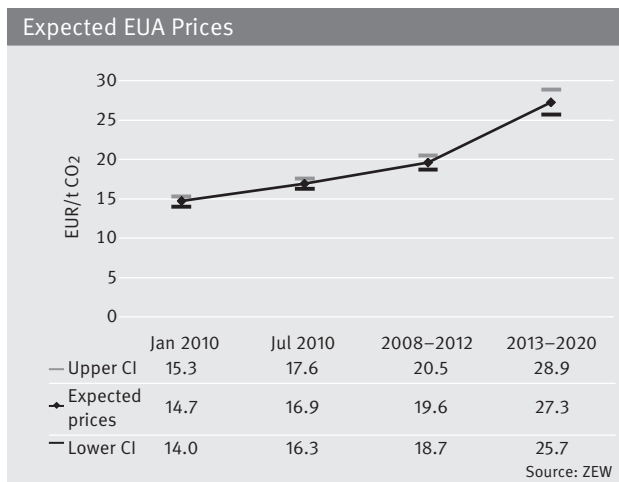


From Kyoto to Copenhagen: what the market expects in December 2009

EUA PRICE EXPECTATIONS UNCHANGED

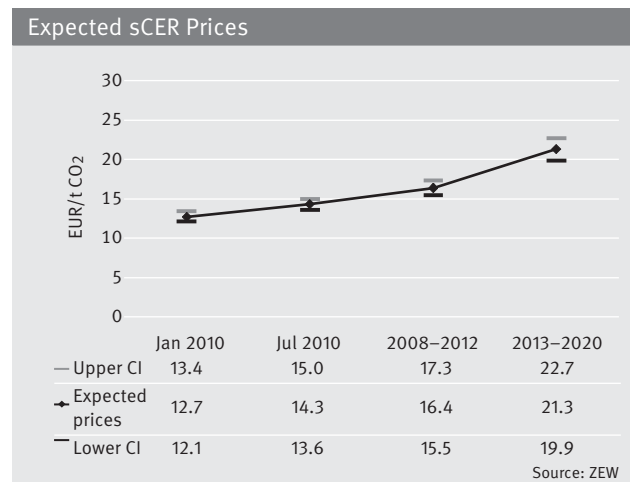
Carbon market experts see the average prices for European Emission Allowances (EUAs) until January 2010 in a range from 14.00 to 15.30 EUR per ton. Thus short-term price-expectations have not changed since the last survey in June 2009. Up to July 2010 an average EUA price from 16.30 to 17.60 EUR is expected, which is a slight increase to the last survey's expectation. Currently an average EUA price for the 2008 to 2012 period from 18.70 to 20.50 EUR is expected. For the 2013-2020 period, experts estimate an average price from 25.70 to 28.90 EUR. Compared to the previous KfW/ZEW CO₂ Indicator, long-term EUA price expectations have slightly decreased.



RISING sCER PRICES, AGAIN!

Up to January 2010, average prices for secondary Certified Emission Reductions (sCERs) from 12.10 to 13.40 EUR are expected. Average prices are expected to increase in a range from 13.60 to 15.00 EUR until July 2010. Therefore, short-term price expectations for sCERs are slightly higher than in the second-quarter survey.

The average sCER price in the period from 2008 to 2012 is currently seen between 15.50 and 17.30 EUR per ton. For the period 2013 to 2020, experts forecast the price in a range from 19.90 to 22.70 EUR. Thus, altogether the long-term price expectations for CERs remain unchanged.



PRICES IN THE ENERGY AND COMMODITY MARKETS

The experts were asked to provide their expectations on the price development in the energy and commodity markets. While prices for electricity, natural gas, crude oil and coal are mostly expected to stagnate in the next six months, respon-

dents are anticipating rising prices in the next five years. The expectations support the thesis of stagnating, or at most, moderately rising EUA prices in the next months, and rising prices for carbon dioxide emissions within the next years.

The Climate Conference in Copenhagen

Will they make it?

In the last months there has been much talk about whether a post-Kyoto agreement will be achieved in Copenhagen. Since the last meeting of the Conference of the Parties beginning of November has not led to results, an agreement has become even more unlikely. In September 2009 the KfW/ZEW CO₂ Indicator asked if respondents believed that an post-Kyoto agreement could be reached in Copenhagen. 55 percent believed that an agreement can be made, while 42 percent doubted that the parties will be able to reach an agreement.

Negotiations: What is most important?

As yet, it has remained unclear whether parties at the Copenhagen conference will proclaim (only) a long-term reduction target and/or immediately active and binding goals. Also, the financing of technology transfer to developing countries and of adaptation to climate change has gained much prominence in the discussions and is considered as potential deal breaker.

48 percent of the survey's respondents think that an immediately implemented, binding greenhouse gas reduction target is the most important arrangement that should be made in Copenhagen. For 32 percent, a long-term reduction target would be appropriate. 15 percent consider financing technology transfer as the top priority. Only four percent of participants believe that the focus should be on financing adaptation to climate change.

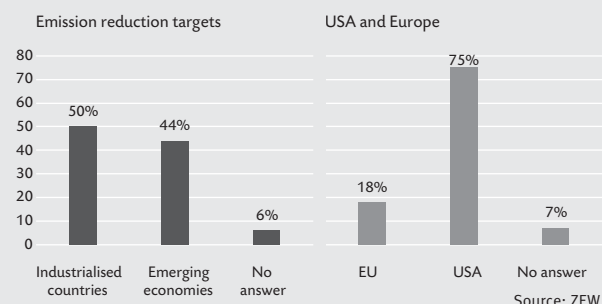
Emerging economies could play the decisive role!

In view of possible emission reduction targets, the survey participants were asked how they assess the role of emerging economies in climate change negotiations. Half of the respondents expect that the industrialised countries will have to make the decisive concessions for an agreement to be achieved. 44 percent are of the opinion that an agreement can be achieved if emerging economies commit to a reduction target, even if it is a low one.

With regard to greenhouse gas reduction, experts consider 20 percent until 2020 compared to 1990 a realistic target for the industrialised countries. The group of emerging economies like China, India or Brazil are also expected to commit to greenhouse gas reductions. The survey participants expect

Climate Conference in Copenhagen

Which party will have to make decisive concessions for an agreement to be reached?



emerging economies can reap a first mover advantage if they commit to a reduction target on their own initiative, i.e. emerging economies would have to commit to a smaller amount of greenhouse gases reduction (5 percent) if they do it on their own initiative rather than when industrialised countries take the first step in suggesting reduction targets for emerging economies. In this case emerging economies would end up with a commitment of a 7.5 percent reduction.

Industrialised Countries are expected to reduce an amount of about 20 percent in average anyway.

USA and Europe

When Barack Obama was running for President there was one word that dominated his campaign: Change! Many observers were hoping for such a change to happen in the US climate policy. The carbon market experts see the US as the most important party in Copenhagen. 75 percent say that it is up to the USA to make decisive concessions for an agreement to be achieved. 18 percent see the EU as the most important party.

The survey's participants consider 25 percent as a realistic greenhouse gas reduction target for the European Union until 2020 compared to 1990.

For the USA, a reduction target of 15 percent until 2020 compared to 1990 is seen as an ambitious goal. In that case the EU is expected to commit to a reduction of 26 percent.

If the USA claims a more conservative position in Copenhagen, a reduction target of 12 percent is expected. In that case the EU would commit to a reduction of 23 percent.

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About the KfW/ZEW CO₂ Indicator:

The KfW/ZEW CO₂ Indicator is a cooperative project of the KfW Bankengruppe and the Centre for European Economic Research (ZEW). With the KfW/ZEW CO₂ Indicator, carbon market experts are surveyed quarterly on the development of price expectations and on issues which will determine the shape of the future carbon market.

The publications of the KfW/ZEW CO₂ Panel are available on: www.zew.eu/co2panel

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