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# Price of carbon could rise 600pc in three years

**By Garry White**

THE price of carbon allowances could rise by more than 600pc in the next three years as a "perfect storm" of events causes a supply squeeze, according to a report to be issued later this week.

The report, written by corporate finance and equity capital markets adviser Tom Frost, of Akur Partners, predicts that the price of carbon could increase to €64 (£57) from the current €8.40 before the end of this trading period, known as Phase II, in 2012. It is expected to be published on Wednesday evening.

The EU emissions trading scheme (EU ETS) started in January 2005 the largest multi-national emissions trading scheme in the world and is central to the EU's climate change policy. The scheme is based on the allocation of carbon gas emission allowances to specific industrial sectors. These allowances can be traded.

The report claims that an extremely pronounced period of price inflation will start at the end of 2011, peaking in the second or third quarter of 2012. This will be caused by the reduction of emissions

targets in the current phase.

Emissions targets in Phase II were reduced by the European Commission across almost all the member states. Assuming a recovery of the global economy over the next few years, there will be a shortage of allowances, according to the report.

The deficit will be compounded by the fact that participants such as utility groups can borrow allowances from the next year to meet compliance needs or

€64

The price that Tom Frost predicts carbon will hit by 2012. It is currently at €8.40

to trade. However, this cannot happen between Phases, so there will be no way to borrow allowances between 2012 and 2013.

If any participant has sold additional allowances they will need to cover any shortfall before 2012. The result is expected to be a significant number of distressed buyers in 2011 and 2012. This could result in something similar to a short squeeze, pushing up prices, according to Mr Frost.