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# Tighter European limits set to push up price of carbon emissions

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The value of the global market for trading in carbon emissions could reach $100 billion (£50 billion) this year, according to the president of the International Emissions Trading Association (IETA).

Andrei Marcu, speaking after the introduction of the European Union's new, stricter emissions trading scheme (ETS), said that the 2008 global market was set to exceed 2007's estimated $60 billion to $70 billion figure.

"It's certainly going to increase," said Mr Marcu, who acknowledged that the bulk of the total would come from the ETS, the second phase of which came into effect yesterday.

The first phase was launched in 2005 but was widely dismissed as a failure, primarily because too many permits were granted by member states to individual polluters, leading to a collapse in market prices to as little as €1 (74p) per tonne. The slide undermined the principle of the scheme – to make carbon emissions a meaningful cost for big polluters, thereby encouraging reductions.

The key difference in the second phase is a reduction of between 5 per cent and 10 per cent in the emissions permits granted. Mr Marcu said that he expected the tougher regime to "start delivering some substantive reductions" in carbon emissions.

City analysts believe that it will lead to a big increase in the market price of carbon. Deutsche Bank expects forward prices to rise from the present level of about €23 a tonne to €35. UBS has predicted a rise to €30 a tonne.

Michael Grubb, chief economist at the Carbon Trust, said that the changes represented a "fairly severe" cutback from the previous, regime. "In the old system, the allowances became pretty worthless," he said.

Critics have said that the new scheme is flawed because it will reward big polluters, such as power companies, who will be given permits to cover their emissions free of charge. They can then sell excess permits and keep the profits or pass on the costs to customers through higher energy bills.

The second phase of the scheme is set to run until 2012.