FT.com FINANCIAL TIMES

IN DEPTH

Close

World carbon trading value doubles

Print

By Fiona Harvey in London
Published: May 8 2008 03:02 | Last updated: May 8 2008 03:02

Carbon trading was worth about $64bn last year, after a sharp rise in numbers of transactions in the fledgling market for greenhouse gases, the World Bank reckons.

In its **annual review** of the emissions trading market, it said the value of trades more than doubled from 2006 to 2007. The European Union's emissions trading scheme (EU ETS) made up the bulk of the market, as it has done since its inception in January 2005.

Transactions under the EU ETS nearly doubled, as did the value of carbon permits sold by the scheme.

Last year, 2.1bn EU permits changed hands, against 1.1bn in 2006. The total value of trades was $50bn, against $24bn the previous year.

Under the EU ETS, companies in energy-intensive industries are issued with permits to produce carbon dioxide: if they want to emit more than their quota, they must buy permits from companies with spare permits.

But there was a slowdown in the rate of growth of the rest of the emissions market, which is mainly made up of sales of carbon credits under the United Nation's Kyoto protocol.

About 551m new carbon credits were sold last year, with a value of $7.4bn and 537m credits the previous year, valued at $5.8bn.

The secondary market for UN credits flourished, with 240m sold last year for $5.4bn, compared with 25m for $445m in 2006.

By the Kyoto treaty, rich countries must cut greenhouse gas emissions by an average of 5 per cent, compared with 1990 levels, by 2012. They can make up part of their targets by funding greenhouse gas reduction schemes, such as wind turbines or solar power plants, in poor countries. These projects are awarded credits, each representing a tonne of carbon dioxide avoided, for governments or companies to buy.

There have been problems with this market. Companies dealing in the credits have complained of bureaucratic problems with the UN's issuance processes, which have resulted in delays.

Karan Capoor, senior carbon markets expert at the World Bank and main author of Wednesday's report, said: "The prospects for developing countries benefiting from the carbon market are in question. It would be a shame for the world to lose this momentum now."

Another problem is that the EU is moving to limit the number of credits from developing countries that companies within the EU ETS can count towards their targets.

A further complication is that many investors in developing country projects are cautious about the prospects for the market to be able to continue after 2012. The current provisions of the Kyoto protocol expire in that year. Governments are engaged in talks scheduled to finish late next year. These are intended to forge a successor to the treaty.

"Lack of clarity [about the situation as from] post-2012 is countering growth of markets such as the EU ETS," said Andrew Ertel, chief executive of Evolution Markets, which contributed to the report. "The market is truly at a crossroads as participants appreciate the complexity and risks of carbon trading."