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EU ETS EMISSIONS ESTIMATED TO HAVE RISEN 1.8% IN 2010

Analysis from Bloomberg New Energy Finance shows that emissions from the EU Emissions Trading Scheme increased by an estimated 1.8% in 2010 and will peak in 2015

London, 14 March 2011 – The latest analysis from Bloomberg New Energy Finance suggests that CO2 emissions from facilities covered by the EU Emissions Trading Scheme (EU ETS) increased by 1.8% (to reach 1,918MtCO₂e) in 2010.

This modest growth follows two consecutive years of sharply declining emissions, caused by the deep economic recession. After adjusting for changes in coverage, emissions from EU ETS facilities fell by over 11% in 2009 on 2008 and over 5% in 2008 on 2007. On a like-for-like basis, EU ETS emissions in 2010 are estimated to have been some 15% lower than they were in 2007.

The relatively small increase in emissions in 2010 is the result of lingering effects of the economic downturn, as industrial output remains below pre-recession levels. In addition, the changing electricity market, with renewables becoming more important, has seen weak demand for power generated from coal and gas.

While steel production increased by 26% in 2010, it was the only major sector in the EU ETS to show a rise in output. In contrast, European cement production fell by 5% last year and output from oil refineries dropped by 1%. Overall we calculate that the manufacturing sectors' emissions increased by 5.7% from 2009 to 2010. Nevertheless, European industrial output remains well below the pre-recession heights in all major industrial sectors – compared to 2007 levels, steel output is down by 14%, cement by 33% and refining by 9%.

In the power sector – which accounts for approximately 60% of EU ETS emissions – output from European fossil-fired power stations (coal, lignite, gas, oil) grew by less than 1% in 2010. Although electricity demand rose by 2.5%, this was offset by increases in nuclear power generation (+2%) and renewable generation (+8%). Consequently, power sector emissions went up by just 0.4% in 2010 relative to 2009.

Looking forward, Bloomberg New Energy Finance believes that EU ETS emissions will continue to rise for the next few years, as the economic recovery continues, but will peak in 2015 as the Phase III cap starts to bite and carbon prices rise. Phase III of the EU ETS begins in 2013 and ends in 2020, and will see tighter restrictions on emissions than under the scheme's first two phases.

In the power sector, emissions are forecast to rise by 3.8% in 2011 as higher gas and coal prices incentivise greater output from carbon-intensive lignite plants in Germany and eastern Europe, and output from European hydro plants reverts back to historical averages after an exceptionally active year in 2010.

After the inclusion of aviation in the scheme in 2012, we expect emissions in the EU ETS to peak in 2015 as the growth in air transport and industrial recovery are more than offset by improvements in energy efficiency, new gas plants replacing coal-fired power stations, and an expansion of renewables and nuclear

capacity.

Overall, analysis by Bloomberg New Energy Finance indicates that the EU ETS is well on its way to meeting its 2020 goal of reducing emissions to 21% below 2005 levels. The current market EUA price of just under €16/tCO_{2e} reflects the relative ease with which this 21% target can be achieved within the current environment. This consists of low GDP growth forecasts, attractive economics for new-build gas power stations, sustained political support for renewables and the continued availability of carbon credits from projects outside Europe through the Clean Development Mechanism.

The European Commission publishes in early April each year its verified emissions data from EU ETS businesses for the preceding year. This press release provides our annual forecast of 2010 emissions ahead of the official release in April 2011.

Guy Turner, director of carbon market research at Bloomberg New Energy Finance, commented: "The increase in emissions we estimate for 2010 reflects the continued economic recovery from the depths of the recession in 2008 and 2009. Our analysis indicates that the EU ETS is working and that emissions covered by the scheme will peak in four years' time and go on to hit the EU's 2020 emissions target."

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