Time to embrace carbon trading opportunity

CITY COMMENT
STUART FRASER

REDUCING carbon emissions is a long-standing objective within the European Union for obvious reasons. But, given the current economic climate, policy makers are now stressing the need for the UK to move to a low carbon economy not only to protect the environment but also to foster long-term, sustainable growth to help our country recover from the global financial crisis.

The City's carbon market is a fundamental part of this transition, as it transmits the price signals that allow informed investment decisions to be made. Following a series of specific policy decisions in the 1990s and the subsequent establishment of the European Union Emissions Trading Scheme (EU ETS) in 2005, the EU, and in particular the UK, has been the driving force behind the establishment and evolution of a market-based approach to reducing all greenhouse gases.

And it should come as no surprise that London – the financial capital of Europe and a global centre with a reputation for embracing innovative financial products – is home to the largest emissions trading exchange in the world. With an annual global turnover of $144bn (£93.3bn; 2009 figures), the carbon trading market is now firmly established and is growing rapidly. Even during the recent financial crisis, it defied the odds and exhibited strong growth throughout 2009 with the number of units traded worldwide increasing by 80 per cent.

Understandably, given that it was originally seen as principally a compliance mechanism rather than a standard commodities exchange, there are a number of issues surrounding the infrastructure underpinning the European Emissions Trading Scheme – a lack of legal certainty as to the status of emissions units, operational risks in accessing registries and performing transfers and limited facilities for Deliver Versus Payment (DVP) settlement of emissions units – that must be resolved as it continues to grow in both size and value.

With significant changes due to be introduced in 2012, in particular the introduction of a common European auction system and a single registry, it is imperative that we get a handle on these issues sooner rather than later so that the European Carbon Market adheres to the best practice recommendations that guide other financial securities markets.

That is why the City of London Corporation has today published the Post-Trade Infrastructure for Carbon Emissions Trading report, authored by Bourse Consult. The report provides vital recommendations for future infrastructure development in order to help policy makers and industry insiders at both a domestic and European level provide certainty and stability as this emerging and rapidly growing market continues to mature.

It is only right that the City should take the lead in developing the post-trade infrastructure – ideally at an EU level, but at a domestic level if necessary – needed to support a modern, efficient and open carbon emissions market in the UK, in Europe and across the world. In so doing, we will help the UK financial services industry prove its worth not only as a generator of revenue but as a force for good within our wider society.

Stuart Fraser is the policy chairman at the City of London Corporation.

NEWS | IN BRIEF

Asprey boss leaves luxury jeweller
The chief executive of Asprey, jeweller to the Royal Family, is understood to have quit the company as it undergoes a turnaround process. Robert Procop is believed to have left after two years with the Bond Street retailer, which was rescued from insolvency in 2006 by investment houses Sciens Capital and Plainfield Capital. Procop joined Asprey to lead it through a transitional phase in its history and his contract is now understood to have ended.

Russia prepares for giant sale of assets

WORLD ECONOMY
BY HARRY BANKS

Russian Prime Minister Vladimir Putin is believed to have approved the asset sale

RUSSIA is understood to be planning its biggest sell-off of state assets since the early 1990s as it seeks to raise over $29bn (£18.8bn) to plug budget gaps over the next three years.

According to finance ministry sources quoted by Reuters, the plan to sell minority stakes in 10 major companies in 2011-2013 had been discussed and approved at a preliminary meeting chaired by Prime Minister Vladimir Putin.

The sales would include 27.1 per cent in monopoly state oil pipeline Transneft, 24.16 per cent of Russia's largest oil producer Rosneft, 24.5 per cent of number two bank VTB, 9.3 per cent of largest lender Sberbank and 25 per cent minus one share of rail monopoly RZhD.

Russia wants to cut its budget deficit to 4 per cent of GDP in 2011 and 2.9 per cent in 2012 from around 5 per cent – or $80bn – this year, but a presidential election in 2012 has put pressure on the government to keep social spending high.

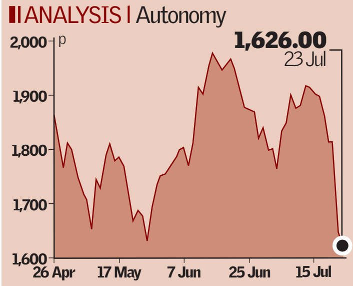
"The finance ministry has made proposals on possible privatisations in 2011-2013, which will allow [us] to collect some 300 billion roubles (£6.4bn) a year," one of the sources told Reuters.

"The biggest companies will be up for sale in such a way that the government keeps controlling stakes," he added. "The proposals were reviewed and judged realistic."

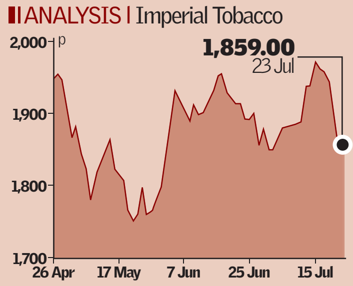
The proposals see Russia reducing its stakes in most of the companies to 50 per cent plus one share, which allows the government to still exercise full control over the decision-making process.

BEST OF THE BROKERS

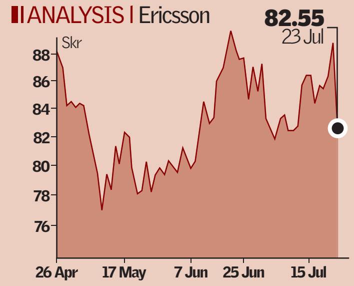
ANALYSIS | Autonomy



ANALYSIS | Imperial Tobacco



ANALYSIS | Ericsson



AUTONOMY
Nomura gives Autonomy a "buy" rating and said that although it is unlikely to see a clean fourth quarter, it still believes the group can achieve its full year guidance. Nomura said it registered management's comments, highlighting that 50 per cent of the company's business is operating in "decoupled" markets.

IMPERIAL TOBACCO
Citigroup said that the overall shape of trading for Imperial Tobacco remains very similar to the last 18 months, with strong volume trends in the high margin countries and strong pricing, partly offset by negative mix and very weak volumes in Spain and East Europe. Citi gives the group a "buy".

ERICSSON
Standard & Poor's Equity Research (S&P) significantly reduces its recommendation of Ericsson from "sell" to "strong sell" after the group's second quarter results fell short of its below-consensus estimates for revenues, adjusted operating income and adjusted earnings per share.

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