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Barclays Cuts Buying in Forward Carbon Markets

By Mathew Carr - Jan 31, 2011

[Barclays Plc](#)'s investment bank stopped buying carbon-permit forwards and some futures from certain customers after reported thefts roiled the market.

[Barclays Capital](#) advised customers to open accounts in the U.K. and keep all their emission allowances there, Louis Redshaw, head of environmental markets in London, said today in a phone and e-mail interview. Security there is better than in other European countries, he said.

"It is likely that you will get your European Union allowances back if they are stolen," Redshaw said. Stolen permits need to be weeded out "before the market can be trusted again," he said.

Computer-hacking attacks led the EU's carbon regulator on Jan. 19 to suspend the registries in 30 countries that track carbon permits, triggering a 12-day halt on spot trading in the world's largest emissions market. Volume was 80 billion euros last year, according to Bloomberg New Energy Finance. The European Federation of Energy traders said the carbon market may become "untenable."

Still, EU futures for December rose 1.5 percent to 14.98 euros in [London](#) on speculation that the market turmoil may lead to a short of permits in the EU, according to OTC Europe LLP.

On Jan. 21, Barclays said it stopped most spot carbon trading last month after Holcim Ltd., a Swiss cement maker, lost 1.6 million tons of EU permits worth about 23.6 million euros (\$32 million) to thieves. Value-added [tax fraud](#) also boosted trading in the market the past two years, according to Europol, the law enforcement agency of the EU.

'True Legitimacy'

"True legitimacy can only return to the market when value-added tax fraud is completely stopped and money-laundering is stopped," Redshaw said.

Barclays has stopped buying over-the-counter forward contract "from anyone but end-users," he said. That means the bank won't buy EU allowances or Certified Emission Reductions from the [United Nations](#) directly from any financial institutions or intermediaries, he said.

"And I will not currently be a net buyer on exchanges that result in physical delivery," Redshaw said. "You don't know what you are going to get from them, either."

'Huge Loss'

Security is a small part of the problem, he said. "The rest of the problem is that legal rights in relation to stolen goods need to be changed," he said. "An EU allowance needs to be redefined so that an unwitting buyer doesn't have to give it back and face a huge loss."

East European sellers needing to raise cash may be kept from the market because of the halt in their national registries, curbing supply, said Brett Genus, a London-based broker at OTC Europe LLP.

"The pot is stewing," Genus said today by e-mail. An increase in buying by utilities in the next month or so "could open up a supply imbalance in the market, enticing a squeeze." He has a price target of 15.68 euros a ton, he said.

ICE handled 7.6 million tons of the benchmark December 2011 contract today, down 1.5 percent on Jan. 28.

Based on industry service fees, a bank may need to handle about 11.5 million tons of legitimate allowances to make up for the loss incurred on 10,000 tons of allowances that had to be refunded to the original owner because they were stolen, according to figures cited by Redshaw.

"If we don't know what we're going to receive, it's not just the [spot market](#) that's impacted," Redshaw said.

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