

Kyoto CO2 market on track after software deal -UN

Tue Aug 15, 2006

(Adds contract value, background) By Gerard Wynn

LONDON, Aug 15 (Reuters) - The United Nations climate change body has awarded a key software contract that will allow trading of pollution cuts between rich and poor countries to kick off on time in April 2007, it said on Tuesday.

Trading under the Kyoto pact of such cuts, called carbon credits, is meant to help rich countries meet their greenhouse gas emissions targets over 2008-12, while funnelling investment into clean energy projects in poorer nations.

Some traders and investors in the world's burgeoning global carbon market had expected the software award months earlier and the delay had aroused fears of a late start to full trading.

"Awarding this contract is a significant milestone in finalising the systems to make carbon trading under the Kyoto Protocol a reality," said Richard Kinley, acting head of the U.N.'s Climate Change Secretariat.

The contract went to Trasys SA, an information technology company based in Belgium, which has subcontracted London-listed to maintain the software system's day-to-day operation.

The contract was worth around \$10 million up to 2012, and could be worth more afterwards depending on how the carbon market develops, a source close to the deal said.

Trasys SA developed similar software for the European carbon market -- now in its second year -- and that experience is seen helping the U.N. meet its April deadline.

Completion of the software contract will enable full carbon trading under Kyoto through a trading mechanism called the International Transaction Log (ITL).

Trading of Kyoto credits -- called Certified Emission Reductions (CERs) -- has already started and was worth \$2.5 billion in 2005, according to the World Bank, compared to \$8.2 billion on the EU market, which is fully operational.

But completion of those Kyoto trades depends on the ITL getting up and running.

Kyoto projects currently in the pipeline could generate pollution cuts equivalent to the annual emissions of Germany, the U.N. website shows, although some market players cast doubt on that amount.

DEMAND

Some of the keenest customers for Kyoto carbon credits will be countries lagging their Kyoto goals, notably Japan, Italy and Spain. Canada has said it cannot meet its target.

In addition, European companies included in the EU carbon market -- paper, metal and

cement makers, and utilities and oil and gas companies -- can use Kyoto credits to save or even make money.

The EU market works by giving these companies for free a certain quota of carbon credits up to their emissions limit. If they exceed that limit they have to buy extra credits, and if they undercut it they can sell the surplus on the market.

Kyoto credits are cheaper than EU credits -- reflecting differences in risk -- and so EU companies can potentially profit by using these instead to meet their targets.