The Global Carbon Market: update and perspectives

By
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• Supply
• Demand
• Prices
• Final remarks
Supply
CDM supply

PDDs: 140 849 ktCO2e
Risk adjusted: 86 003 ktCO2e
CDM supply – project stages

- PDD: 140,849 ktCO2e
- Public validation start: 110,395 ktCO2e
- Submitted for registration: 51,035 ktCO2e
- Project registered: 30,727 ktCO2e
- CER/ERUs issued: 6,058 ktCO2e

Years: 2000 to 2012

kt CO2e
# CDM projects, end 04 v end 05

Source: Point Carbon
Demand
What is planned?

- Impact of policies, measures, procurement
- Still considerable final gap: +2 Gt aggregate for Kyoto period

Source: Point Carbon
• CER-AAU-Track I JI interplay
• EU ETS National Allocation Plans 08-12
  – Distribution of reduction responsibilities govt vs companies
  – Tightness
• Purchasing programmes JPN, CAN, EU25
• Domestic emissions trading CAN, JPN & role of CDM/JI/AAUs
Credit demand as % of Kyoto gap

Source: Point Carbon
Prices
• Governments and multilaterals:
  – Take on major project- and CDM-related risks
  – Buy forward streams, even beyond 2012
• Companies:
  – Risk-averse – and willing to pay to avoid risk
  – EU: exposed to EU ETS prices
  – More focused on short-term profits and hedging opportunities (e.g. within EU ETS Phase I)
• Differing deals
  – Direct project investment and/or equity involvement vs purchase of CERs
  – Forward deal signed on the basis of project idea note vs purchase of issued CERs
1) Seller does its utmost to deliver a non-firm volume; buyer guarantees to buy if seller delivers

2) Seller does its utmost to deliver a non-firm volume, buyer guarantees to buy if seller delivers
   • Preconditions

3) Seller guarantees to deliver a firm volume, buyer guarantees to buy if seller delivers
   • Preconditions
   • Strong *force majeure* clause

4) Seller guarantees to deliver a firm volume, buyer guarantees to buy if seller delivers
## Closing prices February 2006

<table>
<thead>
<tr>
<th>Contract category</th>
<th>CDM (€/t)</th>
<th>JI (€/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VERs in case of no CERs/ERUs</td>
<td>4-5</td>
<td>3-5</td>
</tr>
<tr>
<td>2. Standard off take, non-firm volume</td>
<td>6-12</td>
<td>4-6</td>
</tr>
<tr>
<td>3. Firm volume, with preconditions</td>
<td>10-16</td>
<td>6-9</td>
</tr>
<tr>
<td>4. Guaranteed delivery, no preconditions</td>
<td>16-18</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Sellers demand the same price for a CER as for an EU allowance (EUA), but

- EUAs sold spot, with immediate delivery
- CERs sold forward – uncertainty on 08-12 prices
- Not complete certainty on use of CERs for compliance in EU ETS Phase I
- Few investors and traders understand CDM
- Few CERs issued - no experience with trading of issued CERs
• Annex I buyers don’t have established trading relationship with sellers
  – Few CER sellers (good or bad) have a credit rating

• Many sellers have assets that have numerous inherent risks
  – Project has no host country approval, no approved methodology, and/or is not registered by CDM EB

• Delivery often linked to actual reductions a project yields
  – Volumetric risk could be considerable
• **CER prices rarely follow EUAs**, due to uncertainties around the future CER price

• Many contracts assume a **reference price** will emerge within or in 2007 (it just did!)
  – In some cases prices are set at a discount to EUA prices at the time of delivery
  – So far non-standardised
  – 65-80%, but up to 97% seen
• Chinese govt in effect controls prices at 6-8€
  – Demands clarity on price before approval
• Latin American and Indian offers 1-2€ above this
• Indian market struggles with bad reputation
  – Sellers want EUA prices
  – Average project quality said to be lower than China, Latin America
Why buy/sell post-2012 CERs?

- A UN agency has sanctioned numerous projects with crediting periods beyond 2012
- The Montreal conference agreed to start negotiating post-2012 commitments
- Project-based mechanisms likely to remain post-2012
  - Buyers want flexibility and struggle to reduce own emissions
- EU has signalled commitment to keep CDM/JI link post-2012
- CDM is arguably legally separate from Kyoto (as is EU ETS)
  - Prompt start regardless of Kyoto entry into force
Final remarks

- Supply ramping up: Almost 3000 CDM/JI projects around
- Big picture: Non-CO2 short-term, renewables coming
- Kyoto supply doesn’t match demand unless significant part of excess AAUs sold
- Prices on the increase, but differ according to risk distribution
- 2005: More CERs/ERUs contracted than EU allowances
  - Mostly primary forward deals, not financial transactions
Gracias por su atención!

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• Ahora usted puede leer la publicación mensual de Point Carbon que analiza los mercados de MDL y IC – en español!

http://www.pointcarbon.com