

Update on the Carbon Market and Business Perspective on the Kyoto Mechanisms

5th session of AWG
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Bangkok

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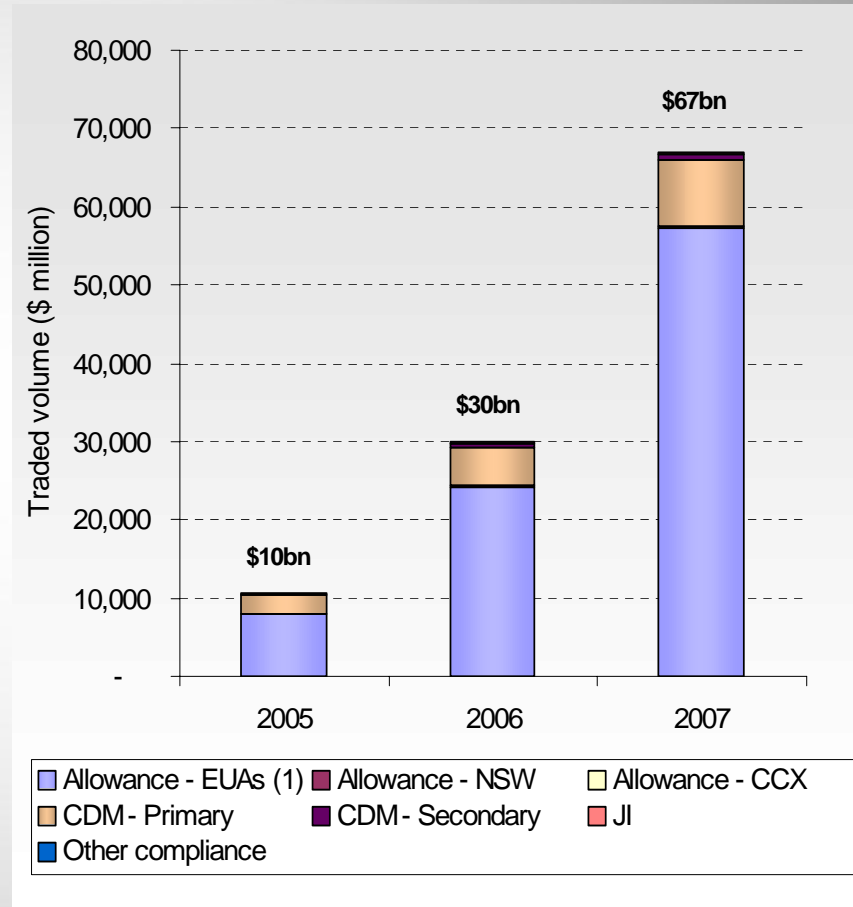
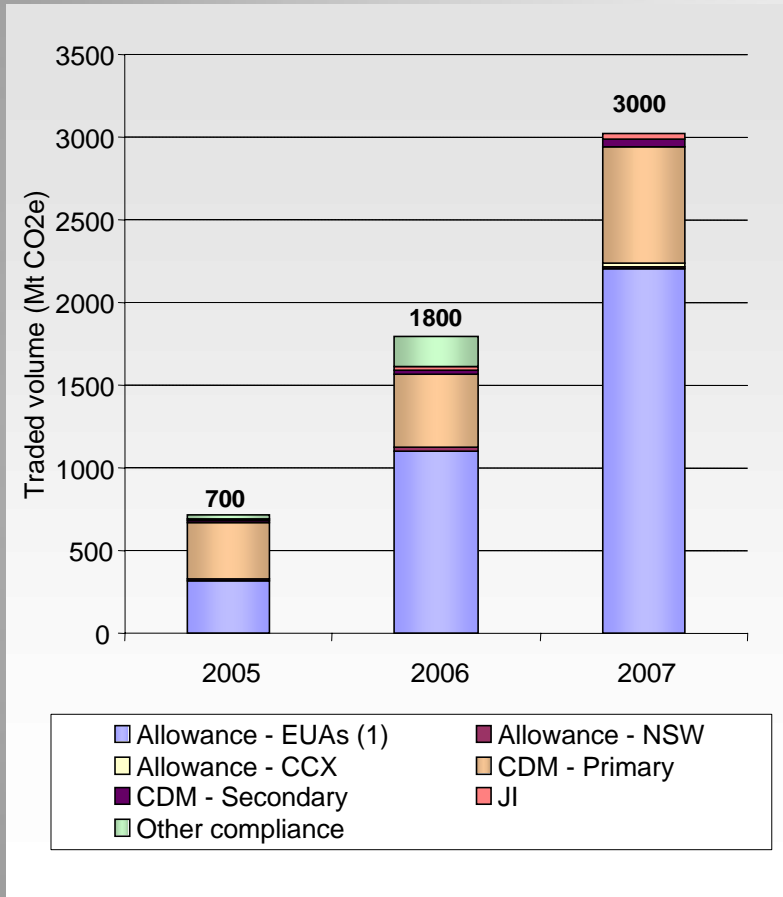


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Update on Carbon Market Activities

Total World Volumes

World volume in 2007 = 3bntCO2. 66% of this is EUA, 31% is primary CERs.

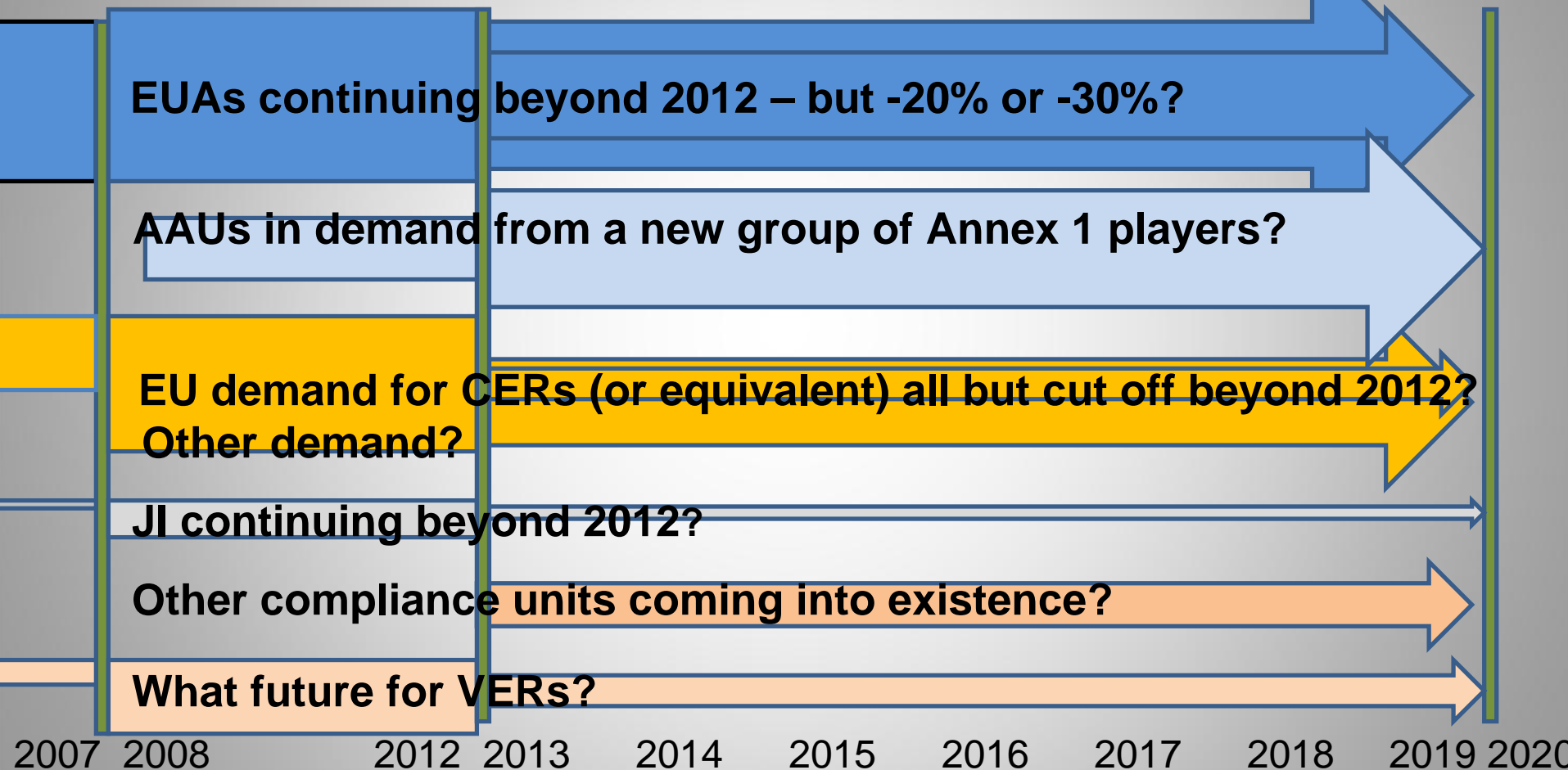


Source: New Carbon Finance



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2008-2020: Forecasting a Global Carbon Market (not to scale!)



Participants' views on effectiveness of the Carbon Market

- 50% of surveyed market participants find the Carbon Market and effective instrument in reducing emissions and helping to address climate change
- 75% of surveyed EU ETS participants say that the price of carbon is a relevant parameter in investment decisions

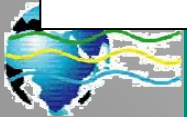
Source: 2nd IETA GHG Market Sentiment Survey & Point Carbon: Carbon 2008



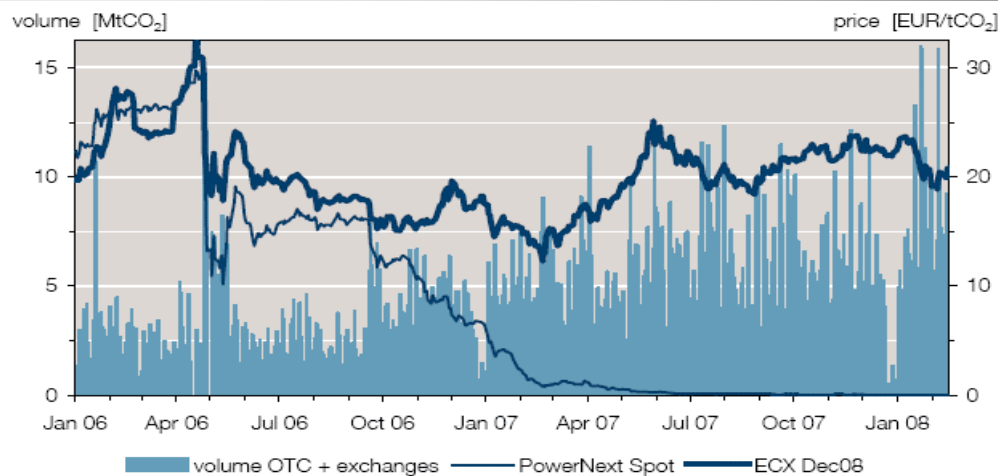
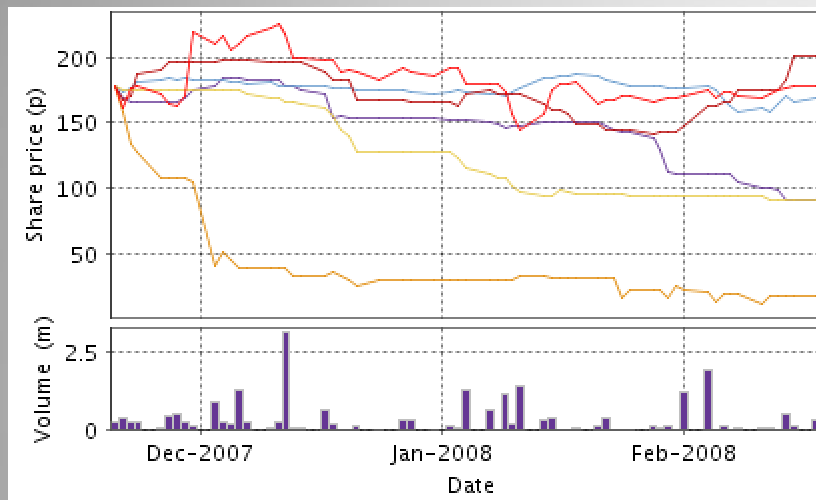
Voluntary Market

- Relatively small market size:
 - Estimates for 2007 are that 75 Mt have been traded up from < 20 Mt in 2006
- Less transparent than regulated market
- Often seen as alternative to the CDM for very small project activities
- Around 10 different standards
- Meeting a market need?

Source: IETA & Point Carbon: Carbon 2008



Emissions Trading today: an astonishing achievement and still evolving rapidly



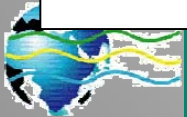
- multiple exchanges – Nymex entry on 17 March
- exchange trading for CERs beginning – ECX 17 March
- carbon indices introduced by Merrill Lynch and SocGen
- 2013, 2014 EUA Futures and EUA/AAU swaps being offered by ECX



But continuing concerns over the Project-based Mechanisms

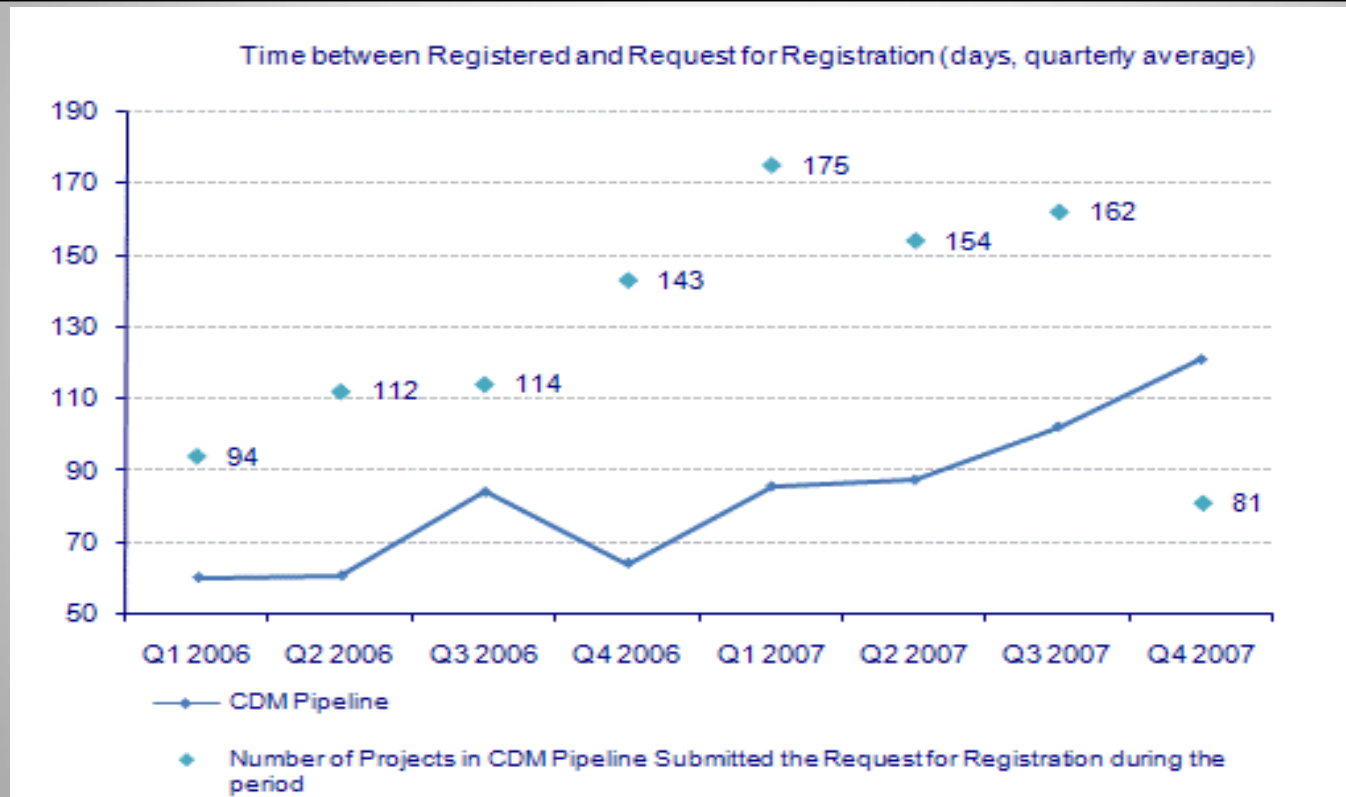
Lack of effectiveness due to:

- Work overload: increasing number of registration/issuance requests and reviews, which lead to delays in the registration and issuance process
- Integrity of CDM – balance between environmental integrity and scale
- Additionality: strong focus on financial additionality
- Transparency and communication between CDM EB and Project Proponents
- Lack of Guidance to DOEs, what EB expects from them in terms of quality of their work
- Irregularities regarding the responsibilities of the various bodies working under the CDM EB, in particular that of the Registration & Issuance Team and the Secretariat in relation to completeness checks

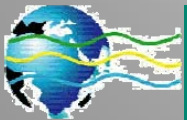


Bottleneck within the Process

- Time for approval of CDM projects increases while more projects enter the pipeline



Source: UNEP
Risoe

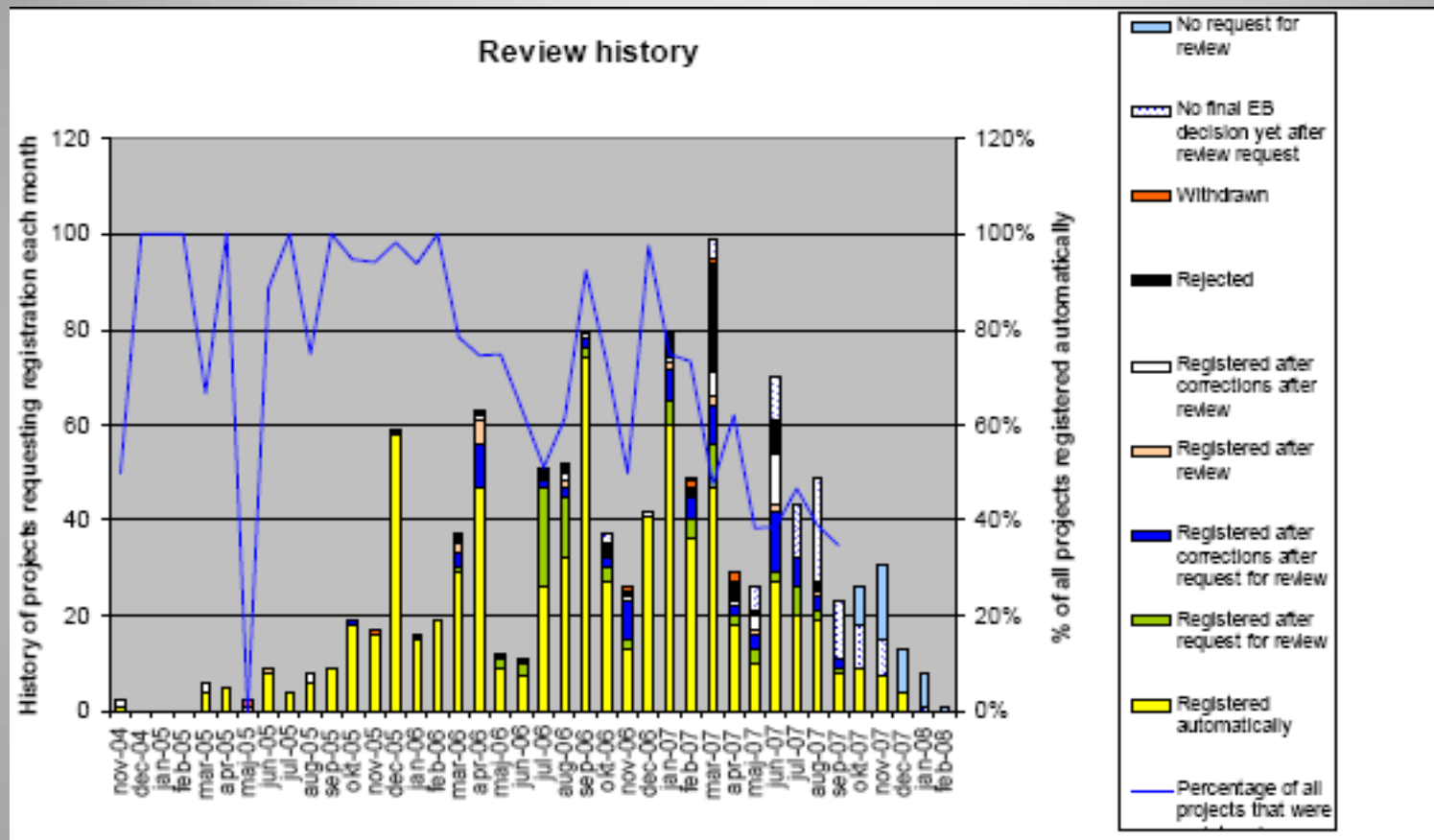


What the Private Sector Needs

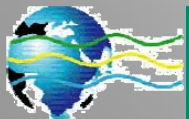
- Certainty & clear guidance
- Precedent-setting – move away from learning-by-doing approach
- Additionality – flexibility to use the tool or alternative measure to demonstrate additionality, focus too much on financial additionality
- Capacity to deal with caseload – increasing number of projects entering the pipeline raises questions about sustainability of project-based registration approach instead of benchmark or programme approaches
- Review of the CDM – increasing commoditisation demands evaluation by external consultant of business model for CDM approval



CDMs beginning to fall away: supply or demand problems?



Source: UNEP Risoe, March 2008



Danger Signs: Negative Perceptions of the CDM

- Deadweight: WWF report — *Is the CDM fulfilling its environmental and sustainable development objectives?* — suggests that 20% of emission reductions certified under the mechanism may have happened even without CDM financing.
- Attacks on project types: "The CDM is blindly subsidizing the destruction of rivers, while the dams it supports are helping destroy the environmental integrity of the CDM," (Barbara Haya, International Rivers)
- Bad press in North America influencing scheme design: the "Corrupt Development Mechanism" or the "China Development Mechanism" : forthcoming Stanford reports

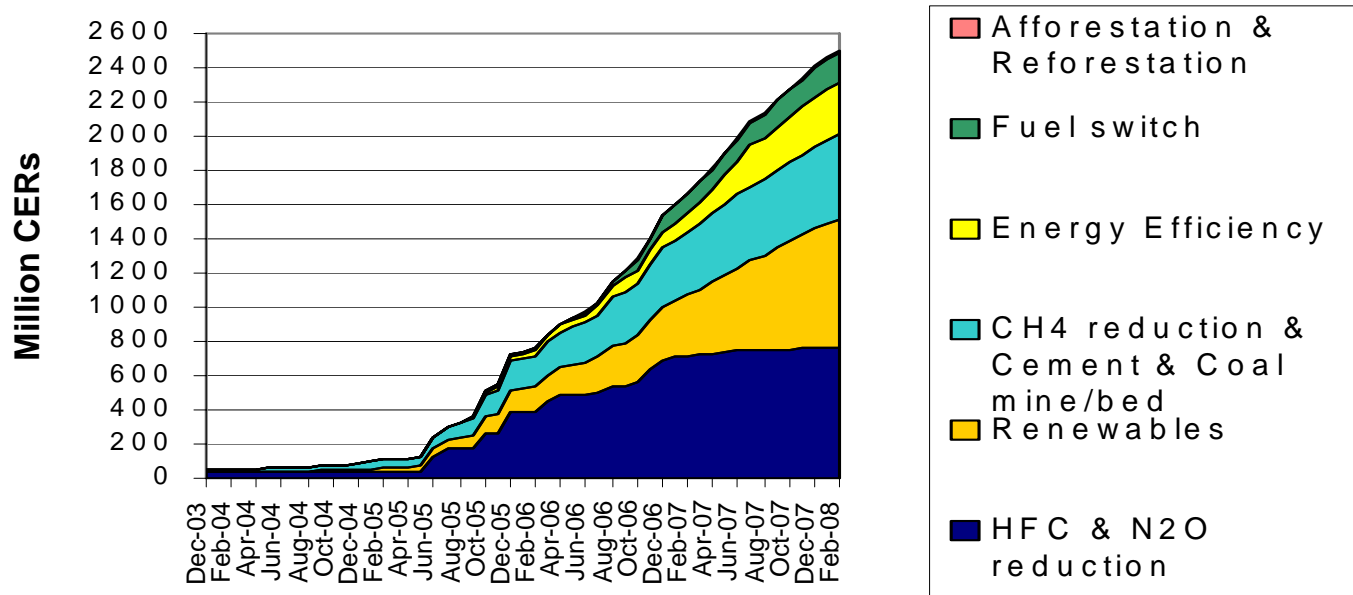
Source: WWF, International Rivers



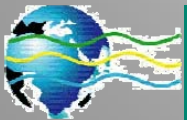
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Development of scheme types: nothing to be ashamed of

Growth of total expected accumulated 2012 CERs



Source: UNEP Risoe, March 2008



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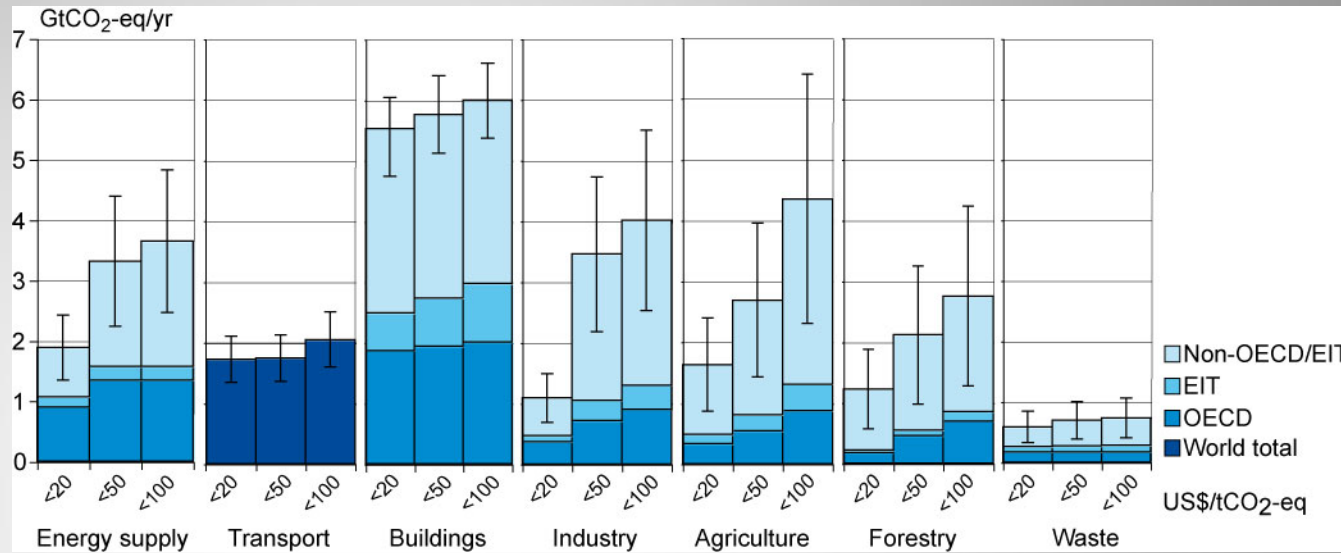
Environmental integrity – private sector perspective

- Don't forget DOEs pre-filter projects
 - At a rejection rate of 12% of all projects in the pipeline, compared to 2% rejected by the Board
- Don't expect the private sector to enforce environmental integrity: rather to find the maximum emission reduction within rules and guidelines set by public sector
- Need for clear guidelines, e.g. on eligibility of large hydro projects
- Uncertainty about scope may offer extra profit for large risk appetites, but is no way to maximise either investment or emission reduction



The Common-Sense Economics of including international mechanisms or offsets

- the opportunities are there
- the impact is the same
- the prices are lower
- so the cost is lower
- the market appears to work



For more information:

International Emissions Trading Association

www.ieta.org

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Carbon Expo 2008

May 7 - 9

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