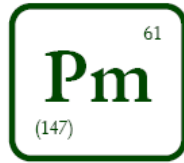


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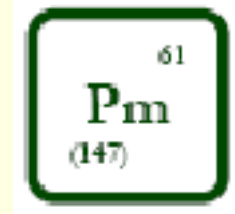
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Current Trends in the Carbon Market

Robbie Louw
26-27 June 2007

Background



State and Trends of the Carbon Market 2007

Washington, D.C. - May 2007

The findings and opinions expressed in this paper are the sole responsibility of the authors. They do not necessarily reflect the views of the World Bank or of any of the Participants in the Carbon Funds managed by the World Bank.

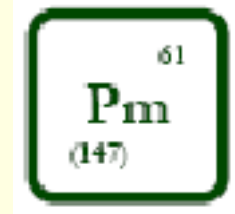
Funded by World Bank Institute - CF Assist

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the International Emissions Trading Association

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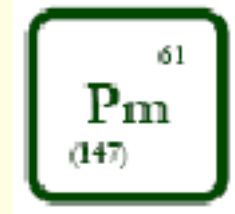


Carbon market



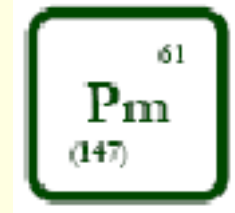
- Last year the need for future action to reduce the risks of climate change has figured prominently on the international agenda
- A variety of approaches are being implemented to reduce carbon emissions.
 - These range from efforts by individuals and firms to reduce their climate footprints to initiatives at city, state, regional and global levels.
- Among these are the commitments of governments to reduce emissions
- The carbon markets are a prominent part of the response to climate change and have an opportunity to demonstrate that they can be a credible and central tool for future climate mitigation.

Market Structures



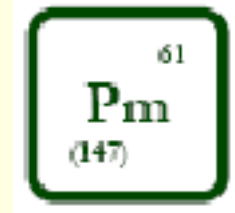
- Carbon transaction – purchase contract
- Payment in cash, equity, debt, in-kind contributions
- Two categories
 - Allowance based transactions
 - Project based transactions

Segments of the carbon market



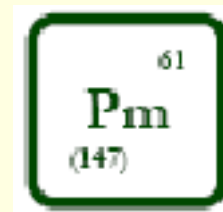
- Currently a fragmented market
 - Encompassing both allowance and project based assets
 - Co exist with different degrees of interconnectivity
- Complex and fast moving
- Influenced by
 - Development of policy and regulations
 - Market fundamentals

Main compliance buyers



- European private buyers interested in the EU ETS,
- Government buyers interested in Kyoto compliance,
- Japanese companies with voluntary commitments under the Keidanren Voluntary Action Plan,
- U.S. multinationals operating in Japan and Europe or preparing in advance for the Regional Greenhouse Gas Initiative (RGGI) in the Northeastern U.S. States or the California Assembly Act 32 establishing a state-wide cap on emissions,
- Power retailers and large consumers regulated by the New South Wales (NSW) market in Australia,
- and North American companies with voluntary but legally binding compliance objectives in the Chicago Climate Exchange (CCX).

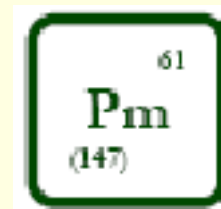
Allowance based markets



Annual volumes and values traded in the main allowance markets

	2005		2006	
	Volume (MtCO ₂ e)	Value (MUS\$)	Volume (MtCO ₂ e)	Value (MUS\$)
EU ETS	321	7,908	1,101	24,357
New South Wales	6	59	20	225
Chicago Climate Exchange	1	3	10	38
UK ETS	0	1	na	na
TOTAL	328	7,971	1,131	24,620

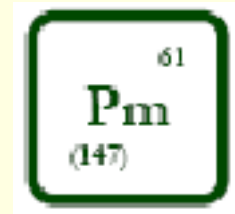
Project based markets



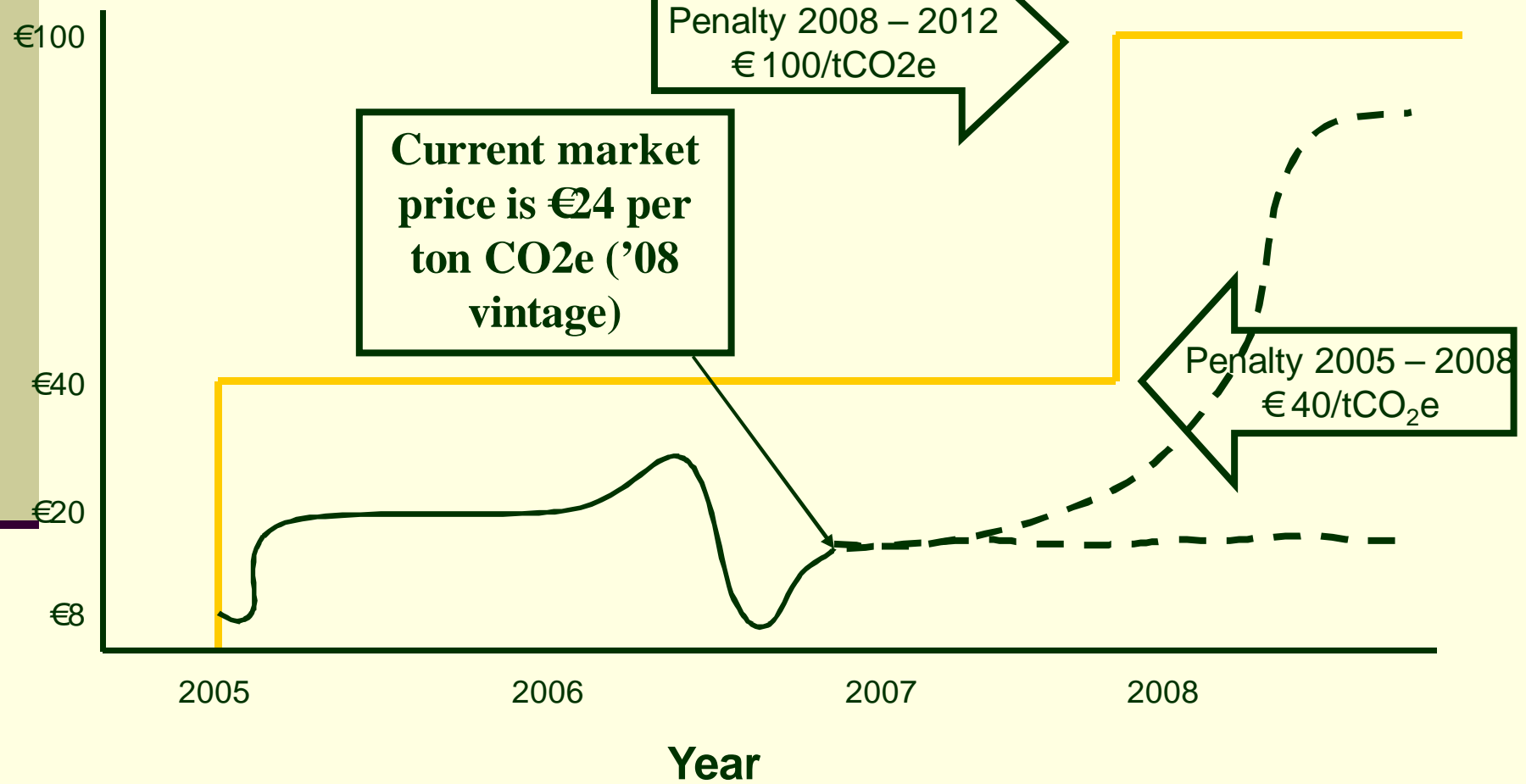
- Annual volumes and values for project based transactions

	2005		2006	
	Volume (MtCO ₂ e)	Value (MUS\$)	Volume (MtCO ₂ e)	Value (MUS\$)
Compliance	382	2,894	508	5,477
of which				
Primary CDM	341	2,417	450	4,813
Secondary CDM	10	221	25	444
JI	11	68	16	141
other	20	187	17	79
Voluntary market	6	44	10+	100
TOTAL	388	2,937	518	5,577

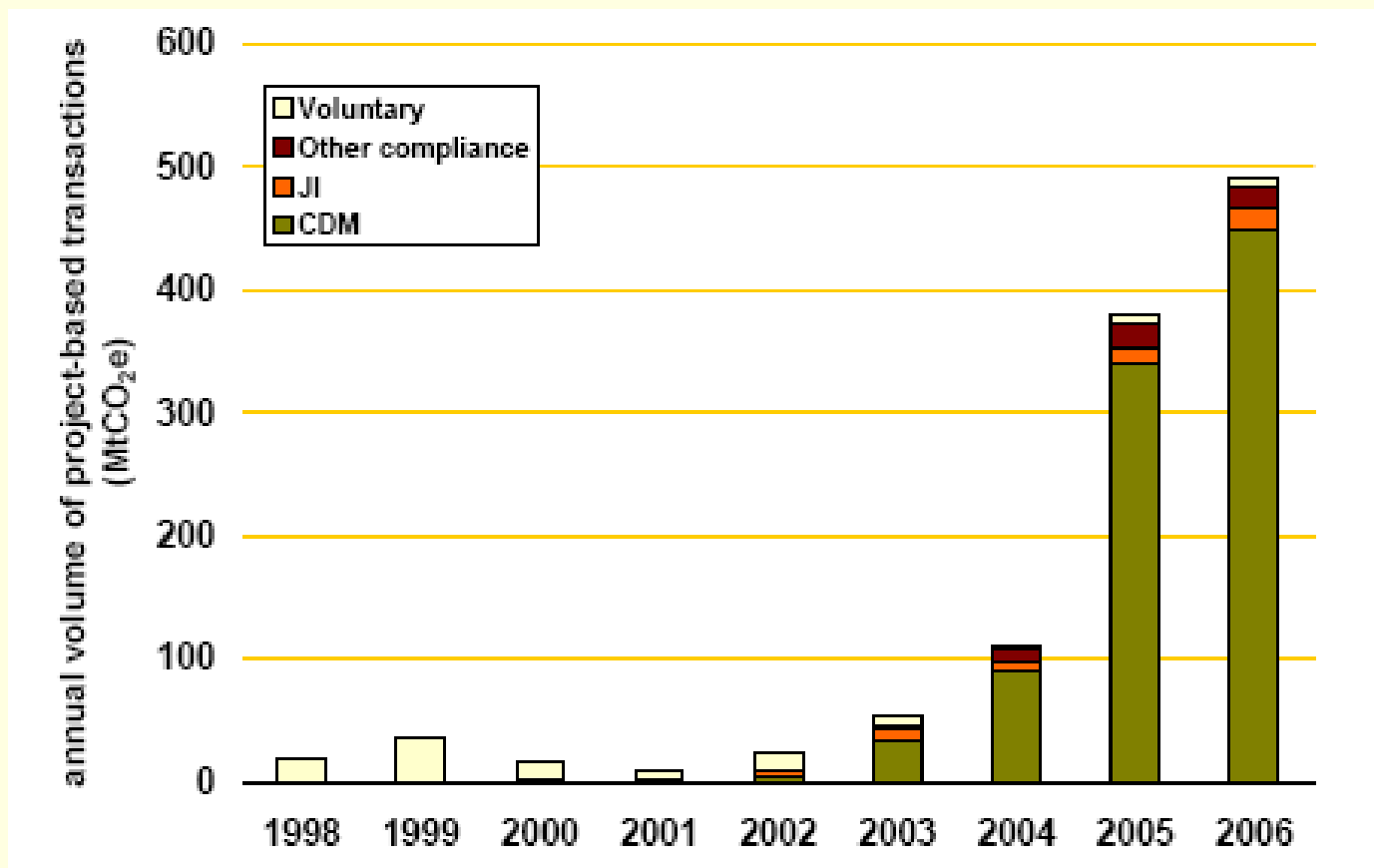
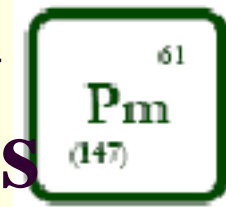
The EU ETS



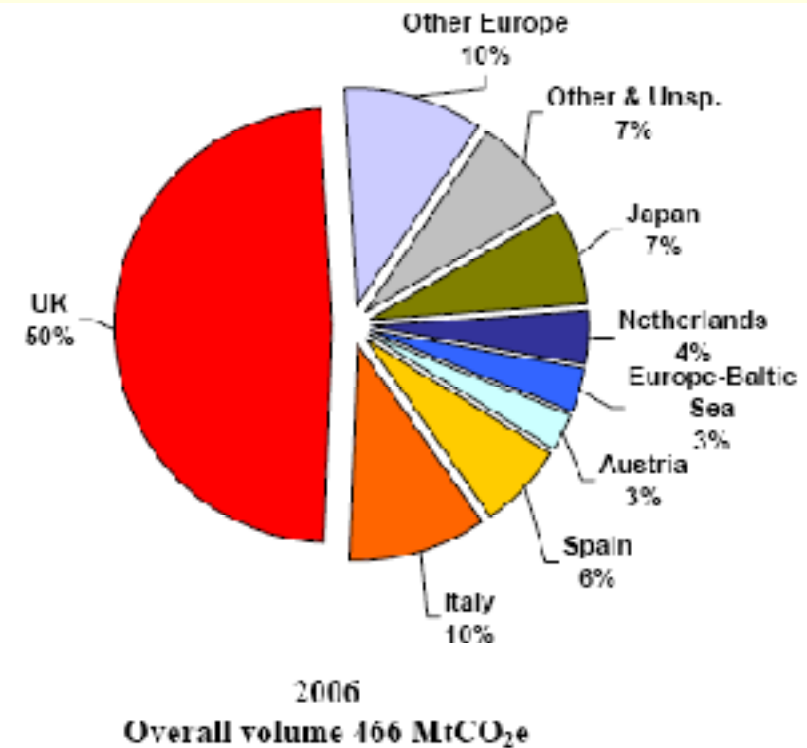
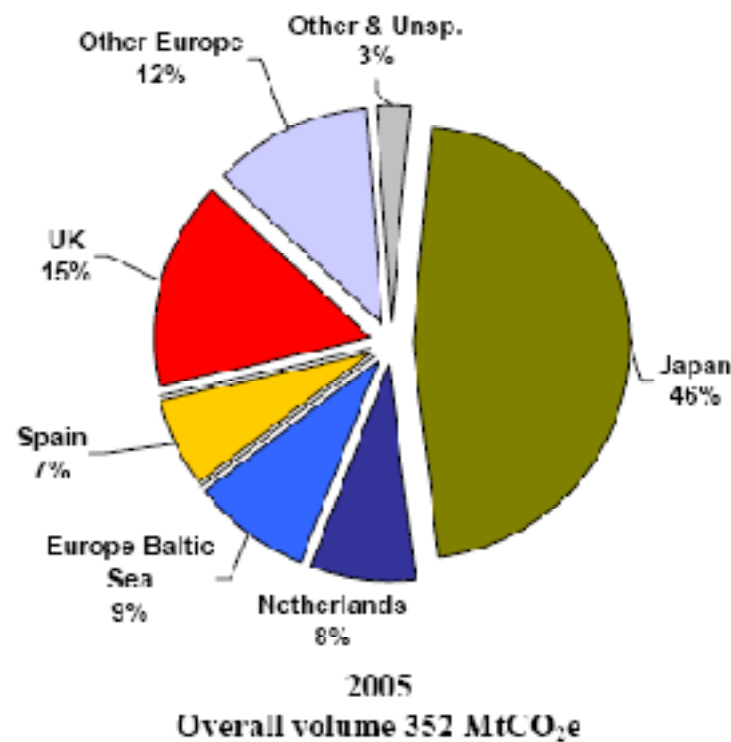
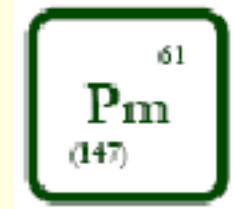
Carbon Price
€per ton CO₂e



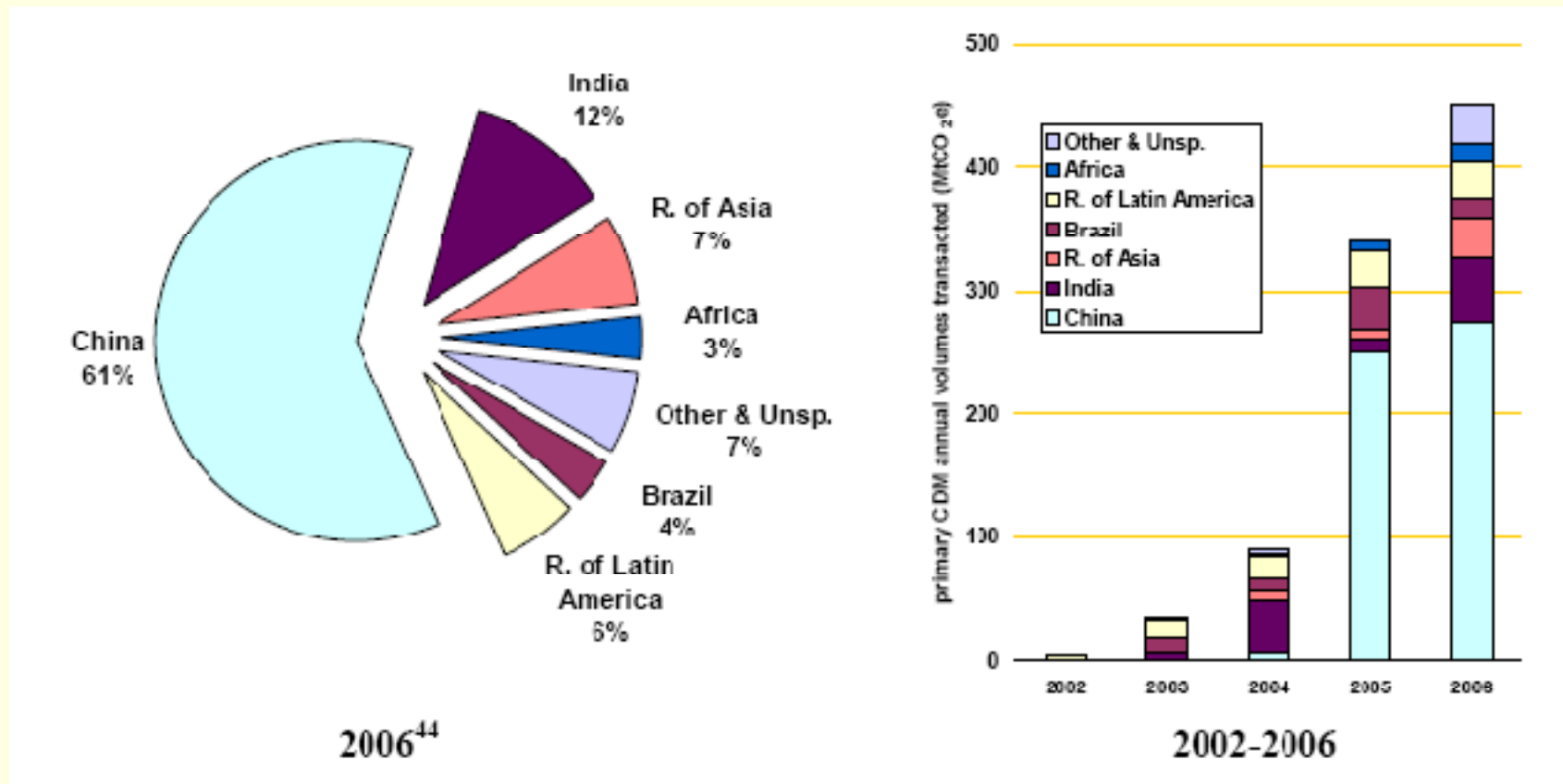
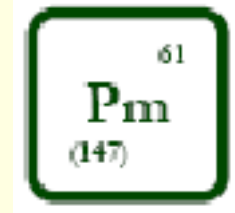
Annual Volumes of Project-based Emission Reductions Transactions



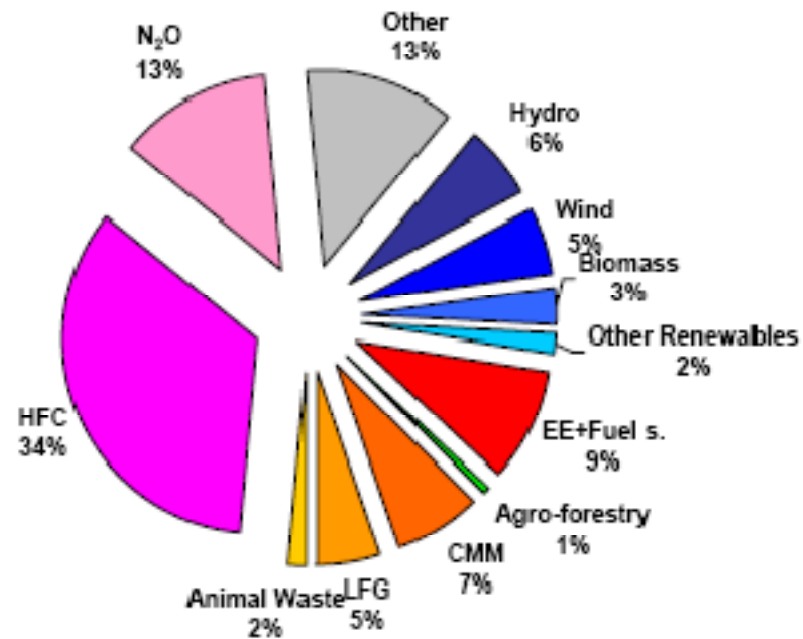
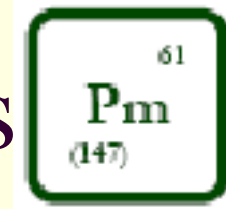
Primary CDM &JI buyers



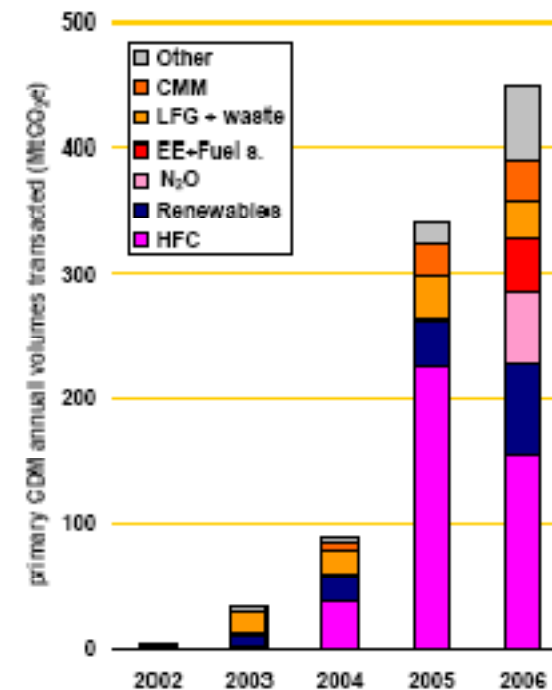
Location of CDM projects



Asset classes of CDM projects

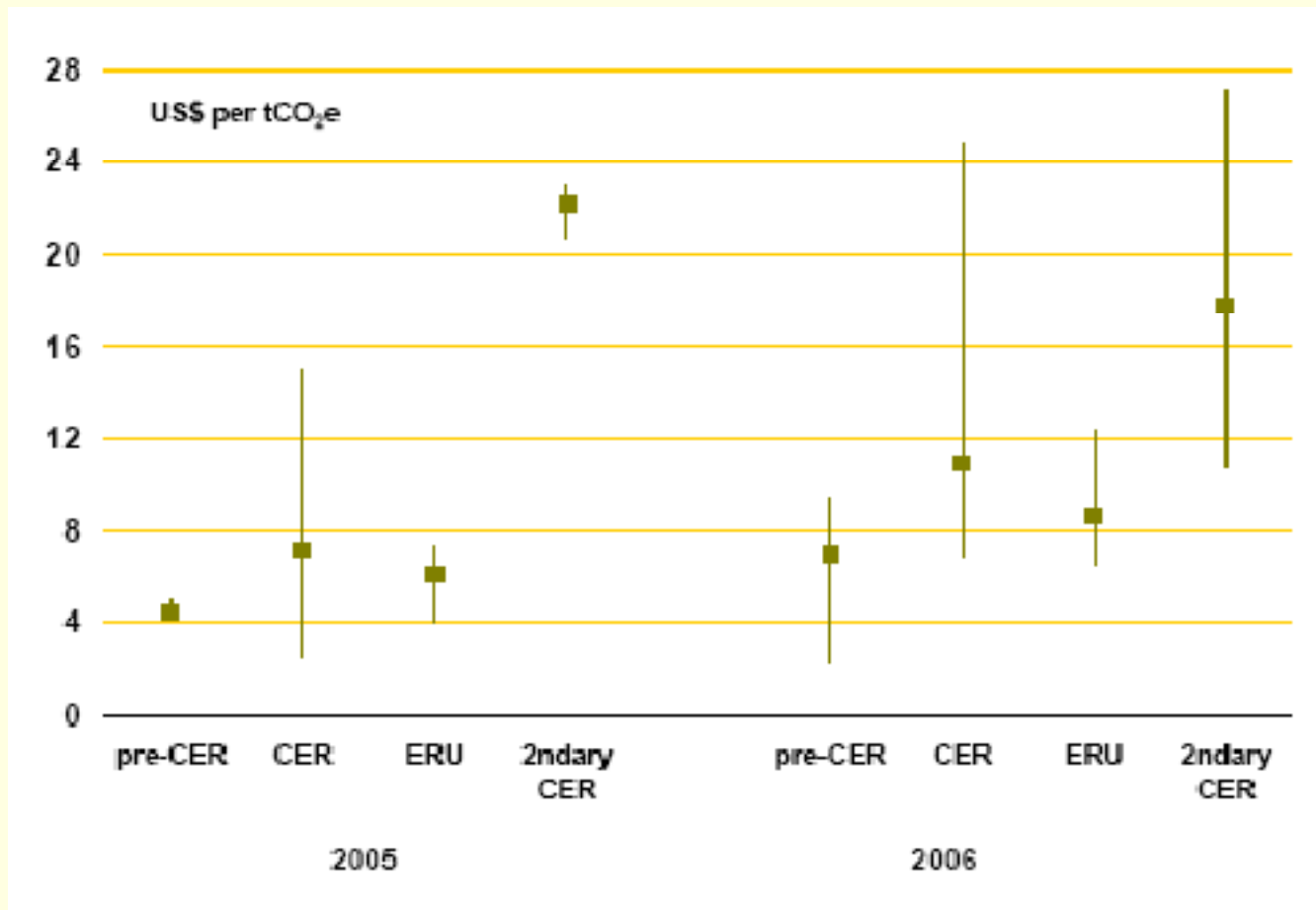
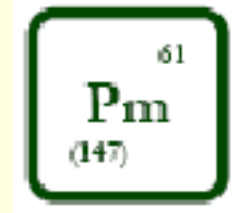


As a share of volumes contracted in 2006

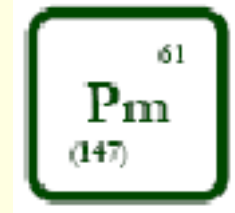


2002-2006

Observed prices for CER's

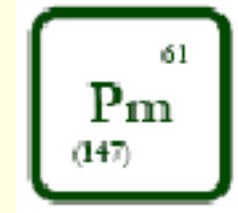


Demand from other fronts



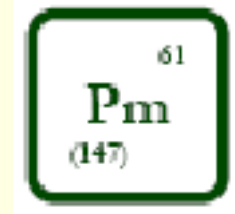
- North America
- Voluntary markets
 - The growth of the voluntary markets is a welcome indicator of the appetite that ordinary individuals and companies across the world have to take personal responsibility for the problem of climate change.
 - But ,their rapid, uncontrolled growth is also a reflection on how much more their governments could be doing to reduce emissions.

Traded offsets



- Integrity has the biggest influence on price and is often measured across one or more of the following parameters:
 - the additionality of the project (making sure the project is not claiming reductions that would already occur),
 - the actual existence of the emission reductions (making sure the project activity is monitored and that emissions reduction claimed are verified),
 - the exclusion of double-counting (making sure the same emission reductions are not sold to several buyers at the same time),
 - the permanence of the reduction (making sure the emission reductions are not temporary) and the existence of community benefits.

Beyond the carbon market



- The market does not set the level of a cap, policy-makers do.
- The creation of value– in a new market should not mask the fact that there are costs for mitigation.
- The integrity of a market rests on the clarity and simplicity of its rules, the transparency of information and on institutions that guard against fraud and manipulation
- “cap-and-trade” or emissions trading does not work in all sectors globally eg housing and transport
- The solution to the climate change problem will require sustained effort by all of us

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Questions