

# The Global Carbon Market: update and perspectives

**By**

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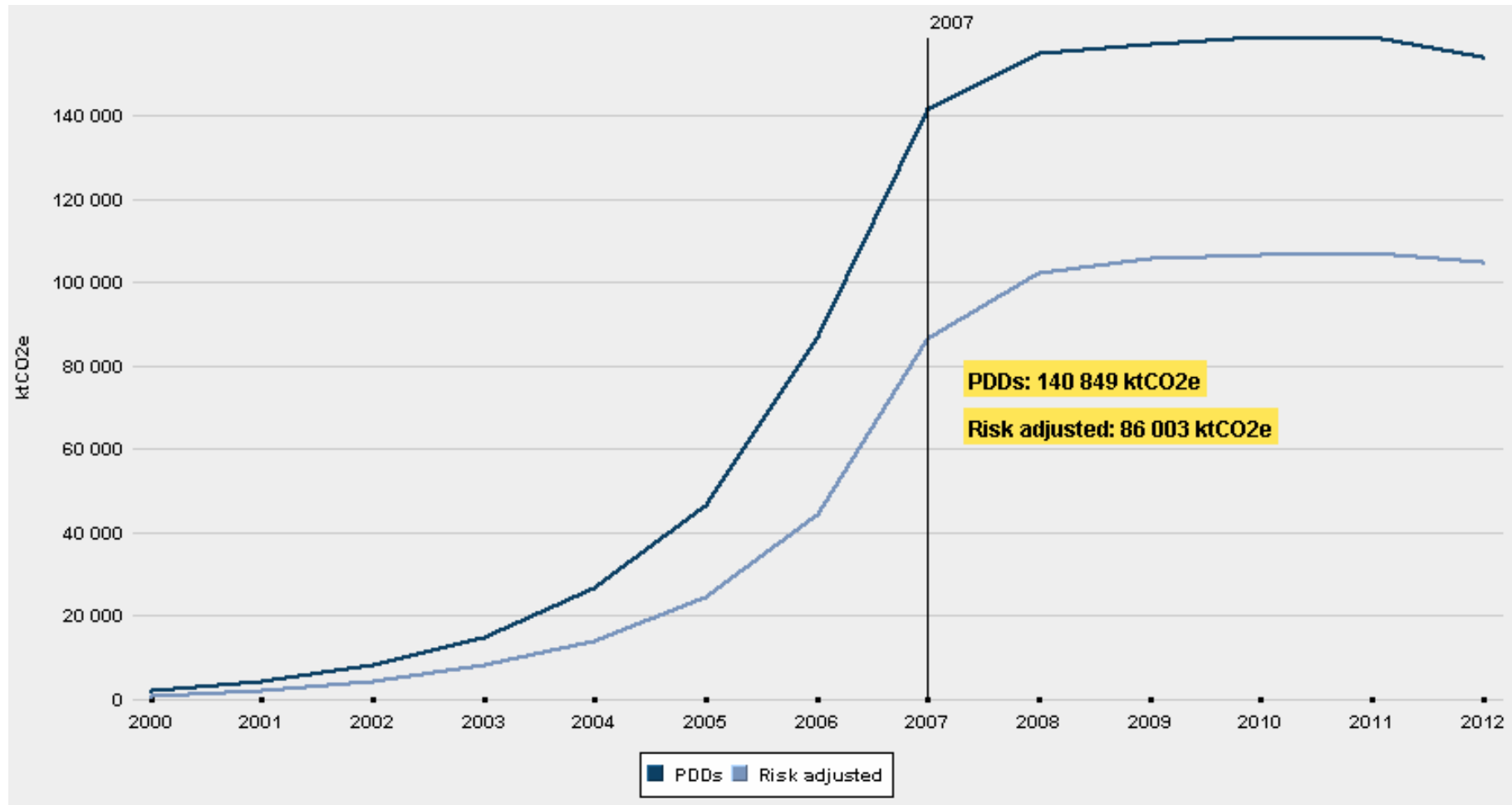
**Latin American Carbon Forum**

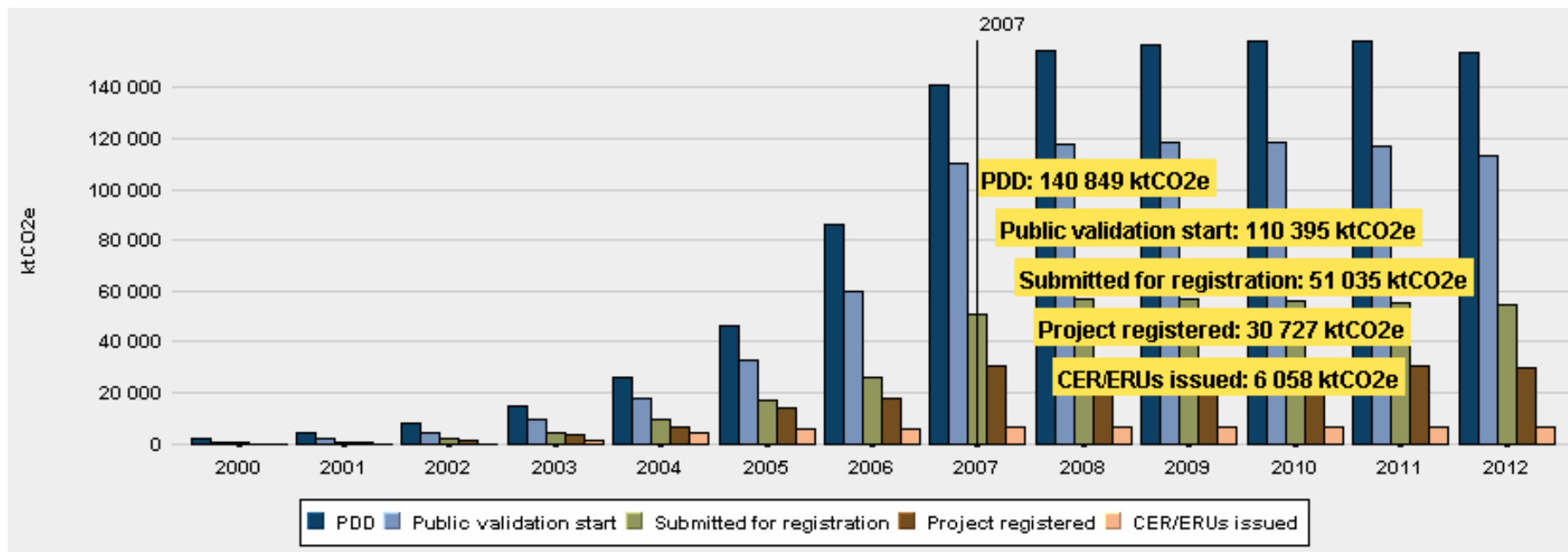
**Quito, Ecuador**

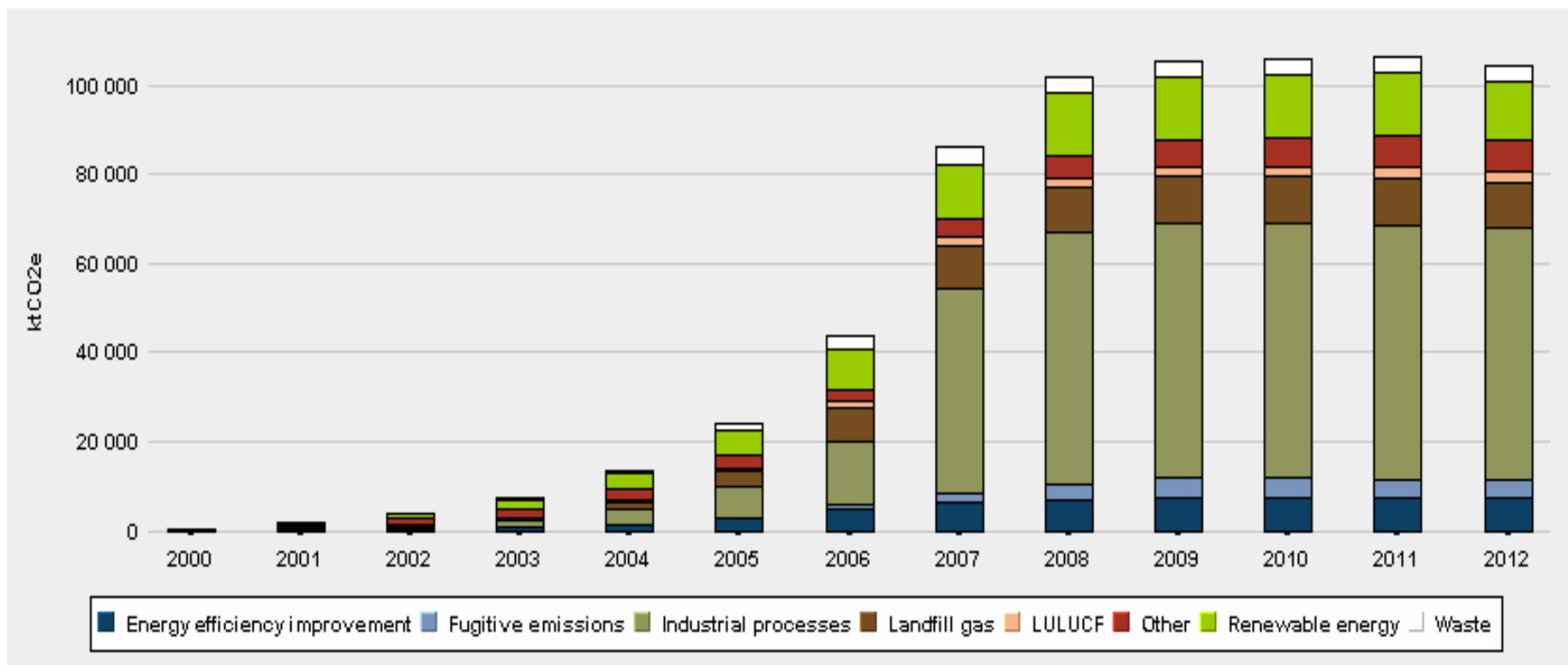
**22 March 2006**

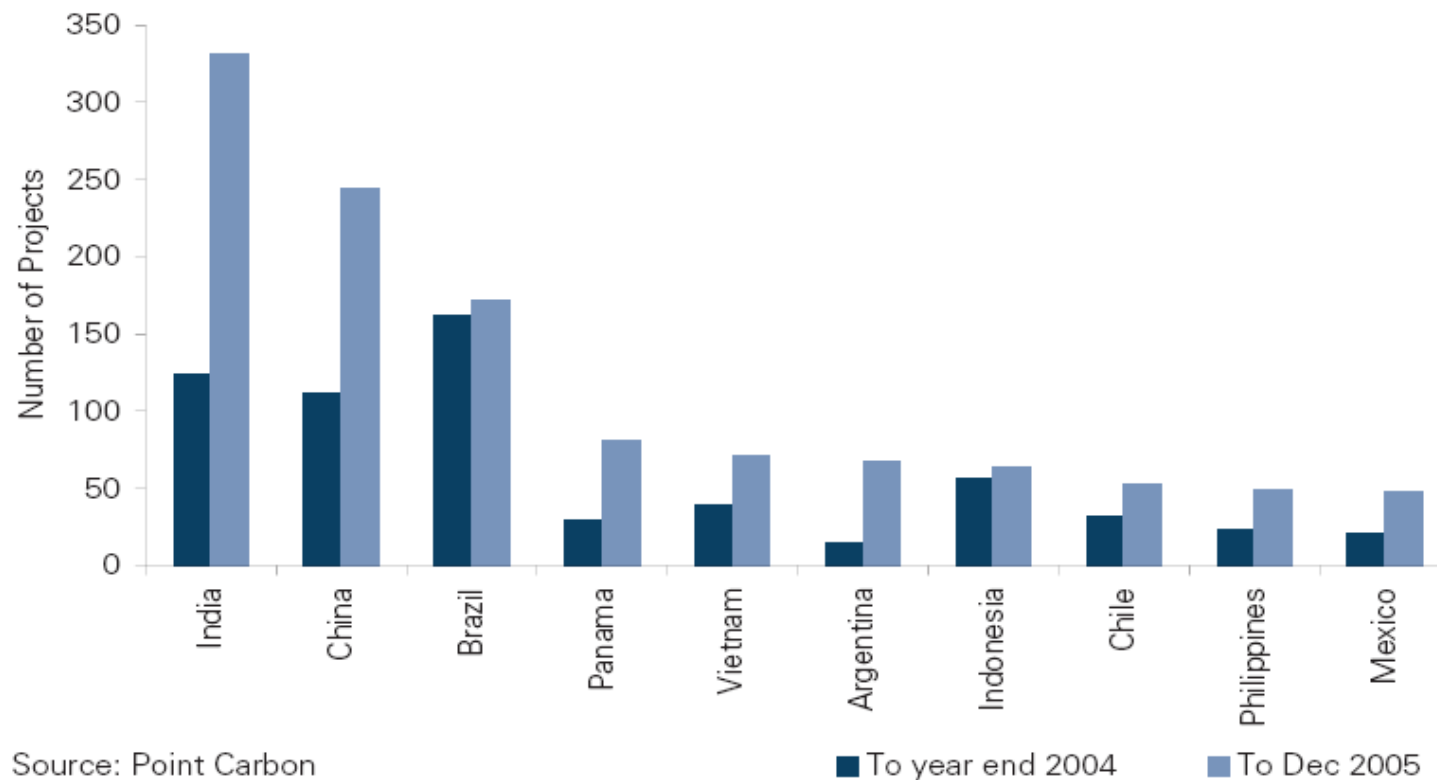
- Supply
- Demand
- Prices
- Final remarks

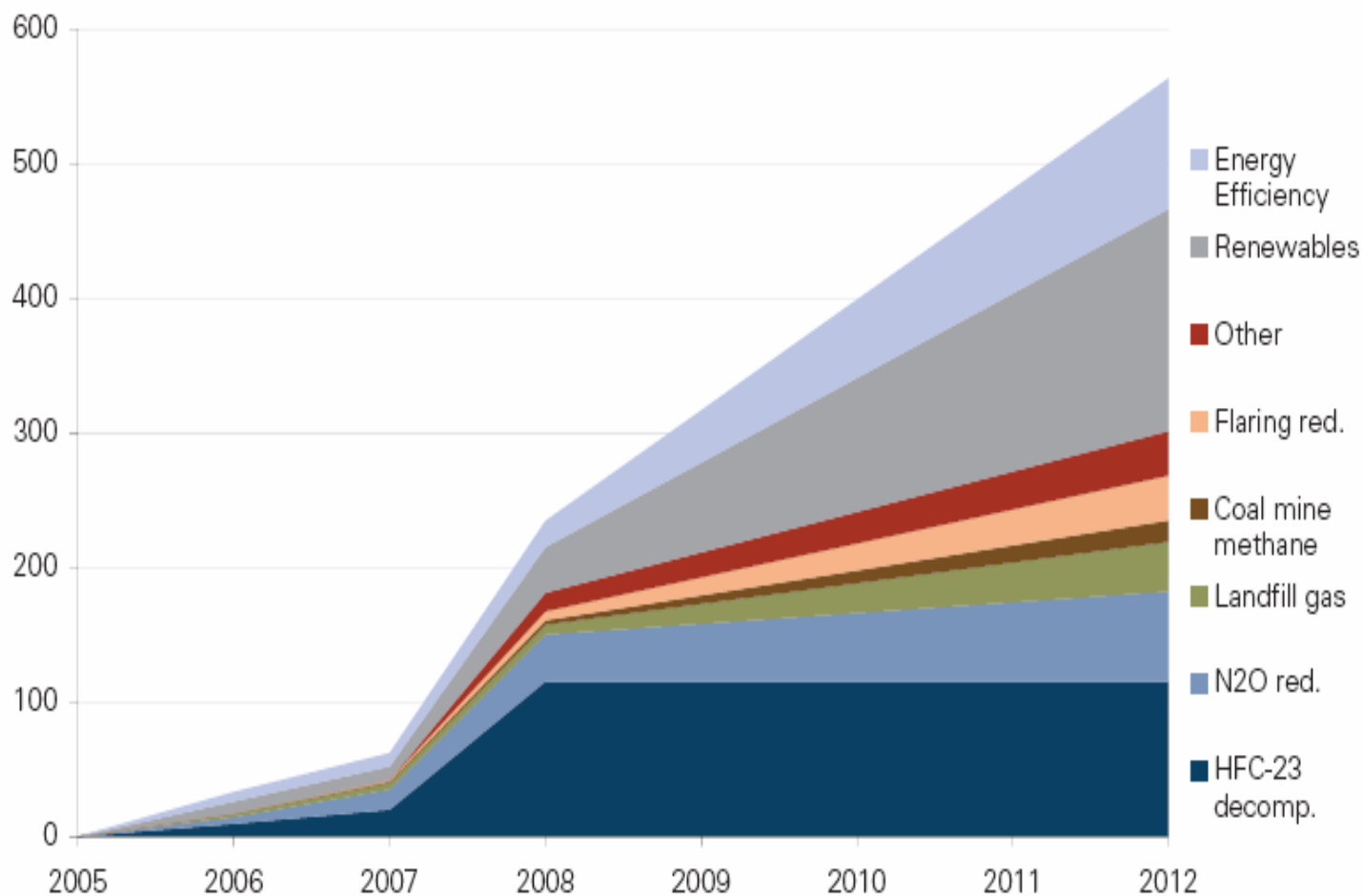
# Supply





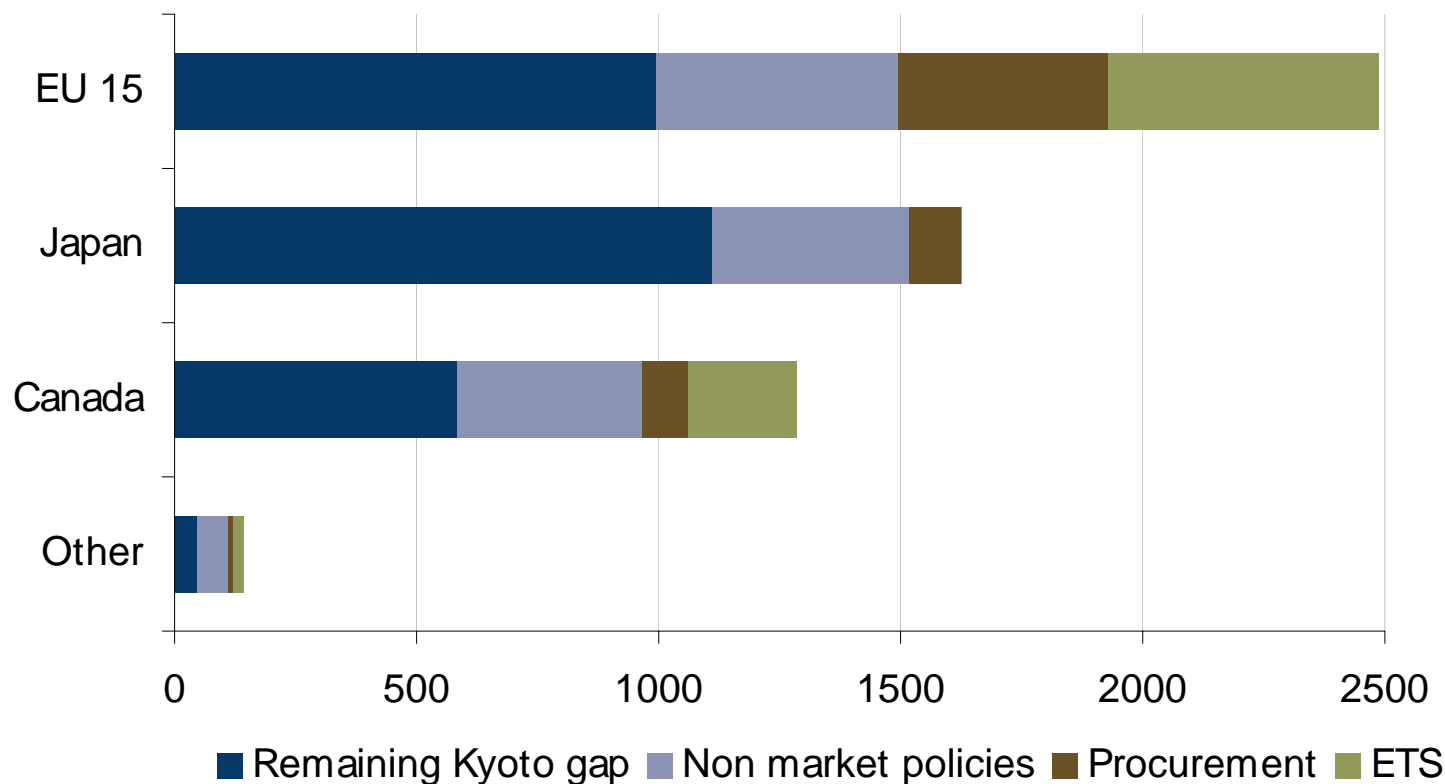






Source: Point Carbon

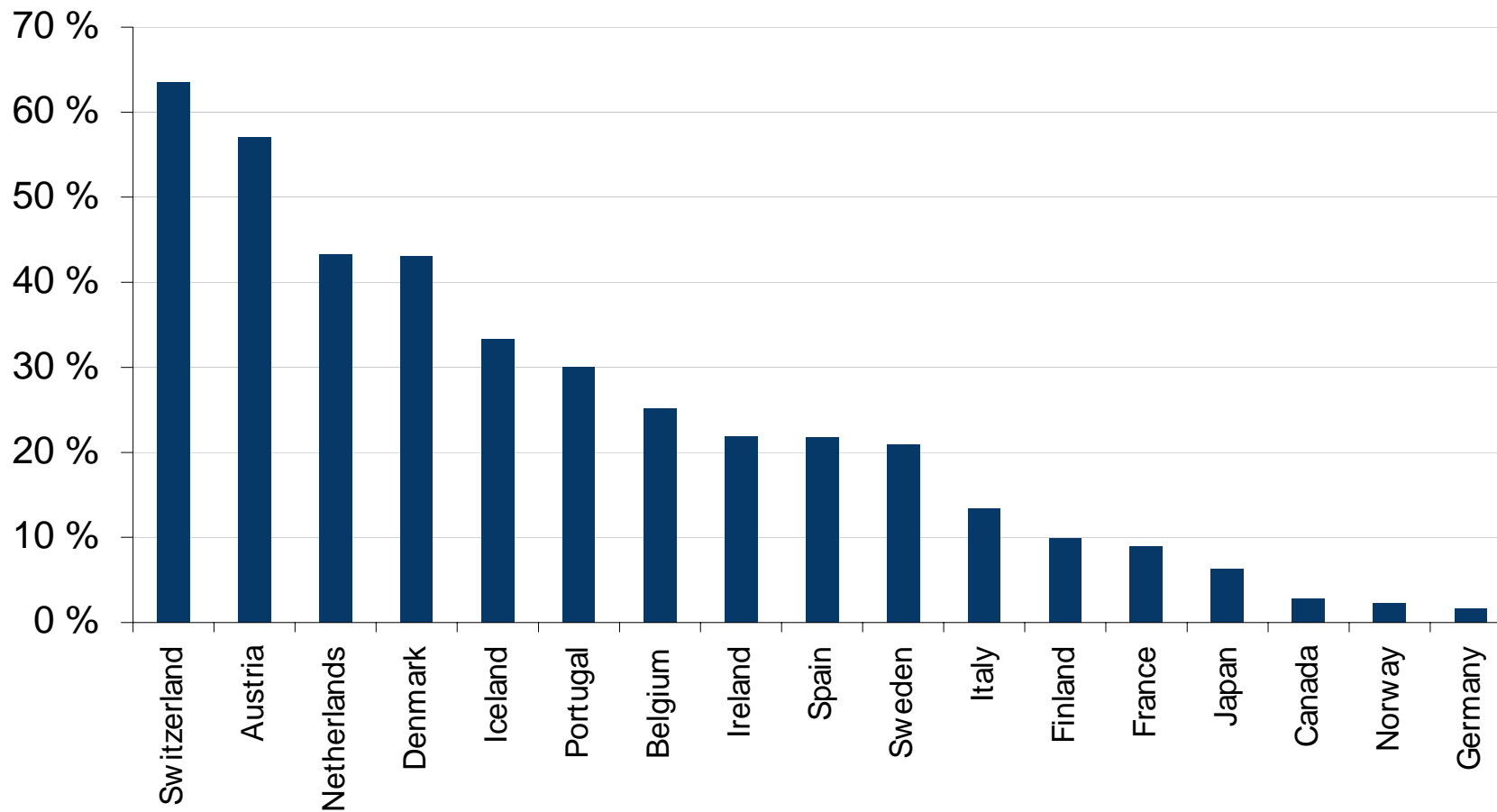
# Demand



Source: Point Carbon

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

- 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



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

Contract category	CDM (€/t)	JI (€/t)
1. VERs in case of no CERs/ERUs	4-5	3-5
2. Standard off take, non-firm volume	6-12	4-6
3. Firm volume, with preconditions	10-16	6-9
4. Guaranteed delivery, no preconditions	16-18	N/A

- 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

- 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

- 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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## CDM & JI Monitor

21 March 2006

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

<http://www.pointcarbon.com>