

Private sector Development of the Carbon Market



Corinne Boone, MD Americas
CO₂e.com

- A global brokerage firm owned by Cantor Fitzgerald and Mitsui – two leading global financial houses.
- Offices in London, Tokyo, Toronto and Santiago, and India (soon)
- Only broker with an EU desk, operations in Japan and Canada and a global CDM network – provides access to full range of private sector potential buyers >250 potential buyers...
- Global network of contacts.
- Formed in 2000 from ten-year old sister company in the U.S.
- CF & CO2e have transacted \$billions of environmental transactions.

- Introduce Suppliers (project proponents) to Buyers or vice versa
- Introduce project developers to potential CDM project investors or vice versa.
- Market expertise which helps:
 - Suppliers structure an attractive offer
 - Buyers/Investors structure a realistic bid
 - Assist counter-parties to manage risk and uncertainties

In the GHG market, brokers guide counter-parties through the deal process:

- Initial contact
- Broad terms and conditions
- CDM Process
- Formal term sheet
- Facilitate Transaction execution

What Markets do we work in?



- EUETS
- UKETS
- ROCs program (UK)
- Renewable Energy (Europe)
- Retail market globally (see www.CO2trade.com)
 - Initiative to offset emissions associated with planning of ecological city in China.
 - Offset of Government of Canada's participation in COPs and SBI/SBSTAs, plus Environmental meetings of GOC
 - Offset of IADB Annual Meeting
 - offset the greenhouse gas emissions created by the Annual IDB Board of Governors Meeting on 2-5 April, 2006.
 - As part of the agreement, the IDB will purchase over 11,000 Verified Emissions Reductions (VERs) from the Ecologica Institute, helping to finance a project to replace fossil fuel with biodiesel in Tocantins' Bananal Island.

What Markets do we work in?



- CER Markets
 - Primary market:
 - ♦ facilitation of purchase/sales of CERs under different transaction structures
 - ♦ Introduction of potential investment opportunities
 - ♦ Coordination of entire approval process (including PDD, assistance with HCA, sub-contracting to DOEs, etc., assistance with registration, etc.)
 - Secondary market:
 - ♦ Very interesting developing market where purchaser of project-based CERs “strips off” risk and sells into the EU from trading book. This type of transaction usually commands higher prices and very innovative deal structures can be developed.

Examples of Projects we are working on...



- Chile – Agrosuper Animal Swine Waste Project – portion of CERs issued last week by UNFCCC
- Chile – Aconcagua Landfill Gas Capture Project
- Ecuador – PRONACA Animal Swine Waste Project
- Ecuador – PERLABI Small Hydro
 - ◆ And more to be announced soon in Ecuador

- Discuss lessons learned
 - Infrastructure in host country
 - Partnerships/team work, persistence, perseverance, etc.

Origin of the Carbon Market



1. United Nations Framework on Climate Change – 1992
2. Kyoto Protocol – 1997
 - Put limitations on developed countries; average of -5.2% from 1990 levels by 2012
3. Kyoto Protocol entered into force on February 16, 2005
4. The European Union began a pre-Kyoto regulated Emissions Trading Scheme in January 1, 2005
5. Canada has a '6% below 1990 emissions limit' to achieve by 2012. This is a minimum 30% reduction from current emissions levels.

Market Instruments in the Kyoto Protocol

- International Emissions Trading - Article 18
 - *Trading unit: Assigned Amount Units (AAUs) – Article 18*
- Joint Implementation (JI) – Article 6
 - *Trading unit: Emission Reduction Units (ERU)*
- **Clean Development Mechanism (CDM) – Article 12**
 - *Trading unit: Certified Emissions Reductions (CERs)*

Registered projects: 139 & 19 requesting registration (>630 in the CDM project pipeline)

Issued CERs: over 4 million

Expected CERs: > 800,000,000

(from registered projects & projects requesting registration until the end of 2012, as of March 9, 2006)

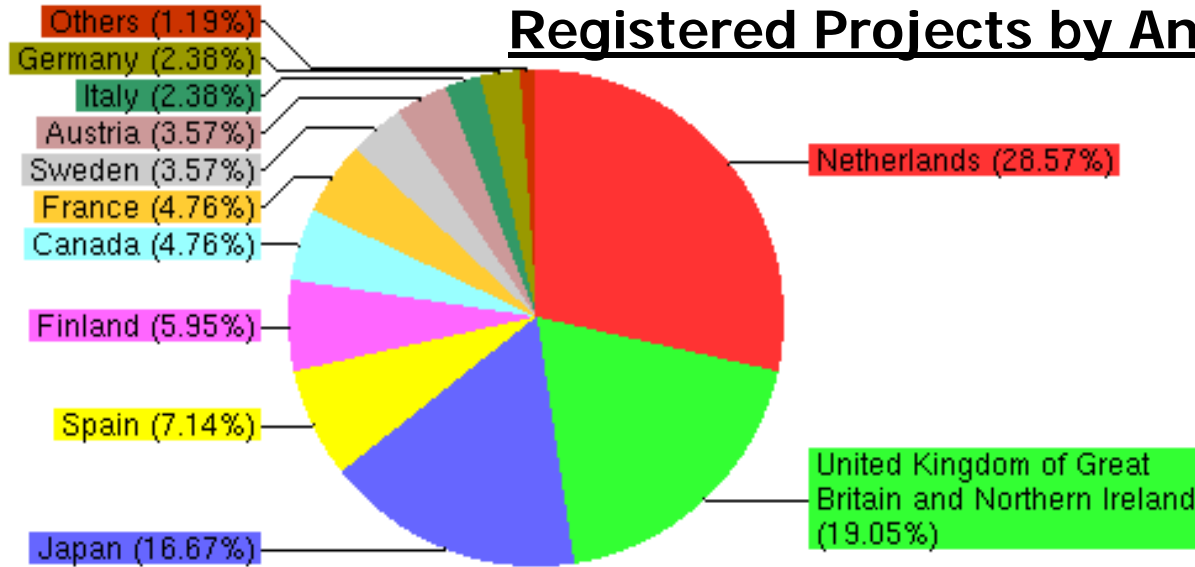
Global carbon market transactions worth 9.4 bn Euros in 2005

- Most of the project based volumes came through CDM

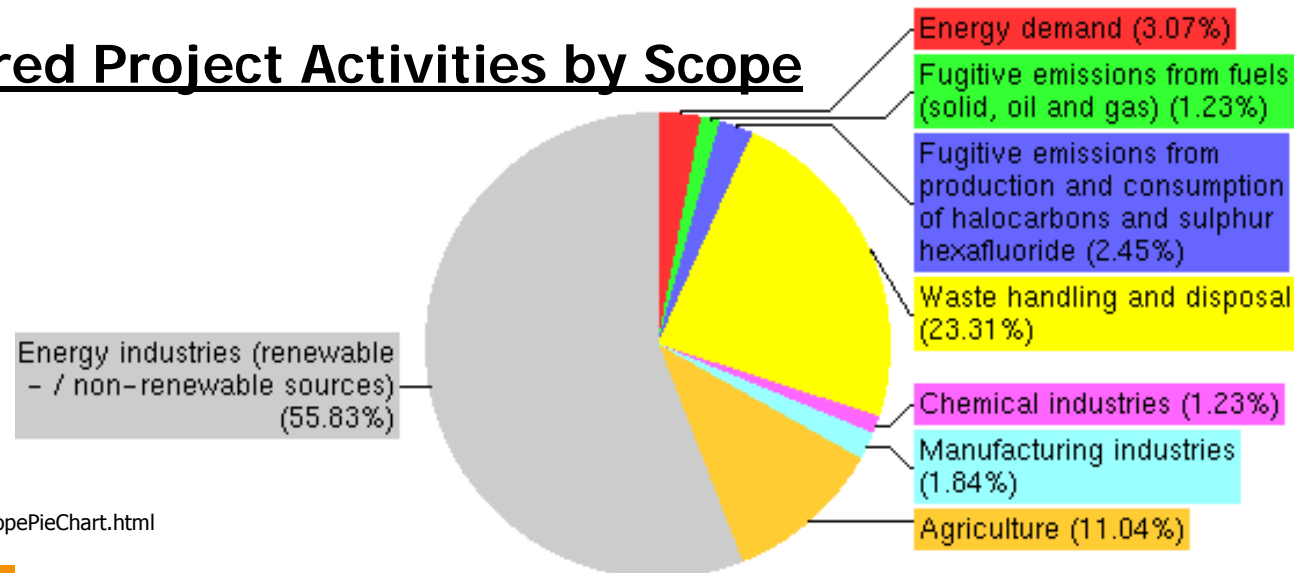
CDM buy side is dominated by private sector & carbon funds

CDM Statistics – Registered Projects

Registered Projects by Annex 1 Parties



Registered Project Activities by Scope



CER Pricing Spectrum

- **Prices increase as risk is transferred to the seller:**
 - primary market funds/government €6.00+
 - primary market commercial, Japan €6.00+
 - primary market commercial, Europe €9.00+
 - ... and the '+' can be significant
 - No price discovery in Canada yet

- Pricing in funds/government market is not very transparent and terms vary, so risk/reward is hard to gauge from the outside

- Primary commercial prices have hardened over the last year due to:
 - reducing certification risk
 - increased demand from Europe
 - dollar depreciation (dollar sellers; Euro buyers)

CER Pricing/Transaction Spectrum



- Prices in private sector are different based upon the flexibility of buyers/investors for “deal structures” and also based on risk sharing provisions...
 - Forward firm transactions 08 – 12 and sometimes beyond range from €9 - €11
 - ◆ This provides seller with some certainty on amount of expected future revenue – i.e., minimized some financial risk
 - Forward transactions with a combination of '00 – 07 vintage for use in EUETS, plus '08 – '12 – normally in the range of €11 - €14 for delivery in time for use in EUETS and indexed to LEBA for '08 – '12 (or option for a firm price)
 - Spot delivery into Buyer's temporary account at UNFCCC – payment is only on delivery – little risk to buyer – significant increase in price...++

- 2 billion EUETS allowances issued annually for 2005 – 2007 period
 - Trading activity – about 2 percent
 - Shortage in Europe – estimated to be 50,000,000 tonnes
 - ◆ Potential for CERs in this market ...unlimited if ITL is up and running as expect in Q1-2007.
- Canada -- >270 MMT gap – 2008 – 2012 – earlier forecasts that Canada would be in market for 75-110 MMT (unknown at present time)
- Japan
- New Zealand...

- This type of structure is becoming more popular as sellers see the potential to part of the up-front financing necessary to develop projects and Investors see the opportunities for a lower overall price as a result
 - Also, sometimes assists in establishing solid, long-term relationships between counter-parties that may lead to future opportunities (Example of LePanto landfill in Chile)

- In 2008 - 2012 the carbon market will change significantly
 - New supply will come on-line
 - ◆ much greater CER volumes will have come to market
 - ◆ ERUs from former USSR and (some) projects in Europe, Japan and Canada
 - New demand materialises:
 - ◆ government demand in Europe, Canada and Japan
 - ◆ increased corporate demand in Europe, Canada and Japan

- Private Sector participation and coverage of the CDM market will only INCREASE over time as markets begin to move – use of private sector vehicles (i., through brokers and if direct, through traders) often gives you access to better prices
 - ◆ We see the clients and the market every day...
- LOTS OF OPPORTUNITY FOR CDM PROJECTS IN LATIN AMERICA NOW TO SELL INTO EUROPE, JAPAN, ETC.
 - However, window of opportunity is going to begin to close soon – as India and China continue to ramp up
- LATIN AMERICA IS A VERY ATTRACTIVE REGION FOR CDM PROJECT INVESTORS AND/OR BUYERS NOW
 - ◆ ...take advantage of it.

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