
**How, Why & to What extent the EUA Market
demand affects CDM prices
2nd Latin American Carbon
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Today I will be covering....

- What the ETS has done for CER prices
- Where is the demand coming from
- The relationship between the EUA price, CER issuance and CER prices
- How much demand can Europe take
- Price differentiation – how valid is it?
- What will demand be like post 2012?

The blessing – and the burden of the ETS

- Before the ETS no-one knew where to value projects – early projects sold for \$5 and lower
- The ETS created a benchmark to base CER prices off
- However in times of low EUA prices, anecdotal evidence suggests European buyers withdraw
- The high volatility in the ETS makes contracting difficult – the time gap from term sheet to ERPA signature can be significant
- Overall though the ETS has benefited project owners with better prices for their CERs and more buyers

Who is buying?

Top 20 buyers	Projects	Organisation Type
EcoSecurities	161	Developer/ intermediary
Carbon Asset Management Sweden	79	Fund
IBRD	62	Development bank
EDF Trading	54	Compliance buyer
ENEL	50	Compliance buyer
AgCert	50	Developer/ intermediary
Agrienergy	45	Developer/ intermediary
Cargill International	42	Developer/ intermediary
Trading Emissions	40	Developer/ intermediary
Noble Carbon	38	Fund
CAMCO	37	Developer/ intermediary
RWE	35	Compliance buyer
Energy Systems International	31	? Architect?
Kommunalkredit	30	Bank
Mitsubishi	24	Fund
Carbon Resource Management	24	Developer/ intermediary
Mitsubishi UFJ Securities	24	Fund
Endesa	22	Compliance buyer
Arreon Carbon UK	21	Developer/ intermediary
Marubeni	20	Industrial Group

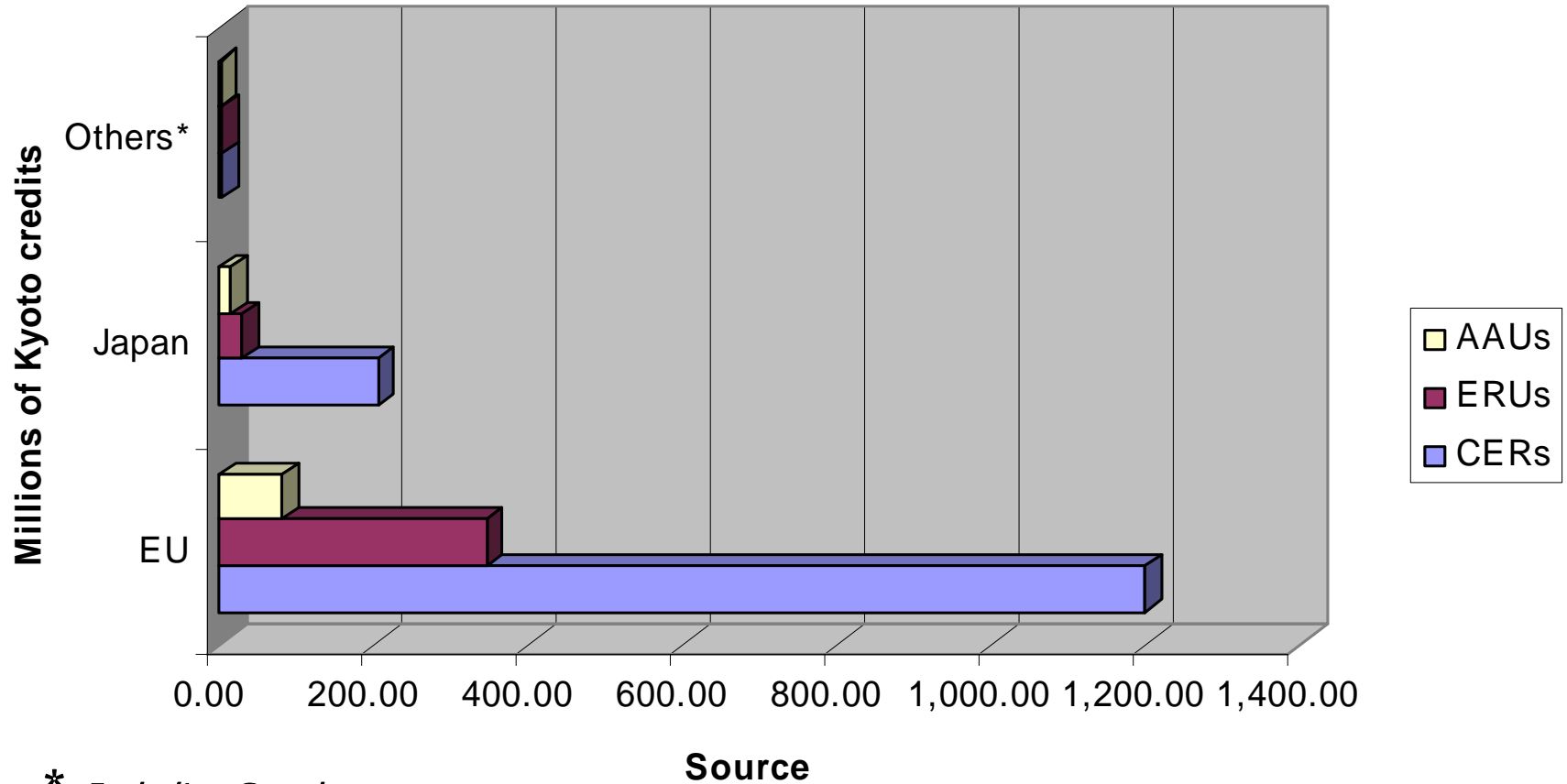
2 banks,
8 intermediaries,
4 funds,
4/5 compliance
buyers

Why aren't there more compliance buyers?

- 'Primary project' access is either direct, or via a broker
- Requires a lot of time and resource allocation for the buyers – deals can take many months to complete
- Circumstantial evidence indicates that they are getting them 'second hand' from banks and funds under guaranteed delivery arrangement
- May have been holding back whilst ITL issues sorted out

Where are they all going?

Total Kyoto Demand



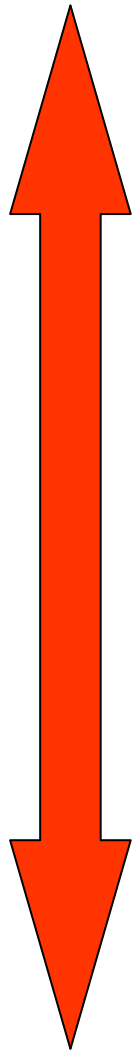
* Excluding Canada

ETS CER/ERU Absorption Capacity in 2008

Belgium	59	7%	4.30
Bulgaria	50	10%	5.03
Cyprus	6	10%	0.54
Czech Republic	87	10%	8.68
Denmark	25	19%	4.66
Estonia	13	0%	0.00
Finland	38	10%	3.76
France	133	14%	17.93
Germany	453	22%	90.88
Greece	69	9%	6.22
Hungary	27	9%	2.67
Ireland	22	10%	2.23
Italy	196	15%	29.23
Latvia	3	10%	0.34
Lithuania	9	20%	1.36
Luxembourg	3	10%	0.25
Malta	2	10%	0.21
Netherlands	87	10%	8.34
Norway	13	12%	1.66
Poland	209	10%	20.74
Portugal	36	10%	3.59
Romania	73	10%	7.11
Slovakia	31	7%	2.16
Slovenia	8	16%	1.31
Spain	152	21%	31.37
Sweden	23	10%	2.28
UK	246	8%	18.32
TOTAL	2,101		278

- 'Maximum CERs/y – is demand available by country after auctioning possibilities taken into account
- Actual average conversion potential estimated at approx. 220 Mt/y. (Dutch research showed no correlation between sophistication and allocation size...)
- Realistic range 250 –300 Mt for the first year, could gradually grow (installations learn; use of cap banking rules)
- **UNCERTAIN ESTIMATES** of demand & possible EU scheme shortages due to uncertain behaviour of participants and how they use their conversion option

Price differentiation in CDM – how valid is it?



Gold standard

Renewable energy

The Rest of the World projects

India projects

Chinese projects

Waste Industrial gases

Large hydro, palm oil

N2O projects

HFC projects

*Differentiation
by
methodology
and geography*

Son of Kyotostein!



- Where will the demand come from post 2012?
- Will there even be Annex I involvement?
In all probability, there will be some sort of post Kyoto scheme – definitely EU ETS
- Expect Canada, USA and Australia to be materially involved by then – if not at federal level, definitely at state level
- Carbon neutrality for corporates and individuals will become increasingly relevant. The CSR gets increasing prominence in annual reports
- More sectors? Definitely aviation, maybe others (maritime)

Thank You!

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