The Carbon Market: Current situation & perspectives for a post-Kyoto Regime – A European perspective

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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 supply can Annexe I take
- Price differentiation – how valid is it?
- VERs
- What might post 2012 landscape look like?

EDFT Overview

- The wholesale trading arm of EDF in the Emissions market
  - 100% owned by EDF S.A. and based in London (U.K.).
  - Active on Emissions, Electricity, Coal, Freight, Gas, LNG and Oil markets, with over 600 counterparts, enacting 125,000 transactions.
  - Manager of the €300m EDF Carbon Fund.
  - 2006 main figures: €47bn turnover, €580m profit before tax, 480 employees worldwide.

- An important player in CO2 market
  - From 2004, management of a large portfolio of CO2 positions generated from the optimisation of EDF assets, the hedging products provided to industrial customers and the proprietary trading activity.
  - Member of Nordpool Exchange, ECX and Powernext Carbon. Very active in the OTC market with over 30 counterparts.
  - A significant number of ERPAs already signed, several thousands of tons of CERs already received in our CDM registry.
  - Independent credit rating of A3 by Moodys

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
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ENEL	50	Compliance buyer
AgCert	50	Developer/ intermediary
Agrinergy	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

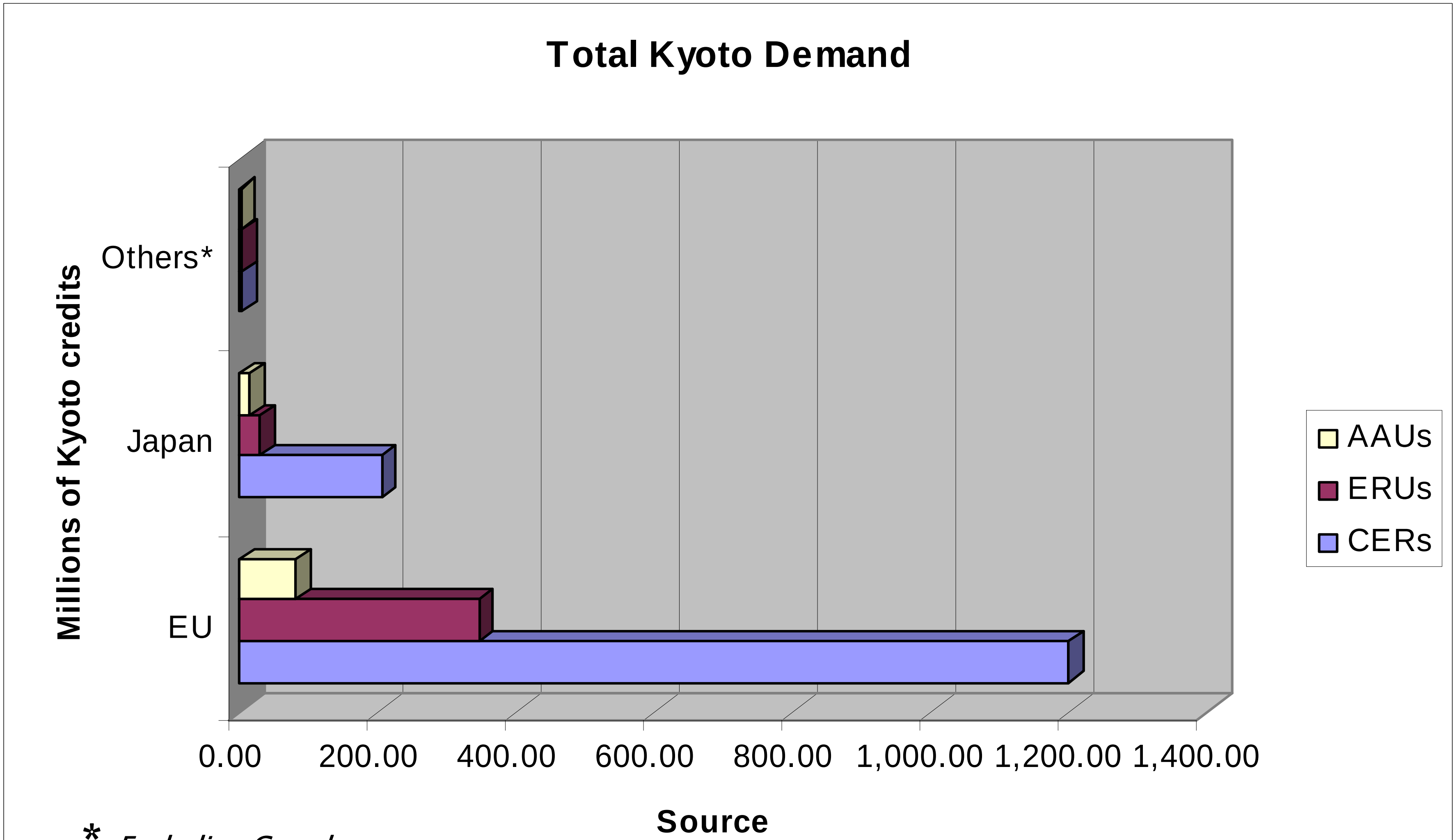
2 banks,

8 intermediaries,

4 funds,

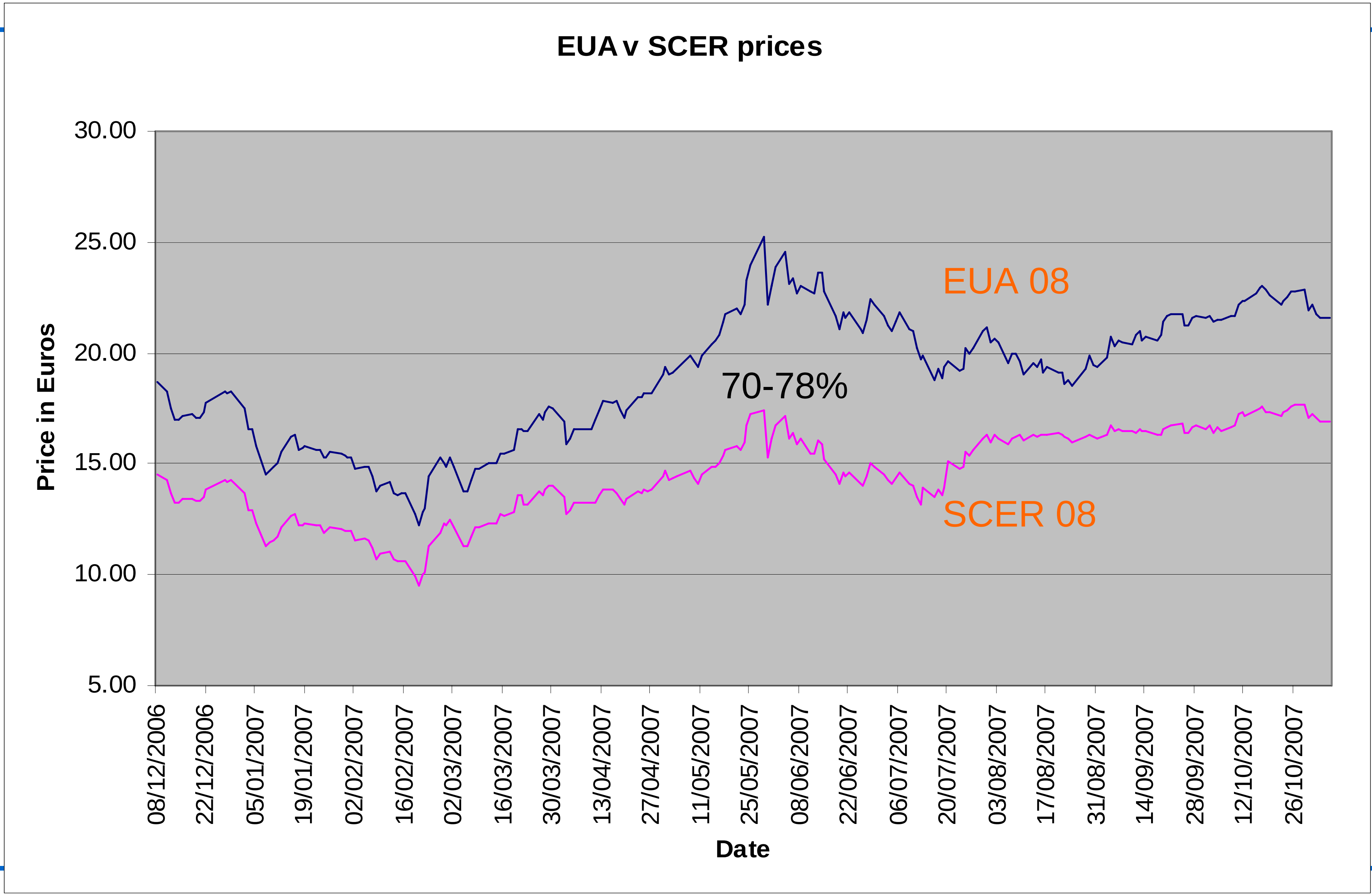
4/5 compliance buyers

Where are they all going?



* *Excluding Canada*

The effect of EUAs on CER prices



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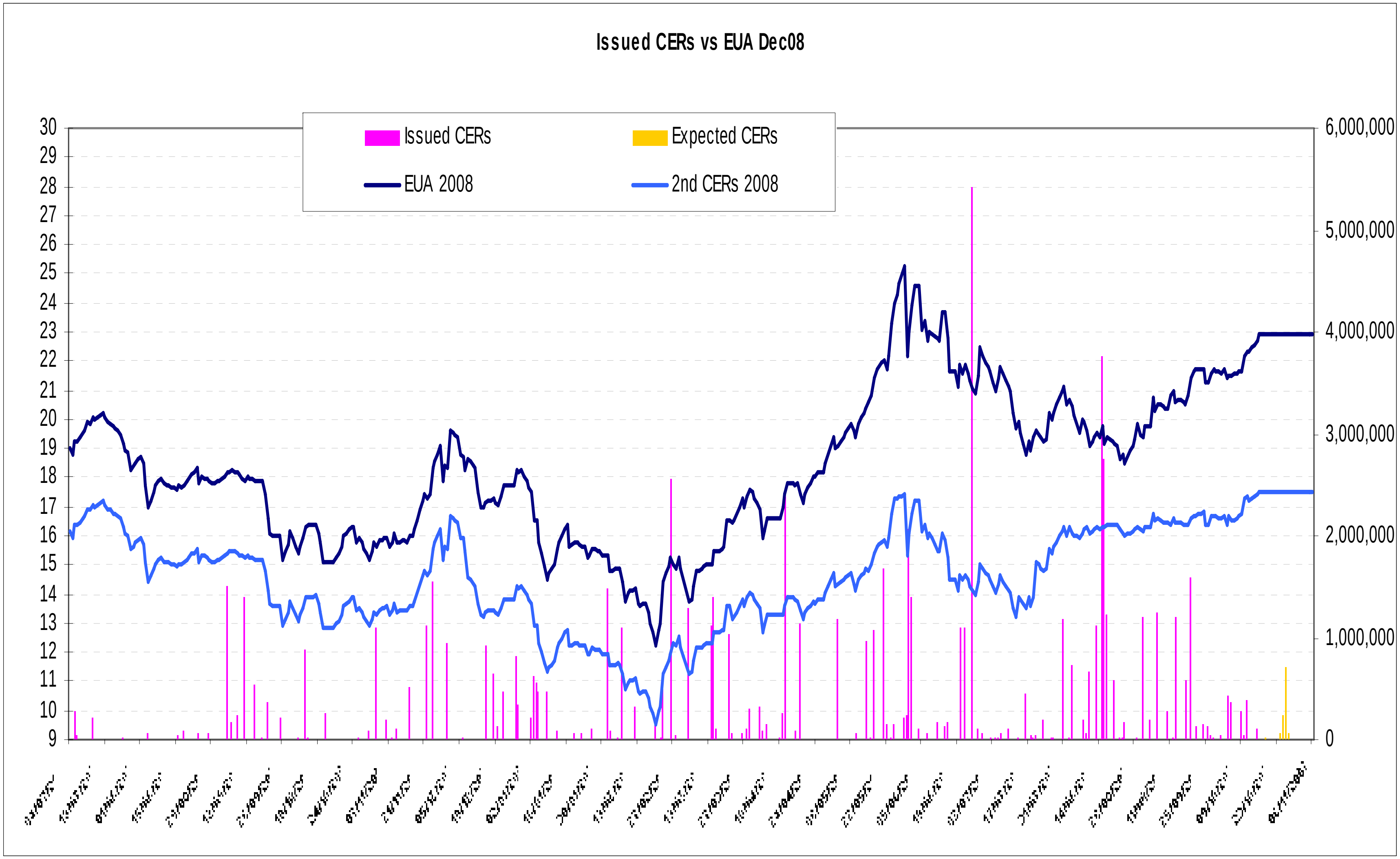
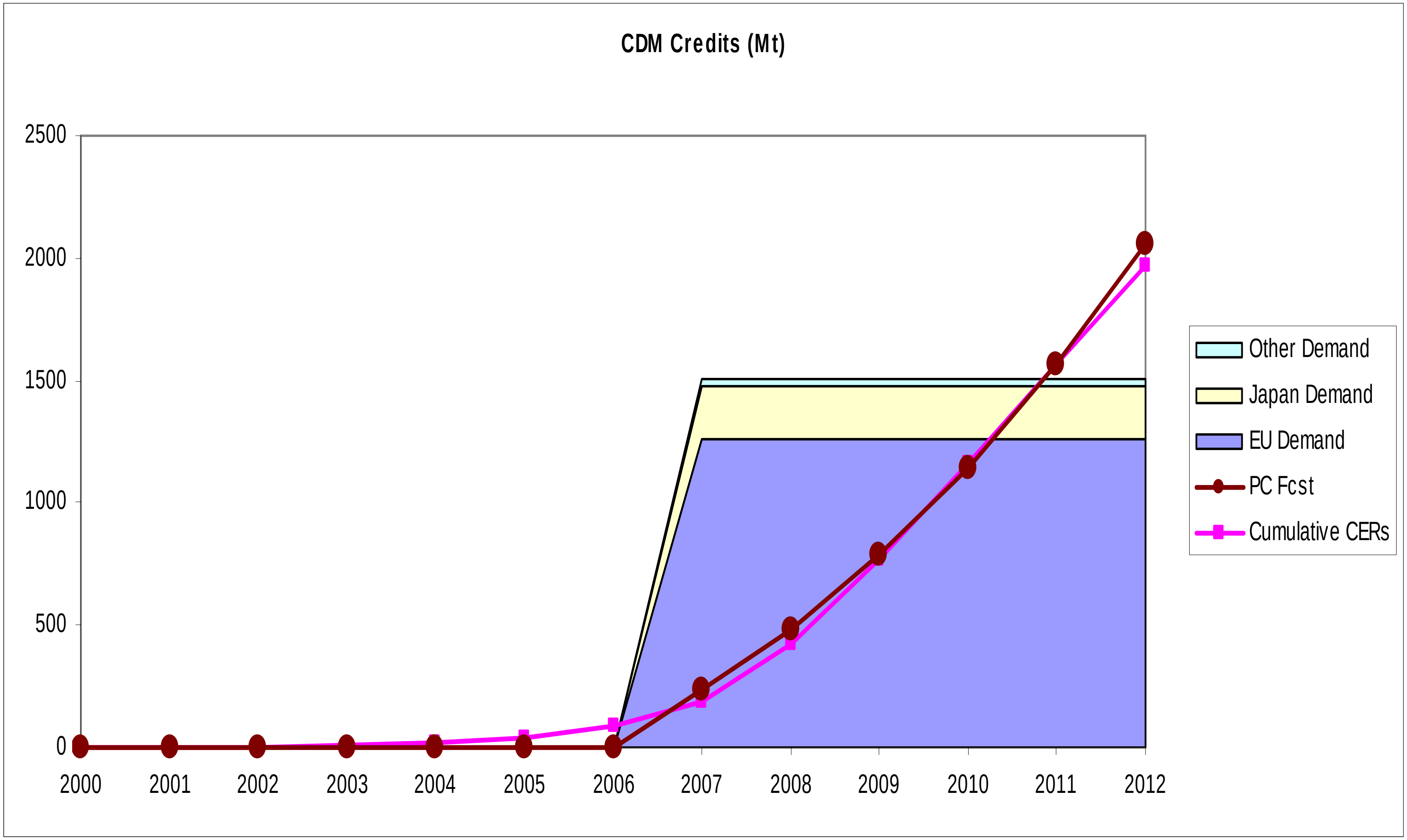
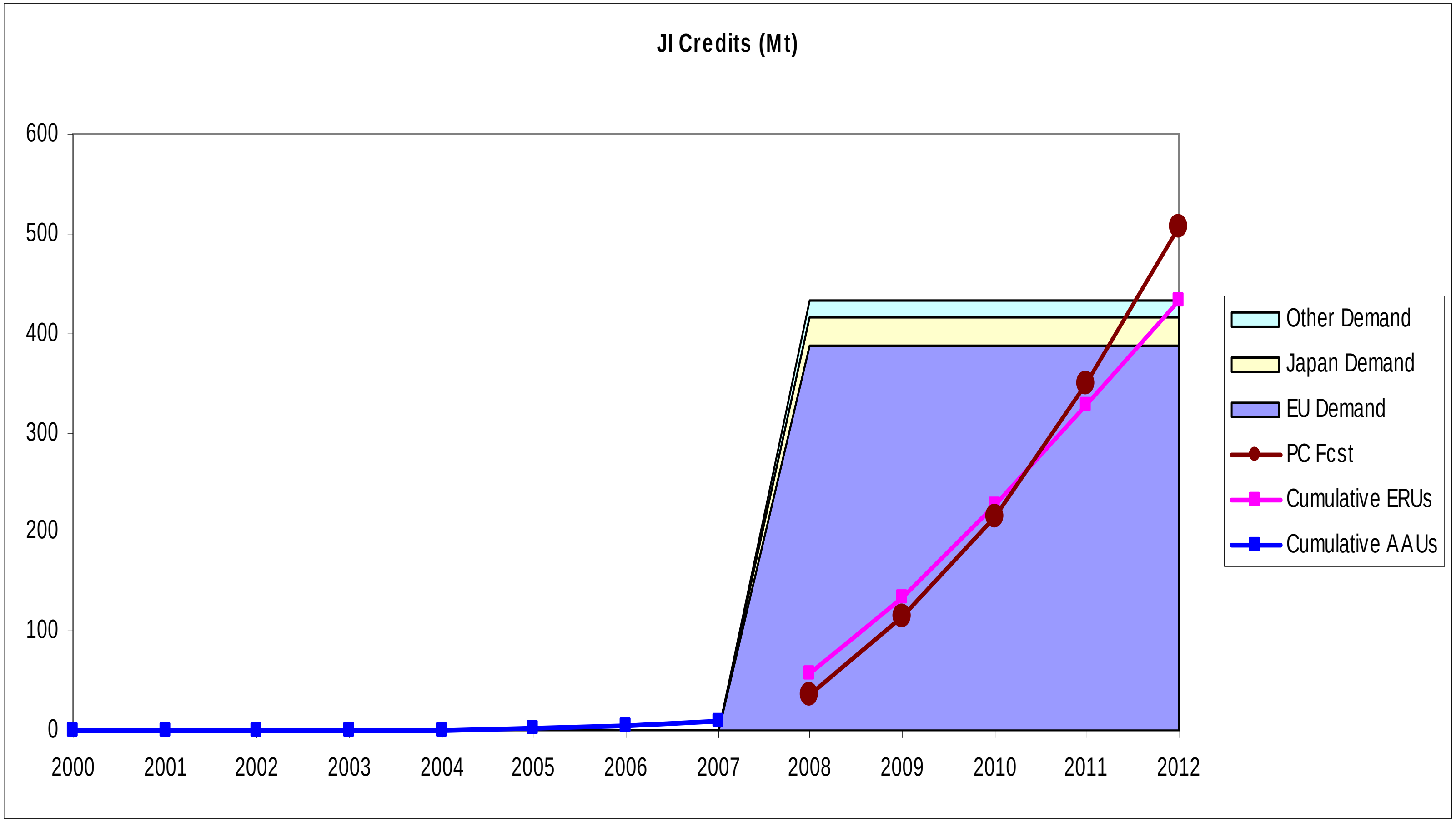
But CERs affect EUA prices too!



CERs


CDM Credits (Mt)
2500
2000
1500
1000
500
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Other Demand
Japan Demand
EU Demand
PC Fcst
Cumulative CERs

ERUs



2.4 Mt total supply; c.2.0 Mt total demand until 2012

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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

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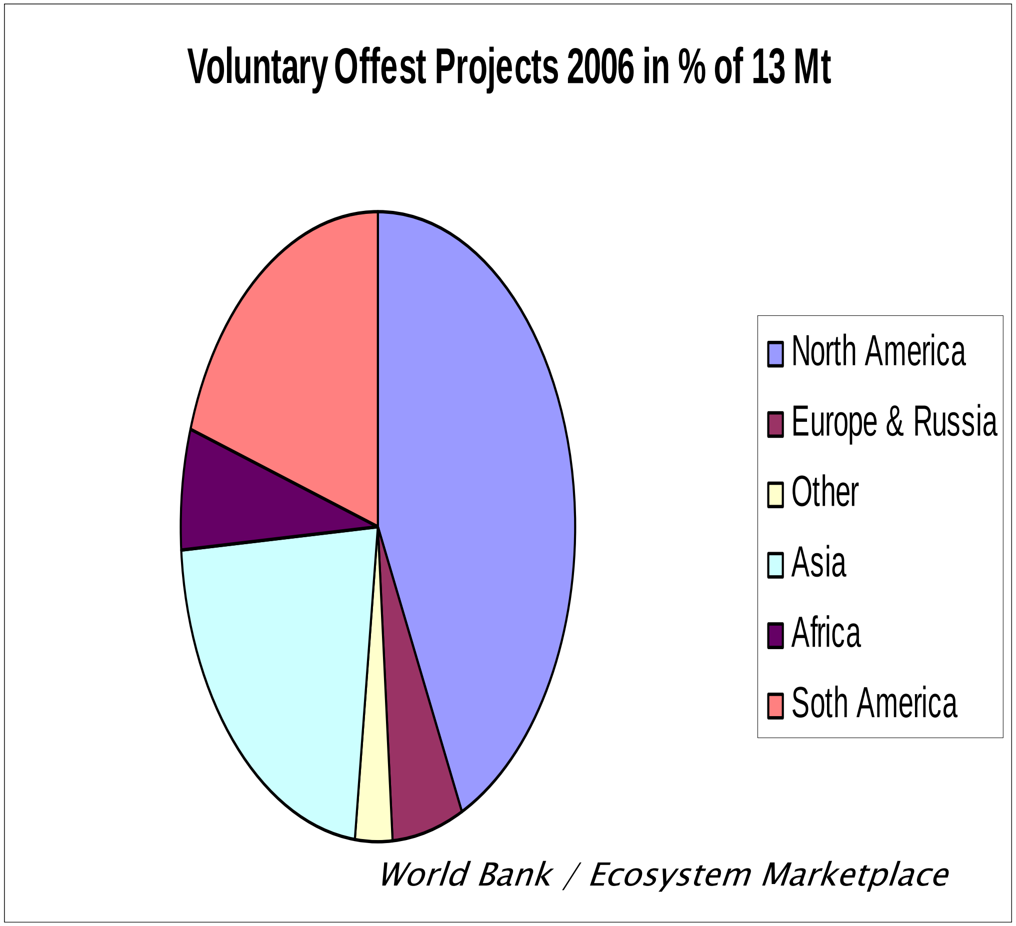
Voluntary Emissions Reductions (VERs)

- What are VERs?
- Where do they come from and why?
- Who uses them?
- Where are they used?
- What price?
- Problems

VERs I

- These are emissions reductions which come about separately from the regulated Kyoto Market, but with the same additionality criteria aims
- Route for small projects which find CDM too expensive
- 13 Mt coming from same sources as Kyoto
  - Forestry 4.7m
  - Renewable energy 4.3 Mt
  - Industrial gases 2.6Mt
  - Energy efficiency, various types methane abatement
- Individuals, events/conferences, companies own activities, companies for their clients and NGOs
  - Price a dominant feature with companies, but development/community benefits also highlighted, whilst for Events main driver is reputation

VERs II

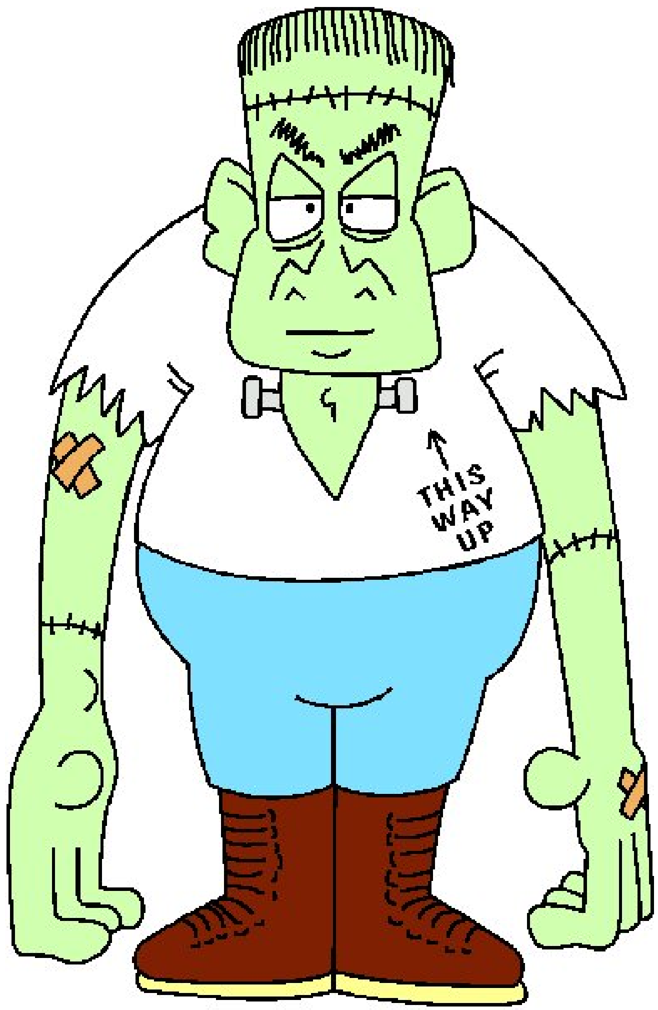


- N America €1-30 c. €9
- Australia €5-15 c.€10.9
- Canada & NZ €6-32 c.€18.1
- Europe €5-53 c. €19.1

VERs –III
Issues

- Differing Standards
  - Voluntary Gold Standard, Voluntary Carbon Standard, Green-e, Chicago Climate Exchange, Voluntary Offset Standard, VER+/TUV
- Differing Registries, leading to the danger of
- DOUBLE COUNTING
- Interesting to note that CDM Gold Standard has been used ENTIRELY for offsetting, rather than compliance buying
- Around 70 offset providers, all with different carbon footprint calculation methodologies
- USA oversupplied with some nonsensical projects
- Additionality questionable in some cases

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
- More sectors? Definitely aviation, maybe others (maritime)

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Post 2012 possibilities?

- CP: there will be an EU scheme that will be able to use CERs
- Future Treaty may look way beyond 5 years – possibly to 2050!
- Annexe I / non- Annexe I: HDI= Israel (23) South Korea (26)? Singapore (25)? CHILE (38)! Lowest Annexe I is 32nd & 7 EU states below Chile
- What price reference do we have?
  - Maybe best way is either index price (no certainty for project owner)
  - Or Floor plus share of upside. THIS IS EXPENSIVE!
  - Suggest you do not accept low fixed price offerings from buyers
- How will non-Annexe I countries 'do their bit'?
  - Suggestion out of UN this year that obligation could be taken on by retiring portion of CDM credits
- CONCLUSION: Arguing about *relative* emissions is meaningless when we have an *absolute* problem!

Thank You!

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