

Voluntary Carbon Market Trends and Opportunities

Promoting Transformation by
Linking Natural Resources,
Economic Growth, and
Good Governance

Compliance vs. Voluntary Markets

Compliance Market - based on a cap and trade system - limited options for terrestrial CO₂.

- Kyoto Protocol
- *European Trading Scheme (ETS)*
- Regional GHG Initiative (RGGI)
- *California's Global Warming Solutions Act (AB 32)*

Voluntary or Pre-Compliance Market

- Not based on regulation
- CSR and individual demand - story
- Includes broader terrestrial carbon options
- Potentially large US market
- Terrestrial carbon likely included in new compliance program (post 2012)



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Voluntary Market Trends

Significant Market Growth

2007:
18% of
voluntary market
t =
forest carbon
(estimated \$46 m)

Transaction Volumes and Values, 2006 and 2007*

Markets	Volume (MtCO ₂ e)		Value (US\$million)	
	2006	2007	2006	2007
Voluntary OTC Market	14.3	42.1	58.5	258.4
CCX	10.3	22.9	38.3	72.4
Total Voluntary Markets	24.6	65.0	96.7	330.8
EU ETS	1,044	2,061	24,436	50,097
Primary CDM	537	551	5,804	7,426
Secondary CDM	25	240	445	5,451
Joint Implementation	16	41	141	499
New South Wales	20	25	225	224
Total Regulated Markets	1,642	2,918	31,051	63,697
Total Global Market	1,667	2,983	31,148	64,028

Source: Ecosystem Marketplace, New Carbon Finance, World Bank



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The Market

- Buyers include companies that buy offsets for their own operations (50% ER's retired) , on behalf of their customers (e.g., airlines & travel agents) events, and individuals
- Sellers include retailers and wholesalers who buy and resell emission reductions, and project developers who develop GHG abating activities and sometimes sell directly
- Market intermediaries include brokers who connect project developers and resellers with institutional ER buyers



Key Market Drivers

1. Project Quality
 - Ensure climate benefits - level of standards consistent with compliance market
 - Permanence - systems in place to guarantee the investment (manage risk)
 - Co-Benefits (risk management, story, price)
2. Reputation of Provider
3. Standards

Standards for Terrestrial Carbon

1. Voluntary Carbon Standard (VCS) - becoming the industry standard (despite lack of project experience) includes REDD and other forestry activities (AFOLU)
2. Chicago Climate Exchange (CCX) terrestrial carbon (forests, soil, etc). REDD project in conjunction with forestation on contiguous site. Considered lower quality offsets than others.



Standards for Terrestrial Carbon

3. Climate, Community and Biodiversity Standards CCBS - a co-benefit standard linked to effective carbon measurement methodologies. (VCS and CCBS strong combination)
4. Plan Vivo - Pro Poor Carbon - reforestation and REDD (small scale/pro poor)

[Cobenefits.ppt](#)



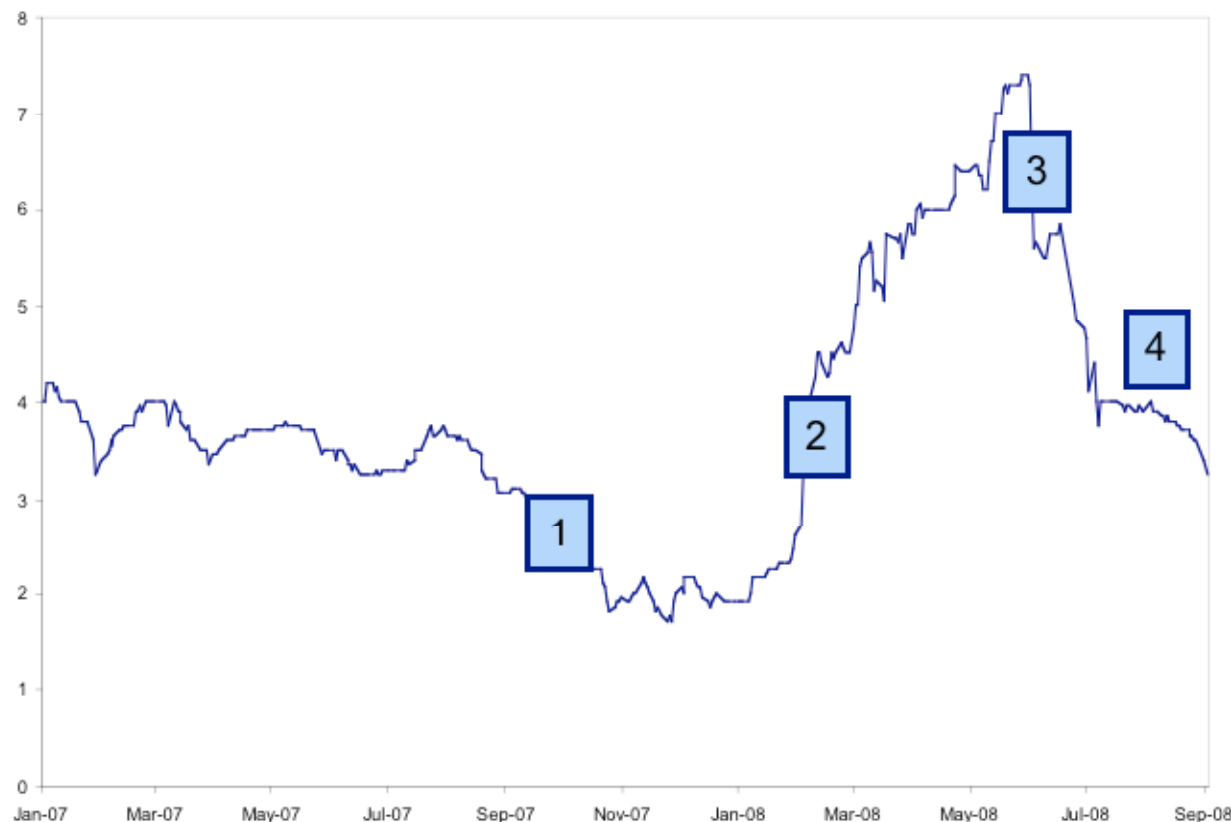
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Price Issues

- Price volatility
- Voluntary market lower prices than compliance market
- Recent prices for high quality carbon \$5 - \$15.00
- CCX prices lower due to question of quality - but does serve as an index
- EDF estimates terrestrial carbon price (compliant market with no quantity restrictions): \$16 per ton in 2012; \$24 per ton in 2020 and \$40 in 2030.
- Co-Benefits add to price



Historical CCX Prices: Vintage 2008 Carbon Financial Instrument (CFI)



Traded Volumes (MTCO₂e)

- 2005: 1.0 million
- 2006: 10.2 million
- 2007: 22.9 million
- Q1 2008: 19.7 million
- Q2 2008: 26.1 million

1. Retraction October 2007

Large volumes coming online from 2004 retroactive projects

2. Rally in February 2008

All three presidential front runners support a federal cap and trade program

3. Crash in June 2008

Reports show large increases in supply; negative response to the introduction and debate of the Lieberman-Warner bill in the Senate

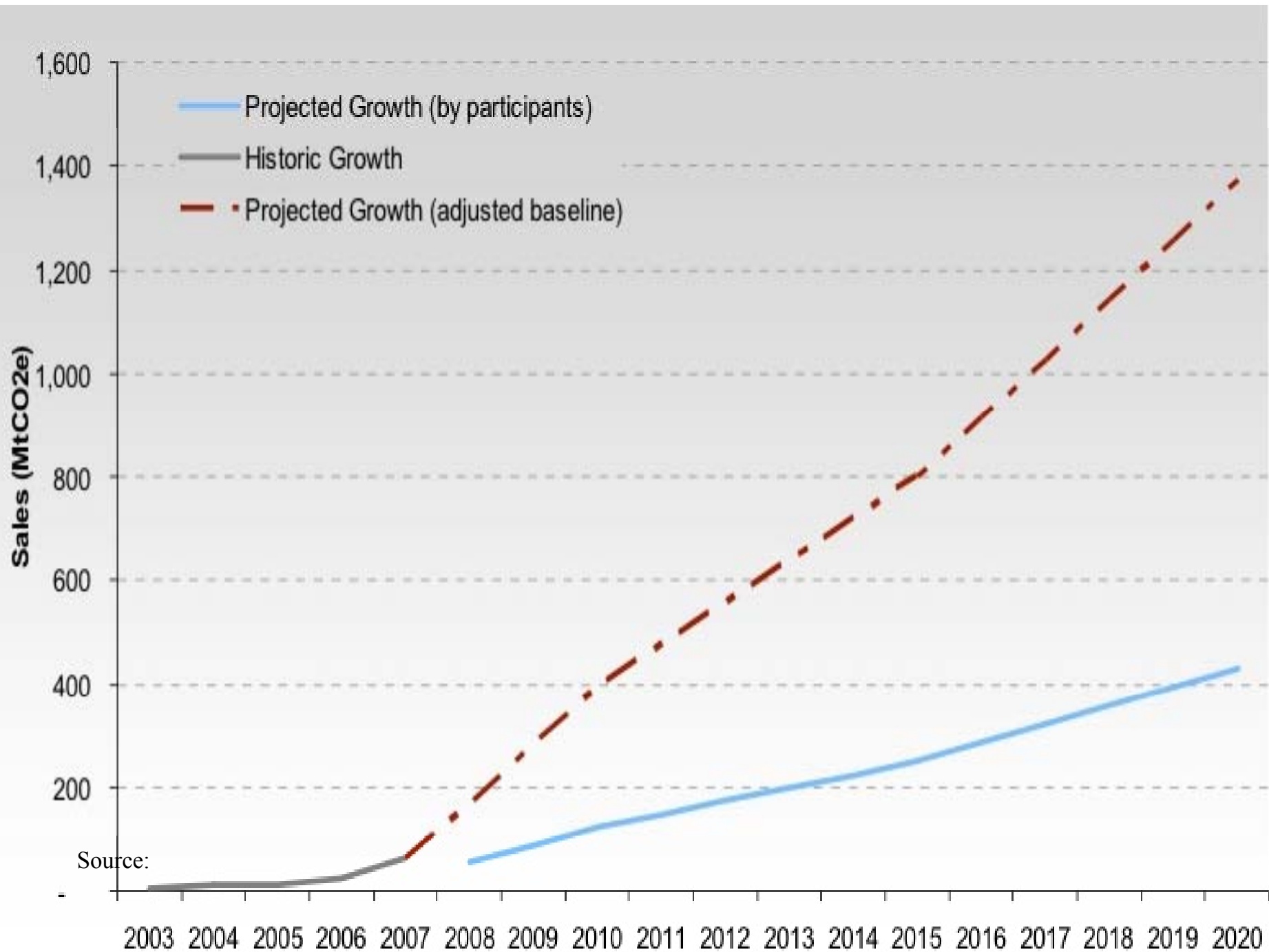
4. Further Decline in 2008

Supplies remain strong; congressional recess pauses legislative process; decrease in price of CERs, EUAs and the entire energy complex

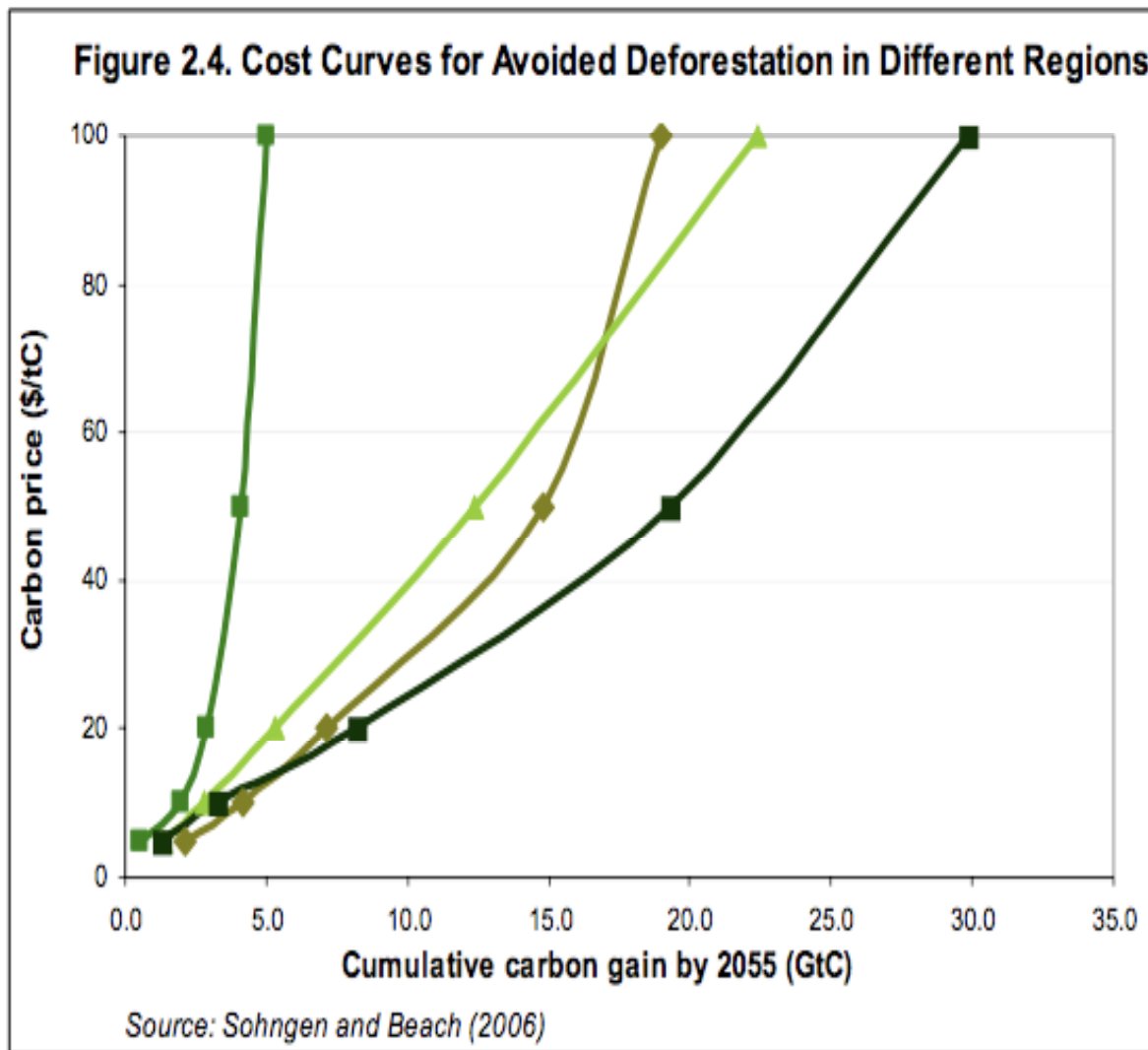
Voluntary Market - Issues

- Historically somewhat weak due to lack of commonly recognized standards for REDD projects (VCS can address this constraint)
- *Concerns over projects that may not deliver what promised*
- Uncertainty regarding future of voluntary market - especially with forest carbon entering compliance markets
- *Volatility*

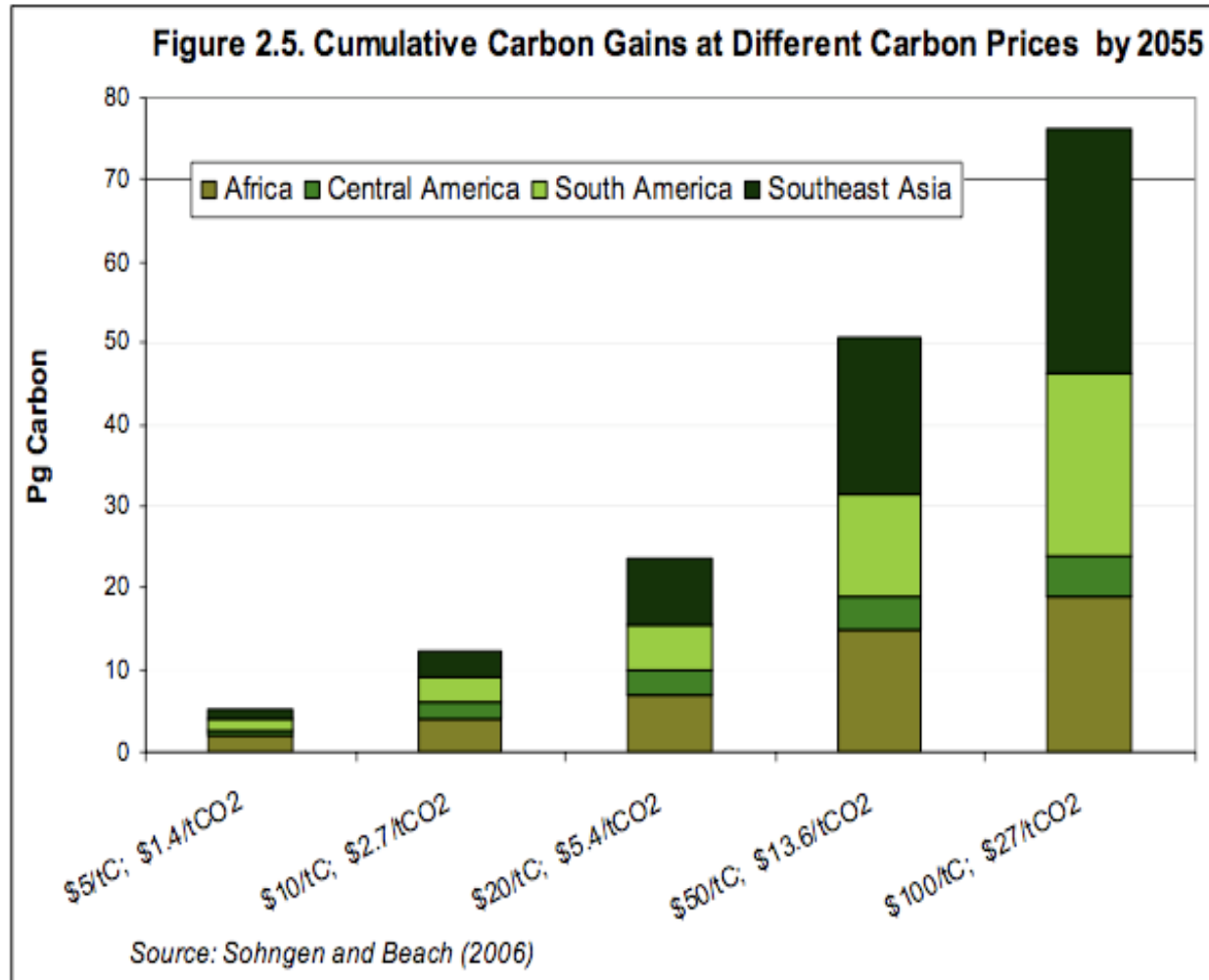




Price Matters



Price Matters



Near Term Future

Voluntary Market will continue to grow with new buyers looking for quality projects with good stories and new suppliers develop projects for the market - there will be greater competition

Buyers appear willing to purchase credits with vintages through 2012 - so there is still time to develop projects for the market - with caveats

Demand is stronger for ex-post credits (risk) - WCS preference
Some investor interest in acquiring future credits (an ante) exists - how far into the future is the question

Private capital still interested in voluntary market REDD projects with demand likely to grow after US agreements



Longer Term Future

QuickTime™ and a
decompressor
are needed to see this picture.

?



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"Offsets are an imaginary commodity created by deducting what you hope happens from what you guess would have happened."

(Dan Welch quoted in *The Guardian*, June 16 2007)



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