



6. Projections

Striking a New Balance



Ecosystem Marketplace
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6. Projections: Striking a New Balance

This backward-looking report takes a snapshot in time of the projects, buyers, and suppliers that together formed a marketplace in the previous year. All the while, trends tracked in the past continued to unfold over the six months that we collected data and compiled a new report. By the time suppliers are asked to predict future market activity, in many ways the future is already here.

With that in mind, this report's survey asked suppliers to give a panoramic view of their projections for voluntary carbon market growth and to report their future plans at the project level.

6.1 Suppliers' Market Projections: Summary

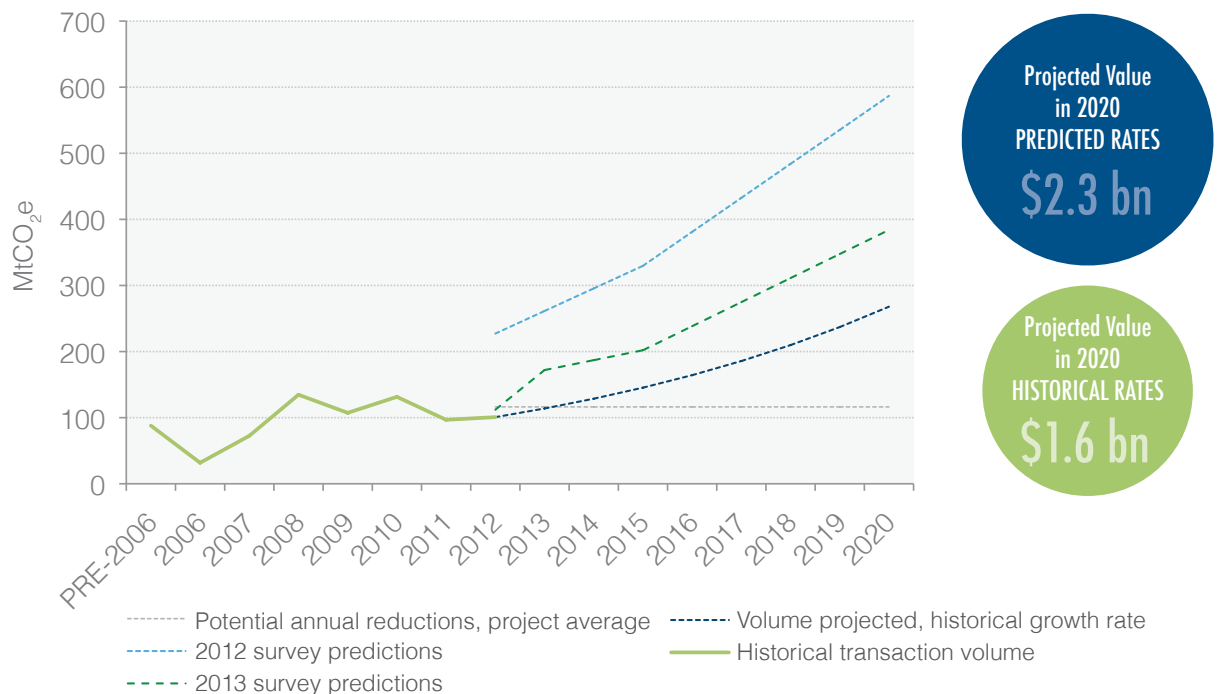
Projects that successfully contracted offsets in 2012 could potentially reduce 54–295 MtCO₂e/year; or 430–2,360 MtCO₂e cumulatively over the next eight years, according to projects' estimated annual reductions. Based on the 2012 average price for voluntary offsets (which is also the historical average price) of \$5.9/

tCO₂e, supporting emissions reductions from existing projects could carry a price tag of \$319–\$1,741 million per year.

This does not account for projects that might exit the market, as discussions with offset suppliers indicate that project developers will indeed abandon carbon project activities and revert back to a business-as-usual scenario if/when carbon revenues prove insufficient. Others, like clean cookstove distributors, say that in the absence of sufficient carbon revenues, they would have to increase the price of stoves sold to end users and thus distribute fewer stoves overall – but would not necessarily cease operations.

Nor does it account for the even larger volumes of emissions reductions from large-scale projects that are not yet online, but are in the pipeline. In another section of our survey, project developers reported that they anticipate bringing an additional 1,440 MtCO₂e online over the next five years, more than voluntary offset buyers have contracted cumulatively to date.

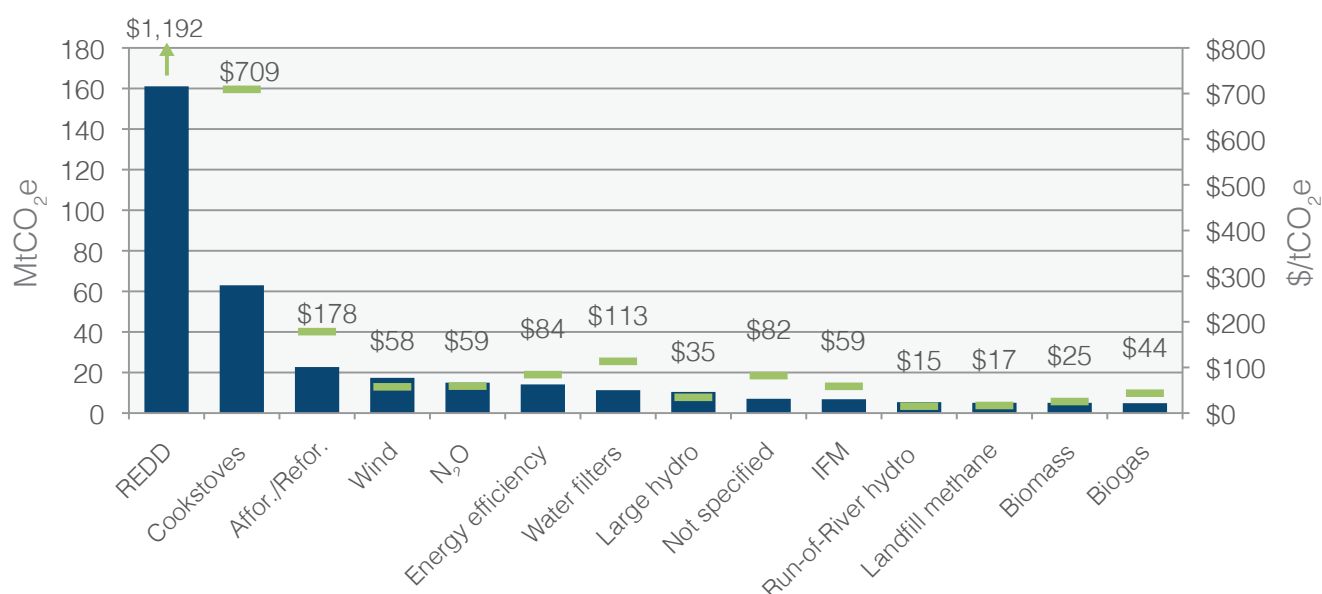
Figure 56: Market Projections, Historical Data and Supplier Predictions



Notes: Based on 87 organization responses.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

Figure 57: Market Projections, Supplier-Estimated Project Pipeline Volume and Value, 2013-2017



Notes: Based on 351 MtCO₂e pipeline targeted toward voluntary buyers as reported by suppliers, excluding estimates >50 MtCO₂e and pre-compliance market volumes, which are discussed in Box 3.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

Removing a few large outlier responses from this estimate (>50 MtCO₂e over five years), the total volume of tonnes targeted toward purely voluntary buyers that suppliers expect to bring to market over the next five years is closer to 351 MtCO₂e. Measuring these estimates against the current average price for each project type (Figure 57), the total value of suppliers' offset pipeline adds an estimated \$2.7b over five years (or \$535 million/year) to the potential financial needs of existing projects described at the top of this section. It is important to recognize, though, that projects do not necessarily have to sell every tonne in order to continue supporting project activities.

To absorb these volumes, and according to survey respondents' back-of-the-envelope predictions, suppliers expect an average market growth rate of 17% in 2012-2020. Based on the voluntary carbon market's historical average price of \$5.9/tCO₂e, suppliers' predictions place market value at \$2.3 billion in 2020. Another predictive measure – that of recent years' average growth rate for voluntary offset demand (13% from years 2008 to 2012) – estimates 2020 market value at \$1.6 billion.

6.2 Supplier Estimate Details

This year, 87 survey respondents predicted the overall transaction volume of the voluntary carbon markets in 2012, as well as projected market size and growth through 2020. With all responses weighted evenly, this

year's respondents slightly overestimated the 2012 market in which they sold offsets, predicting that the market transacted 112 MtCO₂e in 2012. This is only 11 MtCO₂e more than was actually tracked.

Looking ahead, suppliers forecasted a 54% growth rate for the 2013 market, expecting that they and their peers will transact 172 MtCO₂e in the current year. To achieve this predicted sales volume in 2013, suppliers would need to transact 71 MtCO₂e more than they did in 2012.

Future year estimates (2013-2020) are more conservative than volumes predicted by our 2012 survey participants participating in the 2011 offset market. Suppliers say this more conservative growth rate is restrained by the market's emerging picture of steady but limited year-on-year demand – but shows continued growth based on the expected emergence of domestic offset demand from developing markets outside of North America and the EU.

6.3 Predicted Standard Utilization

Third-party standards play a powerful role in shaping the voluntary carbon market, offering guidance to project developers in the mainstream and niche markets. With all of the choices available, we asked suppliers to weigh in on which standards they plan to use in 2013. Participants were given the option to select an unlimited number of standards from our list

– including internally created standards and a write-in option. Each response was given equal weight regardless of suppliers' transaction volume. Figure 58 shows the number of respondents that selected each standard. As responses are not volume-weighted, a standard's popularity does not necessarily equate to market share in 2013.

In keeping with previous years' trends, the VCS was again reported as the most sought-after certification, with 118 organizations (27% of respondents) planning to use the standard in 2013 – 2 fewer than in 2012. As seen further down the chart, at least 43 respondents intend to tag VCS forestry certification with the CCB Standards as well.

Close behind the VCS, The Gold Standard gained significant traction with as many responses as were tracked for the VCS in the previous year – and the largest growth in predicted usage numbers of any standard. This includes some responses that were once attributed to the CarbonFix Standard, which will now fall within The Gold Standard's jurisdiction.

Next in line were suppliers that expect to sell offsets certified to CDM methodologies in 2013 – which saw 6 more responses than in 2012. CAR retained its fourth place ranking among carbon accounting standards in 2013, but the number of organizations planning to

use the standard or its registry fell by 2 respondents in 2012. So, too, did prospective users of California Compliance Offset regulation-based protocols, which fell by 4 responses in our 2013 survey.

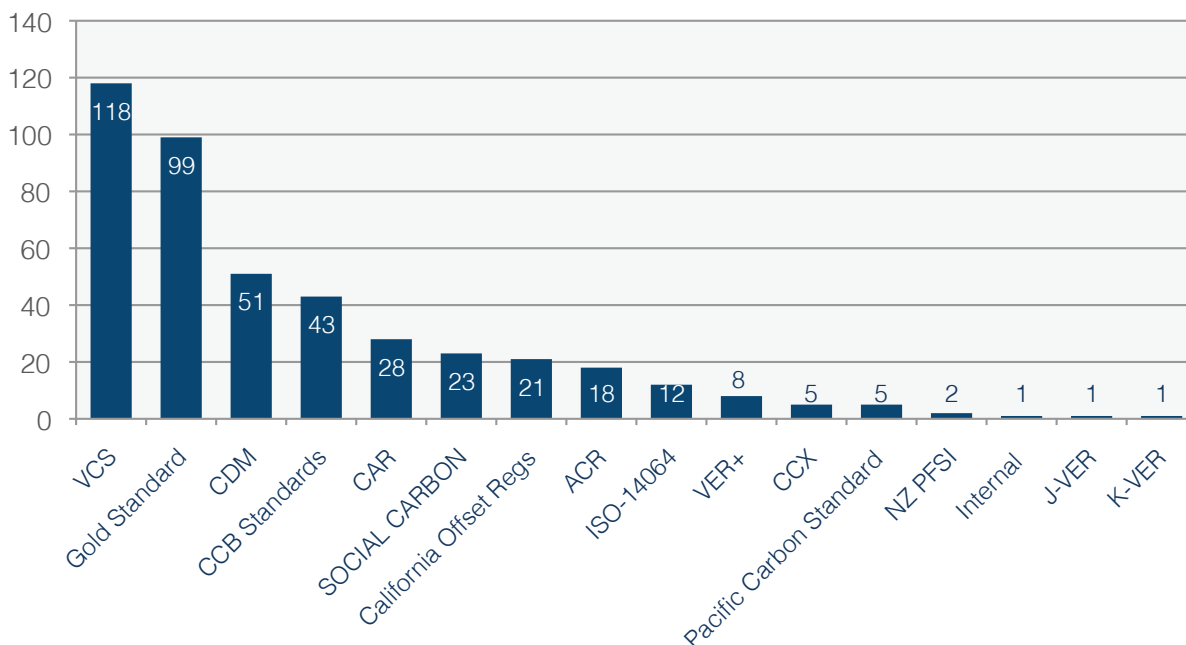
Predicted 2013 usage numbers for ACR were also down by 4 responses, though intended use of its registry (presumably as a California compliance program Offset Project Registry) increased by 12 responses to 34 users.

6.4 The Year Ahead: Striking a New Balance

As seen in the mosaic of project types, regional trends and unpredictable drivers of offset demand presented in this report, our analysis should be viewed only as a starting point for understanding demand in the current year which continues to evolve as both offset buyers and suppliers innovate new ways to mitigate GHGs, influence policy, and communicate their purchases and successes.

Already in 2013, major organizations ranging from Microsoft to the United Nations Environment Programme have renewed or made new offsetting commitments. On the “sell” side, programs like the UN Foundation's Global Alliance for Clean Cookstoves and campaigns Code REDD and Whole World Water are expanding their efforts to raise public awareness of voluntary carbon

Figure 58: Market Projections, Supplier-Estimated Standard Utilization, 2013



Notes: Based on 436 unique responses.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

finance's contributions to forest conservation and sustainable development. Meanwhile, offset suppliers are experimenting with crowd-funding, collective purchase auctions, and wrapping inexpensive issued offsets with forward sales of offsets from early-stage projects to support both existing and future offset project development.

Offset suppliers remain concerned that the collapse of an EU carbon price and exclusion of a host of CDM projects post-2012 will channel an oversupply of compliance instruments into the voluntary markets. Ecosystem Marketplace will continue to closely track this trend throughout the year.

While concerns about the fate of millions of CERs drive some suppliers to distance themselves and their products from the Kyoto offset market, others are focusing on connecting with emerging compliance programs – in California, Australia, South Africa, China, and various regions in Latin America. Here, offset infrastructure providers and market participants are working to bridge the gap between voluntary and compliance programs. As some offsetting activities in these regions shift from voluntary, “pre-compliance”

preparations to full-blown compliance market participation, findings around market size and makeup in this report series will no doubt change substantially in future editions.

In the midst of this dynamic marketplace, voluntary offset market players are also changing their pitch from simply offsetting carbon emissions to relating their on-the-ground experience to broader policy and corporate sustainability objectives.

This involves highlighting the offset project market's potential for rapid response to mitigation opportunities that can supplement slower-moving fund-based actions. Some market players are focused on communicating lessons learned about verification and results-based finance models. Still others are developing a new lexicon around the delivery of vulnerability reduction, health, and other public benefits associated with private sector interventions.

Through a combination of these and other efforts to raise the offset product market profile, suppliers strive to remain relevant as climate policy makers target ever more scalable solutions.



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