



The Carbon Market - Opportunities & Logjams



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Katoomba Carbon Markets Session
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Who We Are

- Climate Change Mitigation Consulting
 - Corporate strategy, risk, positioning
 - Market tracking, forecasting
 - Project and portfolio development, analysis
- Primary Clients in Japan, Canada, United States
- Very Invested in Market Mechanisms
 - First utility offset project (1989)
 - First U.S. forestry mitigation projects
 - First Costa Rican offset project (1992)
 - Ran biotic mitigation policy project (1993-96)
 - Developed first offset portfolio (1996)



What We Believe

- That Climate Change is a Huge Problem
- That Markets Have a Key Role to Play in Achieving Climate Policy Objectives
- That Maintaining the Credibility of Market Mechanisms Is Crucial for Business
- That Land Use Opportunities Have a Key Role to Play in Carbon Markets



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Carbon Market Profiles

- The International Carbon Market
 - Has grown rapidly
 - Will continue to grow
 - EU ETS prices reached almost \$40/ton
 - Some people making real money
 - Key sectors: HFC23, N2O, Methane(s)
 - Lots of Uncertainties Persist



Carbon Market Profiles

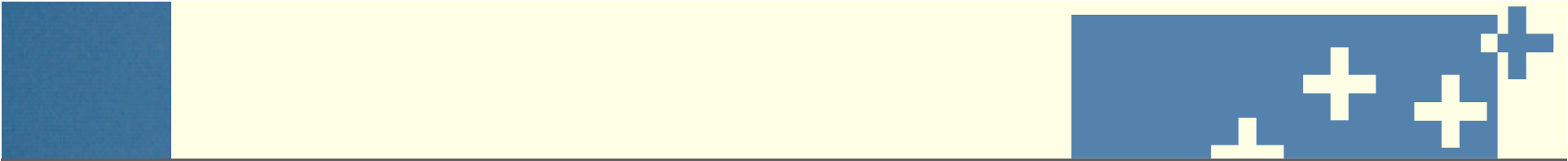
- The Domestic Market
 - Has been relatively small
 - Is almost entirely voluntary
 - No widely accepted quality standard
 - Prices very mixed, from \$1 - \$10/ton
 - Poised For Potentially Major Growth
 - Voluntary and mandatory
 - Corporate and personal
 - Big uncertainties about future path of market



Carbon Market Opportunities


- Supplying Voluntary Markets
- Supplying Mandatory Markets
- Developing New Technologies
- Developing Carbon Funds
- Developing Carbon Neutral Products/Services

- There Are Major Opportunities!
- But: Considerable Confusion, Growing Skepticism



Why Markets Such a Natural Fit

- A Global Bubble for GHGs
 - No other commodity can boast this
 - Widely varying supplies and costs of reductions
- The Downside?
 - If a market, need market demand
 - Offsets have to be “competitive”
 - What’s a “real” offset and what’s not?



Where's the Rub?

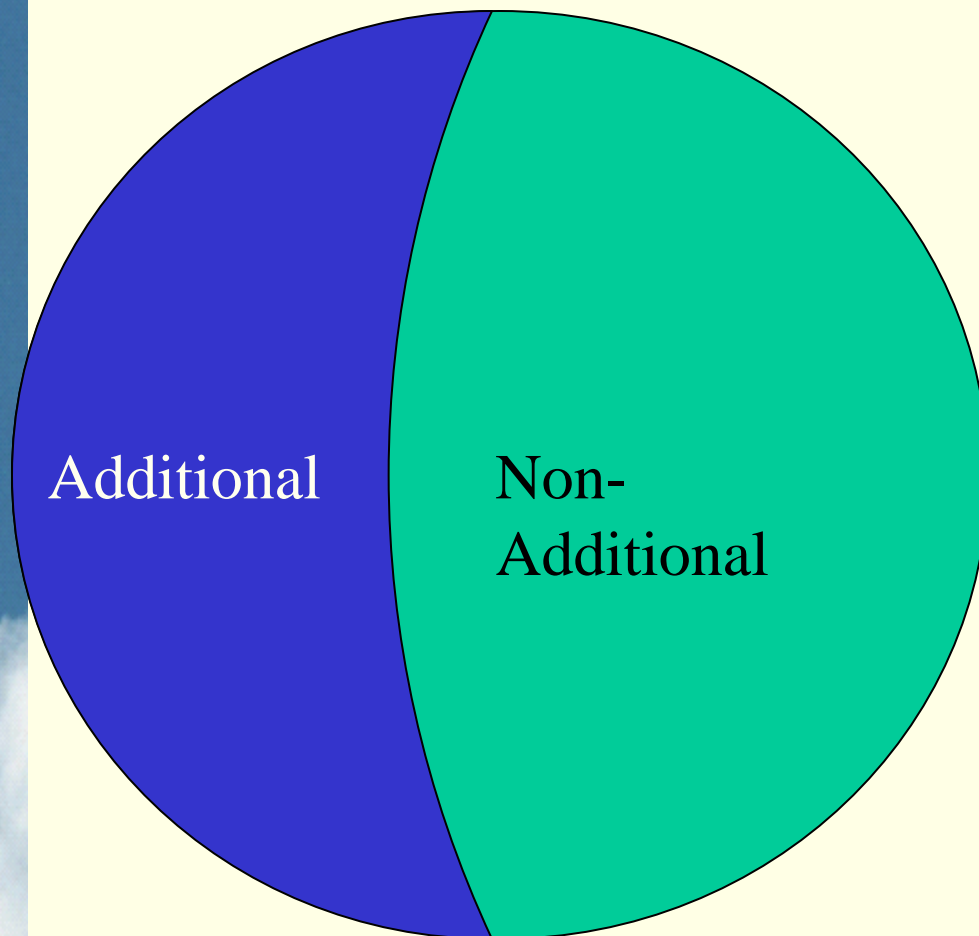
- Concerns About Emissions Trading As a Cop Out
- Environmental Justice
- Growing Questions About Whether Carbon Offsets Are Real, or Simply Philanthropic
- So What is Offset Quality?
 - “Real, Surplus, Measurable, Permanent, and Enforceable”?



Let's Remember

- We've Met the Enemy and . . . We're It!
 - Reason forestry set back in 1990's was assault by environmental NGOs, who were concerned that forest offsets would supplant all else
 - One reason small, sustainable projects don't compete well in today's CDM market is because NGOs are so focused on precision and timing
 - Why? Because there is a lot of suspicion of market mechanisms

The Context for Additionality

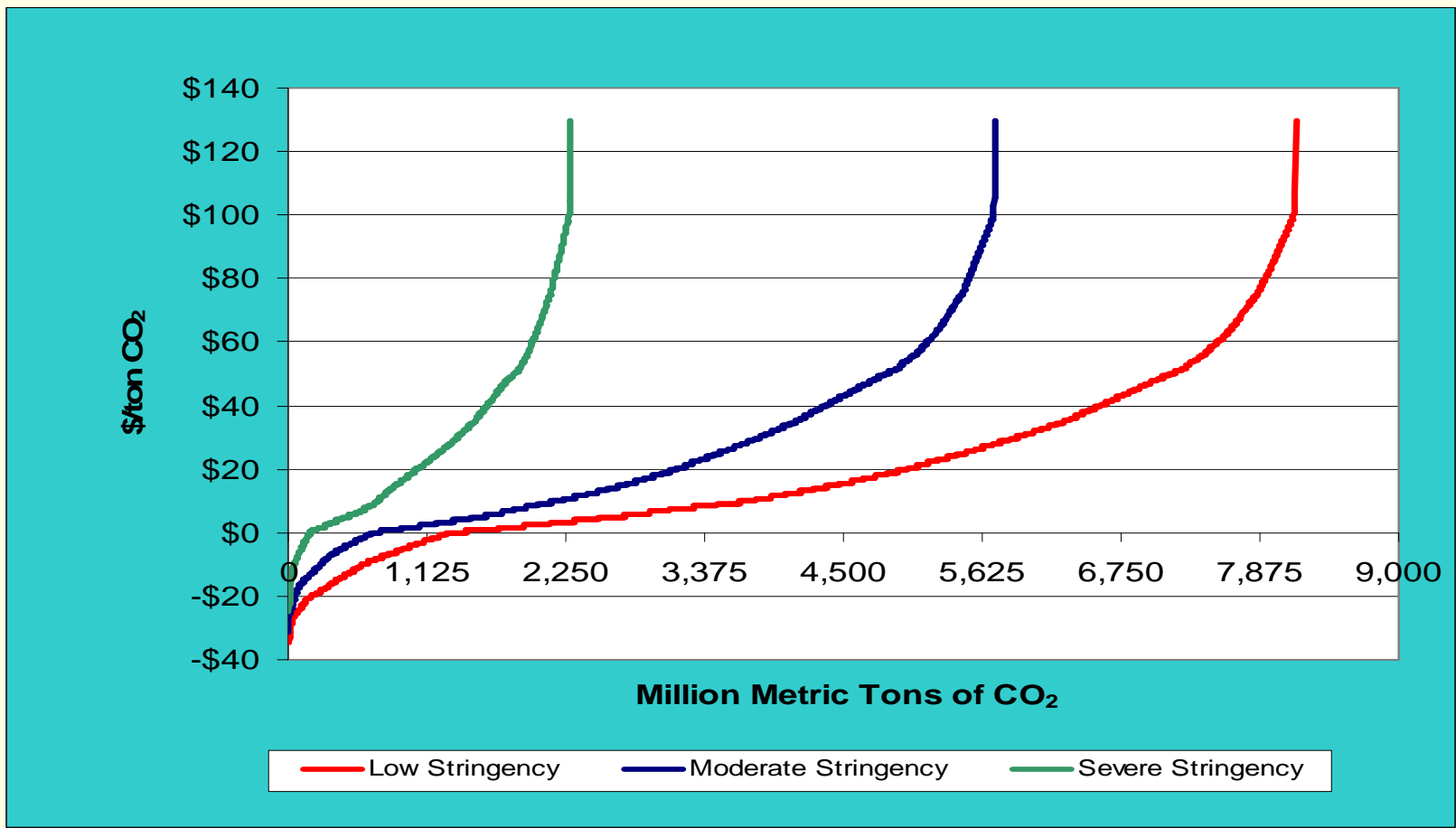


Theoretical Mitigation “Supply”

- If everything displaces coal
- If all efficiency gains count
- If all behaviors count
- If all nuclear counts
- If all forestry counts

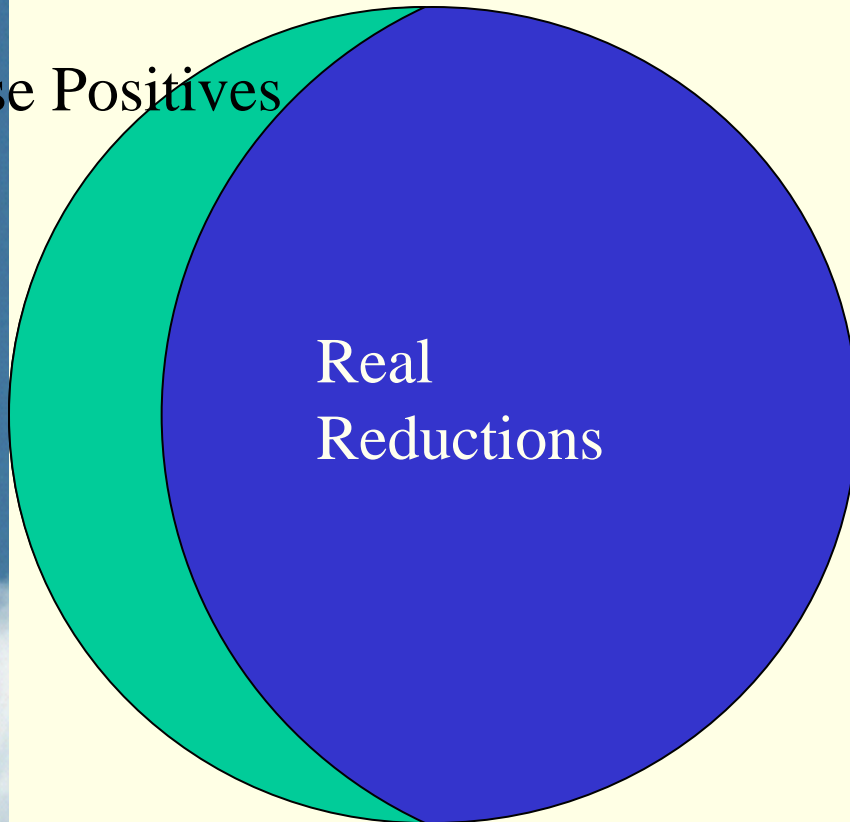
There are **MANY** things happening that “reduce” GHG emissions

2010 GHG MAC Curve

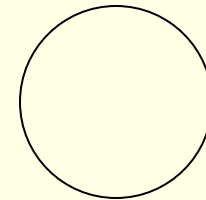


Where We Are Today (illustrative)

False Positives



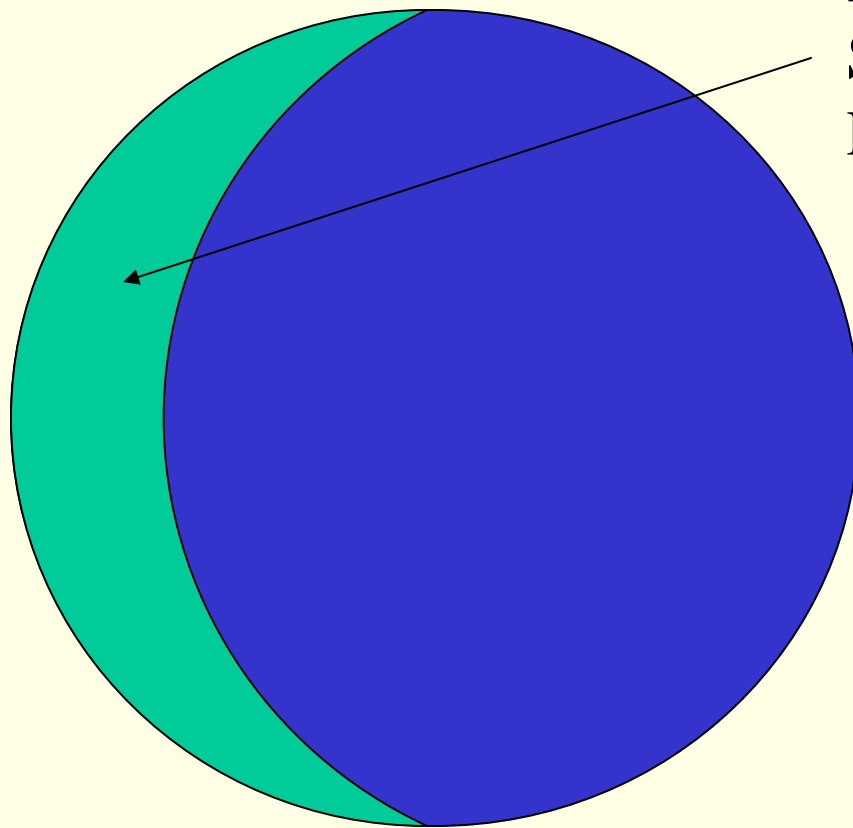
Real
Reductions



Near Term Credit
Demand

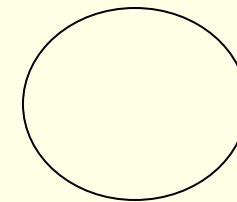
Potential Credit Supply

Where We Are Today (illustrative)

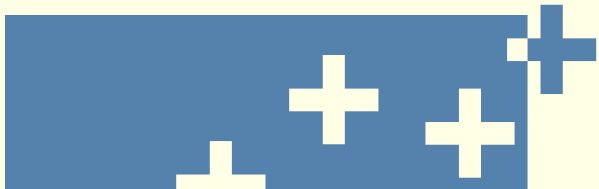


Credit Supply

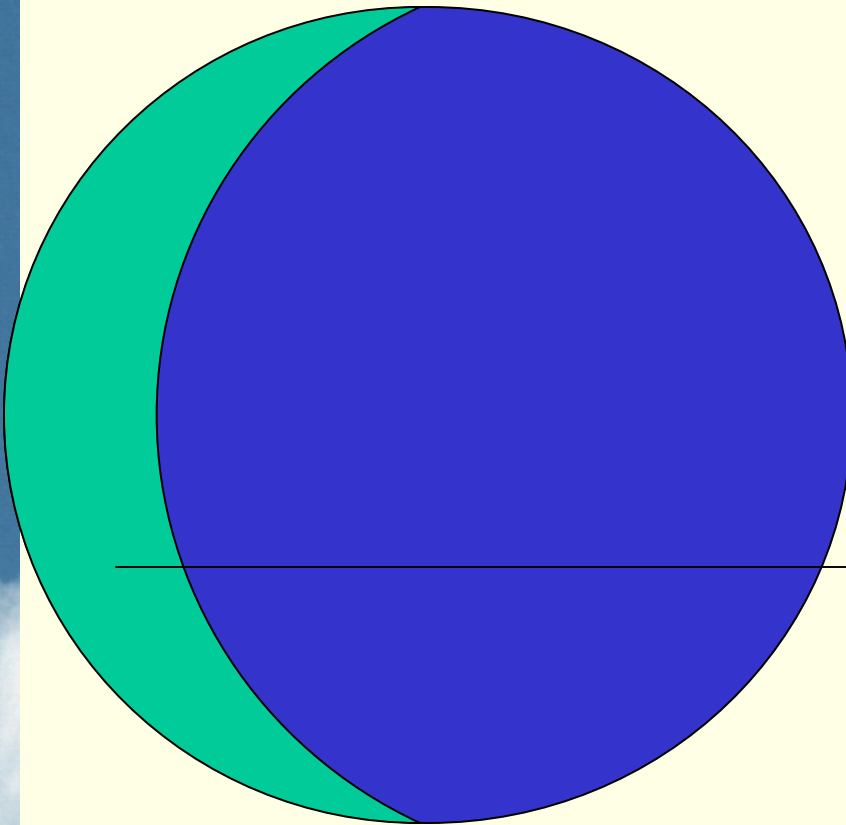
20% False Positives in a 3 GT
Supply = 600 MTs of False
Positives



Current Credit Demand

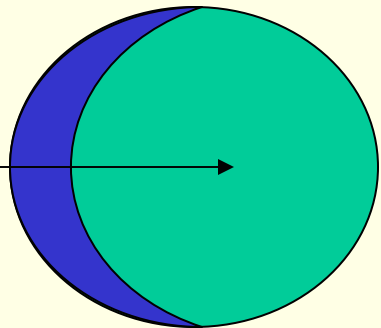


A Very Possible Outcome



Current Credit Supply

Enough False Positive Credits
to Supply Demand (at
Basically Zero Cost)



Current Credit Demand



Conclusions

- Growing GHG Markets Not A Win Per Se
- Question is What the Markets Accomplish
- We Need to Preserve Market Credibility
- We Need to Get Beyond “Offsets Are Good,” and Respond to the Legitimate Concerns of NGOs, Others
- That’s How We Take Advantage of Markets, and Keep Their Credibility



Want More Information?

- On Offset Markets or Additionality
- Our Publications
- Our Strategic, Market, and Project Work

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