Universal Carbon Exchange

Providing global business solutions for Kyoto Protocol risk management
Universal Carbon Exchange

Company focus:

- Global carbon markets
- Carbon trading
- Carbon registry systems
- Clearing & settlement
- Internet market access and product distribution
- Consulting
Kyoto Protocol: Summary

- Annex B targets (caps)
- Flexibility Mechanisms
- Measuring, reporting & review
- Compliance
- Entry into force
- Developing country issues
Kyoto Protocol

- Achieving Kyoto targets not easy

- Flexibility is needed to:
  - meet targets (environmental objective)
  - reduce costs of meeting targets

- Answer: Flexibility Mechanisms
  - an integral part of the Kyoto Package
Flexibility Provisions

- Emissions Trading (Art 17)
- Clean Development Mechanism (Art 12)
- Joint Implementation (Art 6)
- Forestry sequestration (Art 3.3)
- Other sequestration (Art 3.4)
- Land Use Change (Art 3.7)
- Bubbles (Art 4)
- Banking (Art 3.13)
A Carbon Market Already Exists

**Forestry credits**
- NSW State Forests & Tepco
- BP clean & green fuel

**CDM investments**
- Multi-$billion funds
- Return + credits
- Credit Lyonnaise ($1billion)
- EBRD ($150million)
- $180 million World Bank Prototype Carbon Fund
A Carbon Market Already Exists

Other Examples

- Soil sequestration
- Land fill gas (Ontario Power-Zapco 2.5MtCO2)
- Agricultural Methane offsets
- TransAlta-HEW (24,000 tCO2 emission reduction)
- BP & Shell
- UK Government
Why are companies trading?

- Risk management
- Learning
- Leadership
- Structured products
- Influence
- Environment
- Competitive advantage
- Profit
Carbon Market Evolution: Stage I

- Informal ‘grey’ market (not all rules known)
- Forward spot trading (e.g. UCX forestry credits)
- Derivative on forwards
  - Futures, options, swaps
- OTC trades first, then exchange traded markets
- Risks are greater (speculative)
- Structured products
Carbon Market Evolution: Stage II

- Formal market (rules known)
- Physical spot trading
- Derivative on physicals
  - Futures, options, swaps
- OTC and exchange traded markets
- Risks are less
- Structured products
- Forward spot trading
Article 3.3 Explained

80 tCO2 Added to Assigned Amount
Article 3.3 Trading Market

Carbon Supply

Carbon Demand
Article 3.3 OTC Markets

Carbon Supply

OTC broker

Carbon Demand
Article 3.3 Exchange Traded Markets

Accredited Carbon Supplier
- Must meet rules of supply
- Credit rating
- Risk management
- Carbon Accounting Standard
- Article 3.3 requirements

Accredited Verifier

Electronic Exchange
- Trading
- Clearing
- Registry
- Regulation

Carbon Demand
Kyoto Risks

- Entry into force
- Price of permits and credits
- The implications is what matters
- Risk management is wanted
Kyoto Risks: Solutions

- Do nothing
- Become informed
- Conduct corporate risk assessment
  - GHG inventories, products, suppliers, entry into force scenarios, permit price scenarios, allocation scenarios, corporate structure, abatement options and costs
- Work out a strategy with contingencies
Kyoto Risks: Solutions

- Start to take action to manage risks
- No regrets abatement
- Invest in abatement options & projects
- Corporate restructuring
- Lobby governments
- Early trading in physical and derivative markets.
  - To manage price risk
  - UCX market niche
What does the carbon credit market need?

- Clear decisions at COP6
- Champions
- Companies with vision, innovation and know how
- Doers who “Just do it”
- Price signal
- Capital will flow and the market will work
- For the benefit of business, governments and the environment
**Concluding remarks**

- Kyoto Protocol represents risk
- Risk management products & services wanted
- Kyoto Protocol represents opportunities
- What will be the outcome from COP6?
- COP6 could unlock $billions of global capital for emissions abatement (technology, sinks) and risk management services
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