

The Commercial Market for Carbon Credits

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Universal Carbon Exchange

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*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

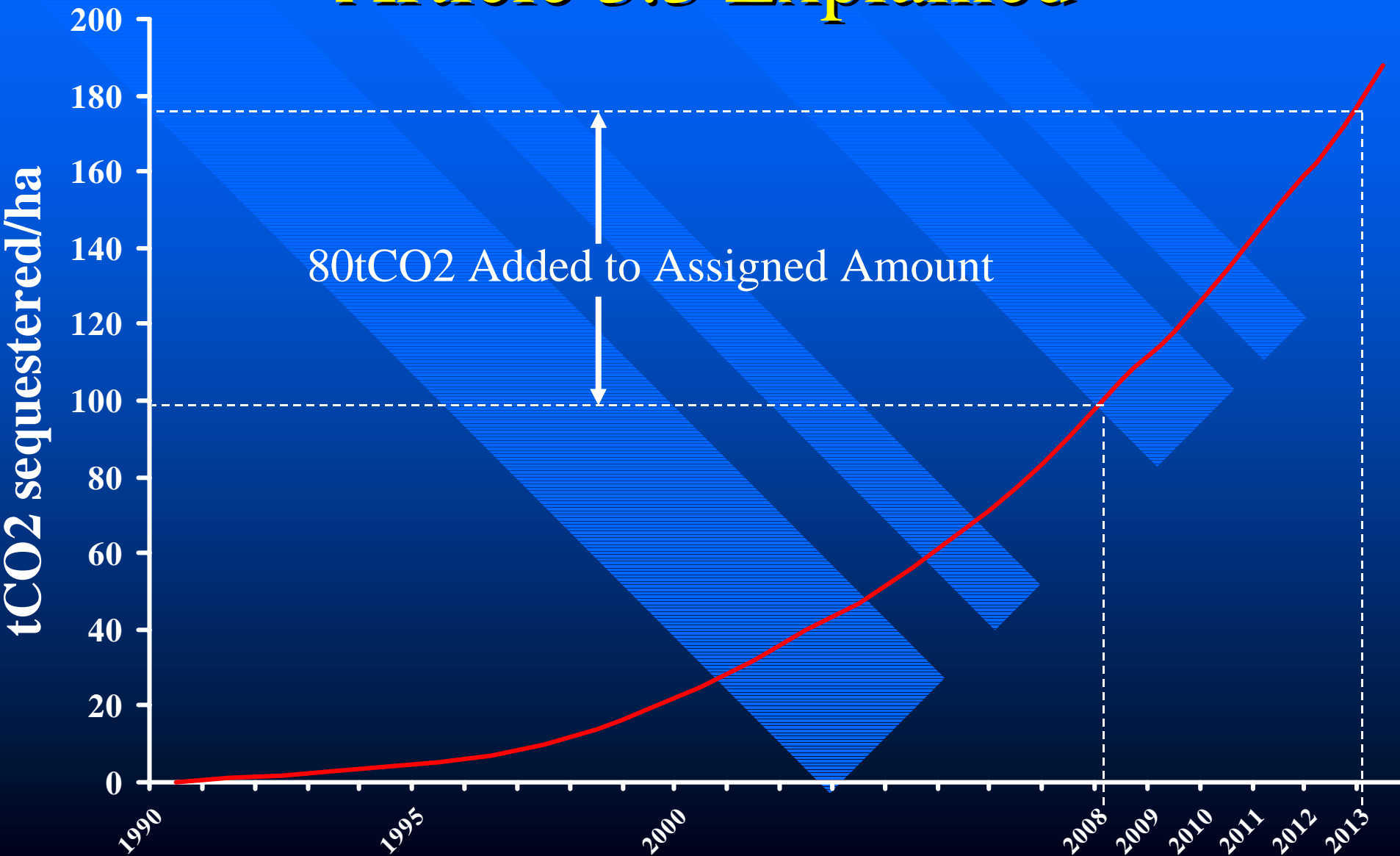
Carbon Market Evolution: Stage I

- 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

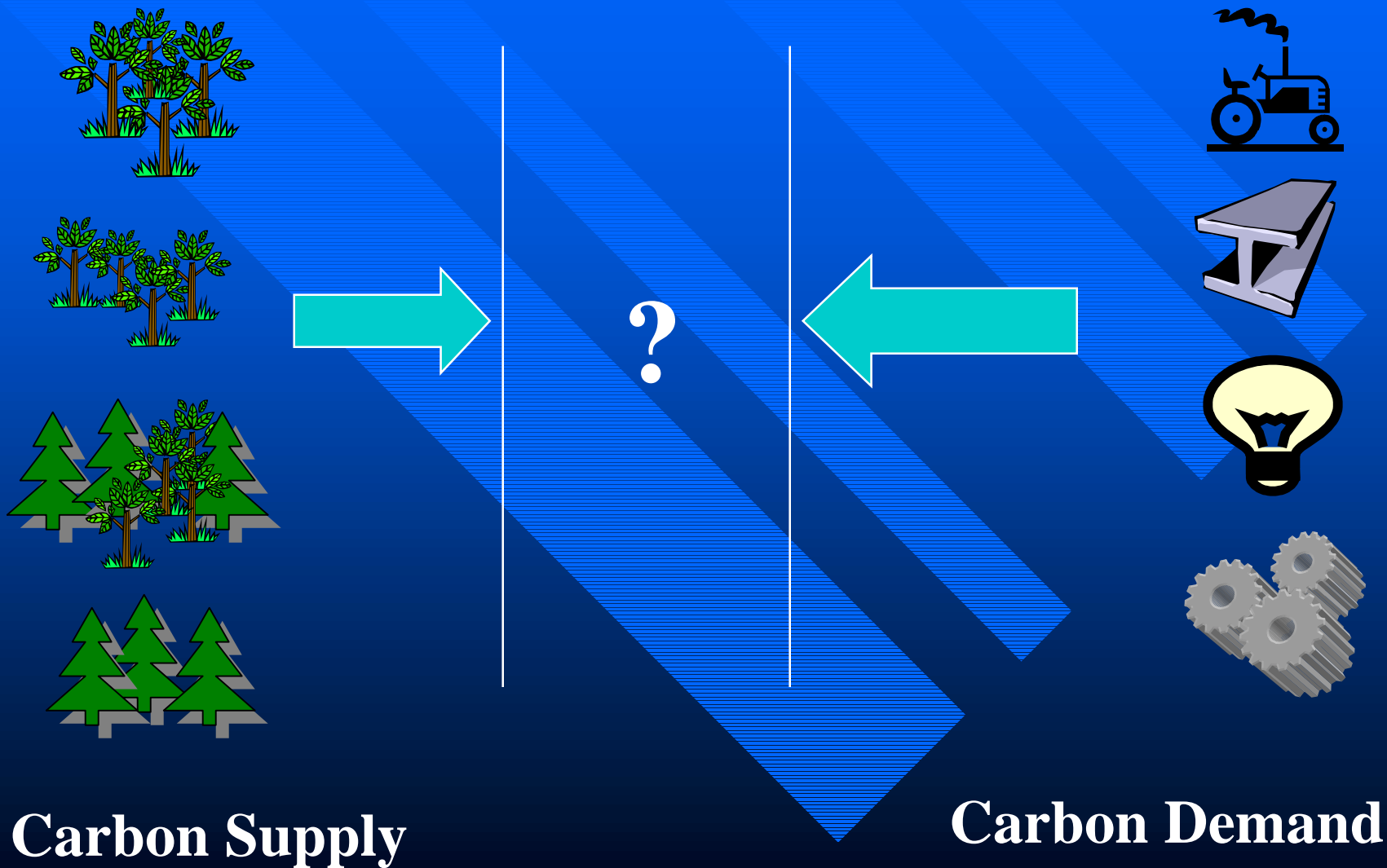
Carbon Market Evolution: Stage II

- 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

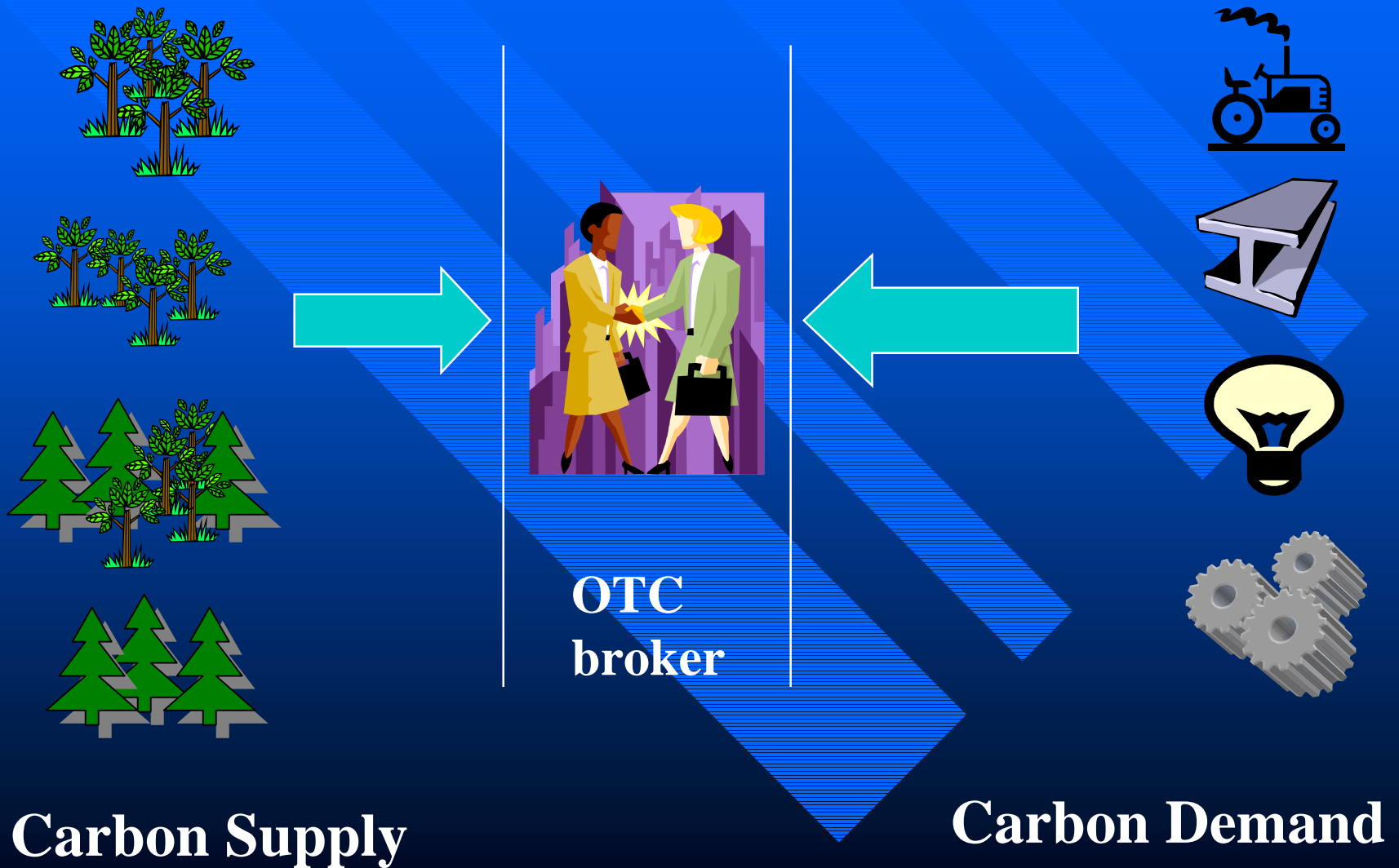
Article 3.3 Explained



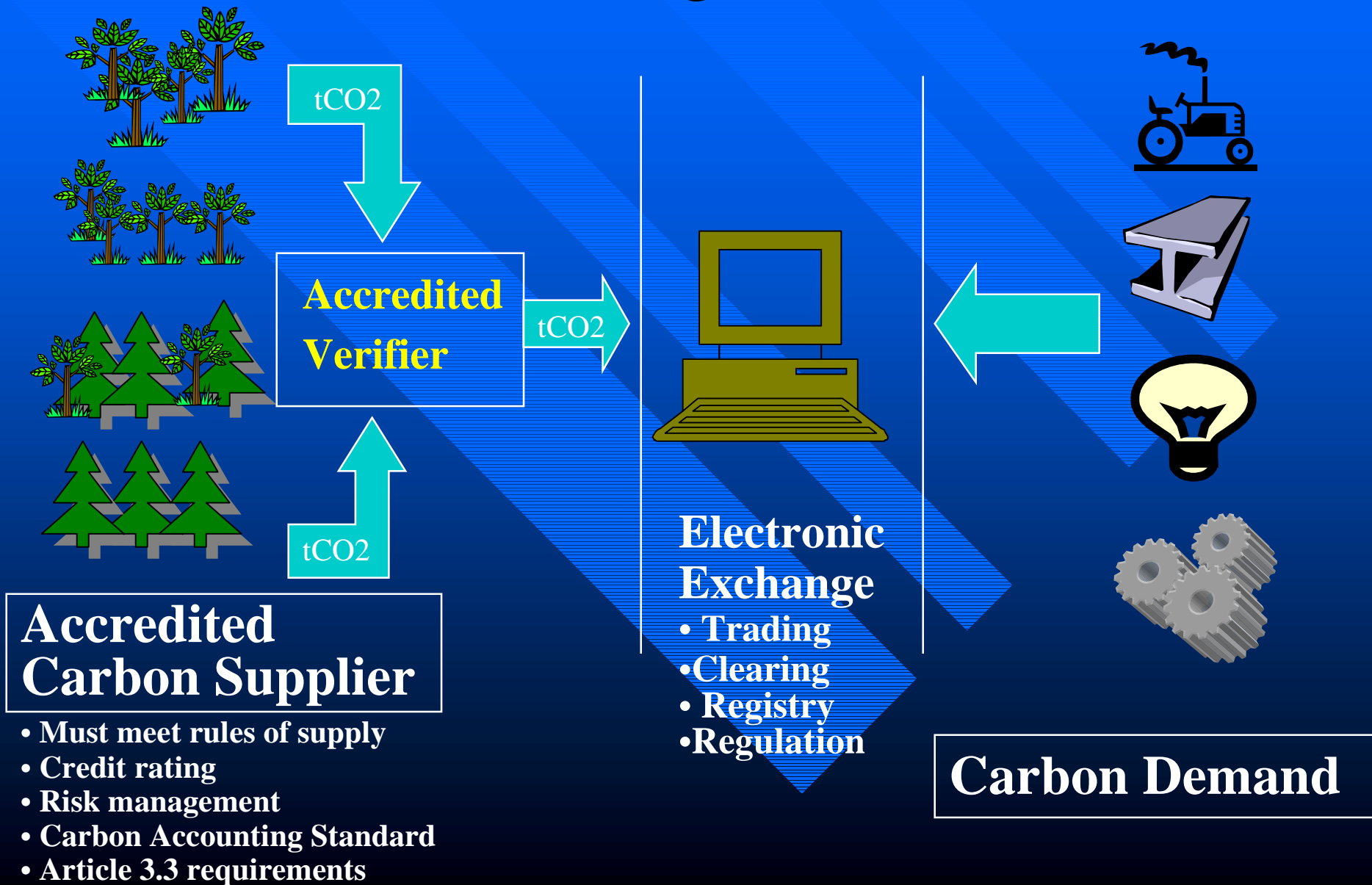
Article 3.3 Trading Market



Article 3.3 OTC Markets



Article 3.3 Exchange Traded Markets



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?
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- COP6 could unlock \$billions of global capital for emissions abatement (technology, sinks) and risk management services

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