Sixth Annual Workshop on Greenhouse Gas Emissions Trading

EcoSecurities Group
Sept 2006
Who we are

EcoSecurities is a leading company in the business of sourcing, developing and trading carbon credits in the global carbon market.

Founded in 1997, EcoSecurities’ project portfolio today comprises of:

> Over 235 projects at different stage of the CDM cycle
> Over 110 projects validated or submitted for validation
> Developed and/or contributed to more than 10 UN approved methodologies
> Over 60 projects registered or submitted for registration with the CDM executive board
> Over 160 of the projects have secured financing and over 110 are under construction or operational
> spanning 26 countries, using 17 technologies
Global presence and experience

Presence in 22 locations in 20 countries, worked in more than 80 countries and structured CDM or JI projects in projects in 26 countries

Oxford
New York
Los Angeles
Mexico City
Rio de Janeiro
Santiago de Chile
Dublin
Paris*
Madrid*
The Hague
Casablanca, Morocco
Johannesburg

Karachi, Pakistan*
Mumbai
Bangkok
Beijing
Chengdu
Philippines
Kuala Lumpur
Jakarta
Guatemala
Jordan

* No legal presence but EcoSecurities has entered into contracts with individuals to act as EcoSecurities representatives
Review of Performance
Role of the CDM

- The clean development mechanism (CDM) defined in Article 12 provides for Annex I Parties to implement project activities that reduce emissions in non-Annex I Parties, in return for certified emission reductions (CERs).
- The CERs generated by such project activities can be used by Annex I Parties to help meet their emissions targets under the Kyoto Protocol.
- Article 12 also stresses that such projects are to assist the developing country host Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention.
- Are the objectives being achieved?
Over the last year, submission of projects to the CDM has increased significantly:

- 418% growth in PDDs submitted (to a total of 990);
- 286% growth in potential CERs output, to a total of 1,137 Mt

Source: UNEP-RISOE 09/08/2006
Increasing buildup of methodologies

> 65 methodologies have already been approved by the CDM Executive Board

Source: UNEP-RISOE 09/08/2006
In terms of PDDs, renewable energy projects are the most numerous.

Source: UNEP-RISOE 09/08/2006
China, India and Brazil very active in developing CDM projects.

Figures denote number of projects

Source: UNEP-RISOE 09/08/2006
Issuance beginning to take place

As of mid September 2006, a total volume of 14.4 million CERs have been issued to CDM project developers.

Source: UNFCCC, Sep 06
However, there is still room for improvement
High degree of rejection of methodologies

- While 166 methodologies have been submitted to date,
  
  Only 65 approved,
  
  101 were rejected or waiting to be reviewed

Source: UNEP-RISOE 09/08/2006
Slow progress through the CDM project cycle

Of the 996 projects, only 35 have received CERs

Source: UNEP-RISOE 09/08/2006
In terms of volume, high dependency on few HFC and industrial gas projects, mostly developed by larger companies.

Concentration of volume in a few technologies

Figures denote number of projects

Source: UNEP-RISOE 09/08/2006
Concentration of volume in a few technologies

Volume issued to date, per technology:

HFCs – 11 m CERs
Others – 3.5 m CERs

Figures denote number of projects

Source: UNFCCC, Sep 06
Impact on the Market
Categories of CDM risks

Registration Risk:
Bureaucratic risk at every step of the CDM project cycle: Baseline Methodology approval, Host Country Approval, Validation, Registration, Investor Country approval, Review and Issuance

Delivery Risk:
Volume risk & Price risk: pertain to delivery of CERs
Project risks: Country risk (polit./eco./etc.) & Operational risk (credit rating, capability and capacity of staff, infrastructure, etc.)

International CER Transfer Risk:
Registry risk: registries online (CDM Registry, ITL under development)
Annex I country eligibility risk: incl. registry, 1990 baseline, Monitoring system, GHG inventory, UNFCCC approval
Contract Types

1) Seller does its utmost to deliver a flexible/non-firm volume, buyer guarantees to buy
   - Few preconditions

2) Seller does its utmost to deliver a flexible/non-firm volume, buyer guarantees to buy
   - The contract is only valid on a set of preconditions

3) Seller guarantees to deliver a firm volume, buyer guarantees to buy
   - The contract is only valid on a set of preconditions

4) Seller guarantees to deliver a firm volume, buyer guarantees to buy
   - Non-delivery: seller pays mark-to-market/liquidated damages CERs or cash
EU Allowance Market - status

• NAP II – few submissions sent. Most delayed to September. Final agreement by December

• ETS CER caps (supplementarity, linking directive) – is this a problem?
  - UK 8%, Spain 50%, Ireland 50%, Sweden 20%, Germany 12%, Italy 10%...
Pricing

Discounted to account for:
- Registration risk
- Delivery risk
- International transfer risk

Currently 2ndry Market CER price strongly linked to EUA pricing but….
Compliance buyers may build in premium for banking
Further convergence as the infrastructure risks reduce
Potential to decouple as alternative uses drive fundamentals
- Other Compliance markets have potential to start to contribute demand – Japan….U.S ?
- Voluntary markets
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The nature of EcoSecurities' involvement in projects includes projects in which an EcoSecurities entity has an equity or joint venture type interest, projects from which EcoSecurities entities purchase emission reductions for themselves and others, and projects to which EcoSecurities provides consultancy and brokerage services. CER figures are calculated estimates only. Some projects may not perform as expected and therefore the volume of independently verified emission reductions achieved by a project (and therefore the number of CERs issued for that project) may not equal the estimated volume of emission reductions in the PDD (whether the PDD is validated or not). Further, despite concerted efforts it is possible that some projects may never become registered as a CDM project. CERs cannot be issued for a project unless the project is registered and operated according to the International Rules, meaning the UNFCCC, Kyoto Protocol, the Marrakesh Accords, Modalities and Procedures of the CDM (decision 17/CP.7 contained in document FCCC/CP/2001/13/Add2), Delhi Decisions, COP 9 Decisions, any subsequent decisions taken by a Conference of the Parties to the UNFCCC and/or a Meeting of the Parties of the Kyoto Protocol and the CDM Executive Board, in each case as amended from time to time. Figures are presented prior to adjusting for risks associated with the CER project cycle.

In respect of proposals, a number of proposals have been sent but there is no guarantee that such proposals will lead to binding project arrangements. Figures are presented prior to adjusting for risks associated with the CER project cycle. No formal risk assessment was conducted to these projects yet, but risks associated with the CER project cycle could reduce the number of carbon credits to be generated and the potential net value to EcoSecurities. Potential net trading margin to EcoSecurities in respect of proposals does not represent profit to EcoSecurities.