Carbon Market Update

7th Annual Carbon Trading Forum
IEA – IETA - EPRI
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Paris

Some new thinking from Natsource.
More growth. Less pollution.
# The Global Carbon Market’s Coming of Age

<table>
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<th>Time</th>
<th>Market Summary</th>
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<td><strong>2000 – 2002</strong></td>
<td>A small brokered market of candidate CERs/ERUs + emergence of UK ETS</td>
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| **2003 – 2004** | First international compliance market forms  
  • CDM EB began approving methodologies  
  • the EU approved the ETS and Linking Directives  
  • Russia ratified the Kyoto Protocol  
  **Result:** serious growth of interest in CERs |
| **2005** | EU Allowance Market emerges as key driver of global market  
  • EUA Market traded approximately €25.3 billion in 2005 and 2006*  
  • ETS stimulated €4 billion in project-based trading in 2006**  
  • cumulative value of these markets, without U.S. engagement, could reach approximately €100 billion through 2012 |
| **2006 – 2007** | Carbon funds & financial institutions become more prevalent  
  • reports estimate €12 billion committed to public & private funds***  
  • a mix of compliance & investment funds |

*Point Carbon, ** World Bank / IETA, *** New Carbon Finance
Traded Volumes of CERs/ERUs

Source: Based on World Bank’s annual “State and Trends of the Carbon Market” reports.
Carbon market is growing more sophisticated

- Since ETS first launched, CDM market grows more sophisticated each year
- Buyers compete for best structures re: balance of risks / rewards
- Sellers seek alternative transaction structures
  - less POD
  - more pre-pays, indexed and variable pricing structures
- Prices are still volatile
  - Market solutions exist to address
- Purchasers of carbon credits is growing more diverse
  - Compliance buyers
  - Investors (debt / equity / off-takers)
  - Governments
- Secondary market is emerging
Has CDM Achieved its Promise?

• **Regulatory framework and approval process/procedures established and better understood**
  – However, EB decision process is not always transparent and can appear arbitrary
  – Lack of appeal process to improve transparency and prevent mistakes proves costly to the system
  – As a result, regulatory expertise for purchasers matters even more

• **Supply is advancing up the “food chain”**
  – much of CDMs “low-hanging fruit” already harvested (HFC, N2O, etc.)
  – opportunities remain for mid-scale projects, particularly in countries/regions entering the market
  – projects in early stages of CDM cycle provide good value opportunities if risks are understood and managed
Will JI catch up?

- **JI market segment slower to develop**
  - later start date than CDM and ETS
  - JISC and national processes were slower to form
  - higher uncertainty in past meant lower prices

- **Key supply areas expected to be Russia and Ukraine:**
  - national guidelines in place
  - on track to issue Track 2 ERUs by Jan 08
    - however, Russia yet to appoint the DFP and submit its national guidelines
    - New leadership vacuum in Russia could mean delays

- **Market activity in JI is accelerating**
  - as policies / processes get clearer, buyer interest is growing
  - JI should benefit from experience & tools of CDM
  - JISC pipeline has increased substantially in 2007
For More Information

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