



Carbon Market Update

7th Annual Carbon Trading Forum

IEA – IETA - EPRI

7 October 2007

Paris

Some new thinking from Natsource.
More growth. Less pollution.



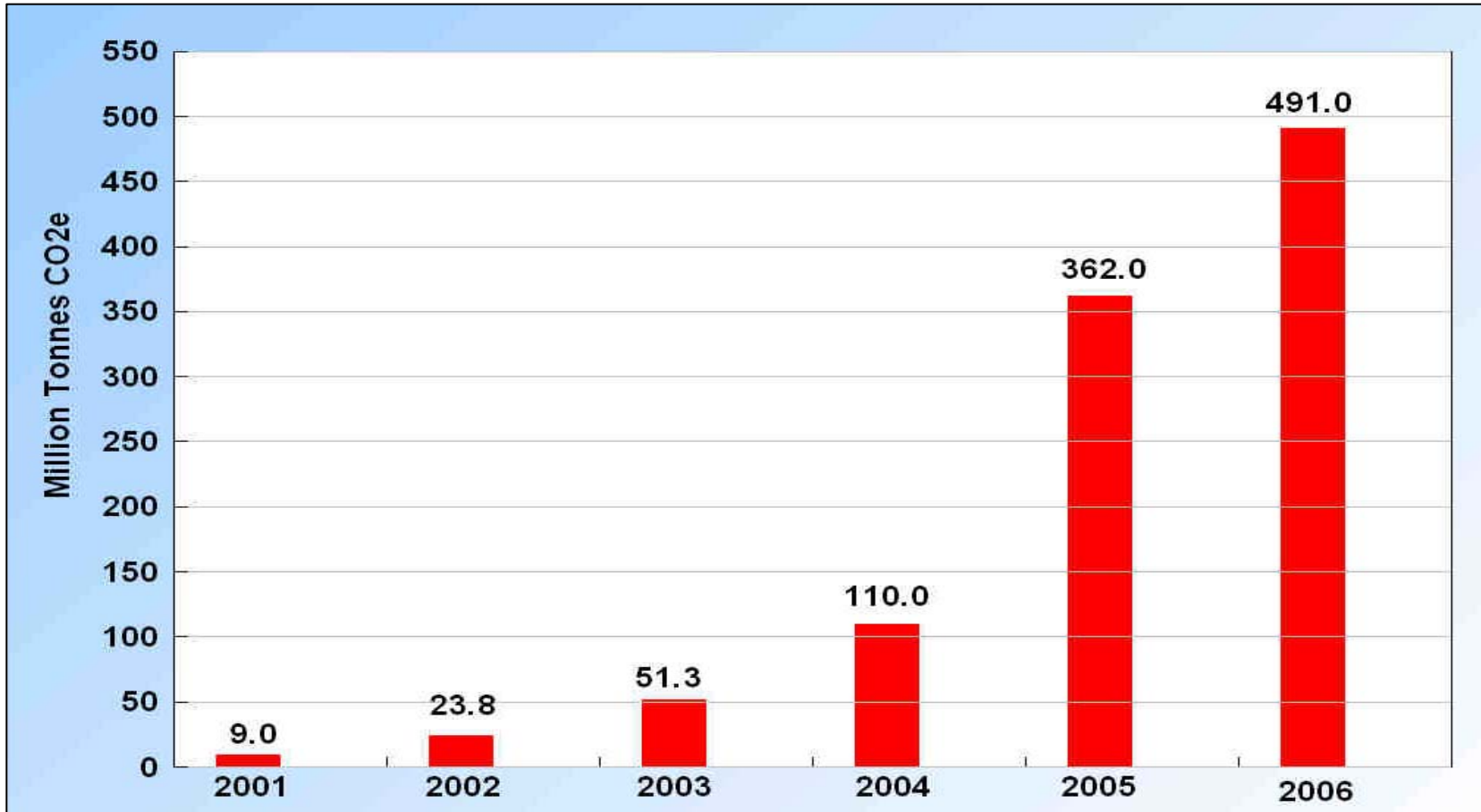
The Global Carbon Market 's Coming of Age

Time	Market Summary
2000 – 2002	A small brokered market of candidate CERs/ERUs + emergence of UK ETS
2003 – 2004	<p>First international compliance market forms</p> <ul style="list-style-type: none"> • CDM EB began approving methodologies • the EU approved the ETS and Linking Directives • Russia ratified the Kyoto Protocol <p>Result: serious growth of interest in CERs</p>
2005	<p>EU Allowance Market emerges as key driver of global market</p> <ul style="list-style-type: none"> • 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	<p>Carbon funds & financial institutions become more prevalent</p> <ul style="list-style-type: none"> • 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

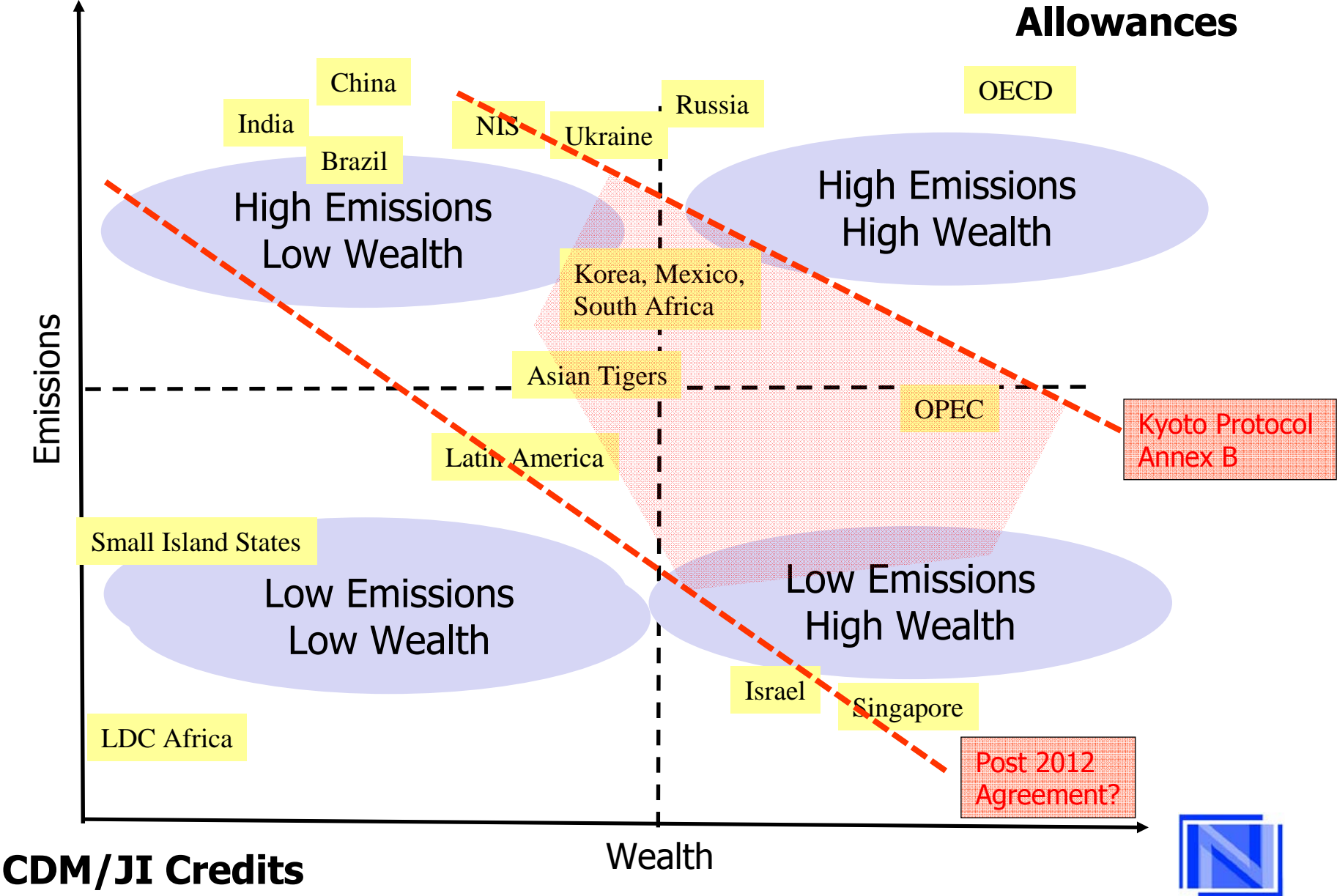


Will JI catch up?

- **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



Future of Project-based Instruments





For More Information

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