



State and Trends of the Carbon Market 2009

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Methodology



This study is based on the following:

- Analysis of the **World Bank's confidential project database**;
- **Interviews with market players**, including natural buyers in Europe & Japan, fund managers, developers, project sponsors, DNAs, private equity funds, hedge funds, banks, traders & brokers;
- Comprehensive **review** of published literature, incl. report by **Ecosystem Marketplace/New Carbon Finance** on voluntary market;
- Data and analysis by **Evolution Markets**.

Project database includes:

- **More than 2,200 project-based transactions** (ERPAs signed);
- Completeness of information >80% in all fields except on exact terms and price of transaction >50%.

Aggregate data on allowance markets and secondary market:

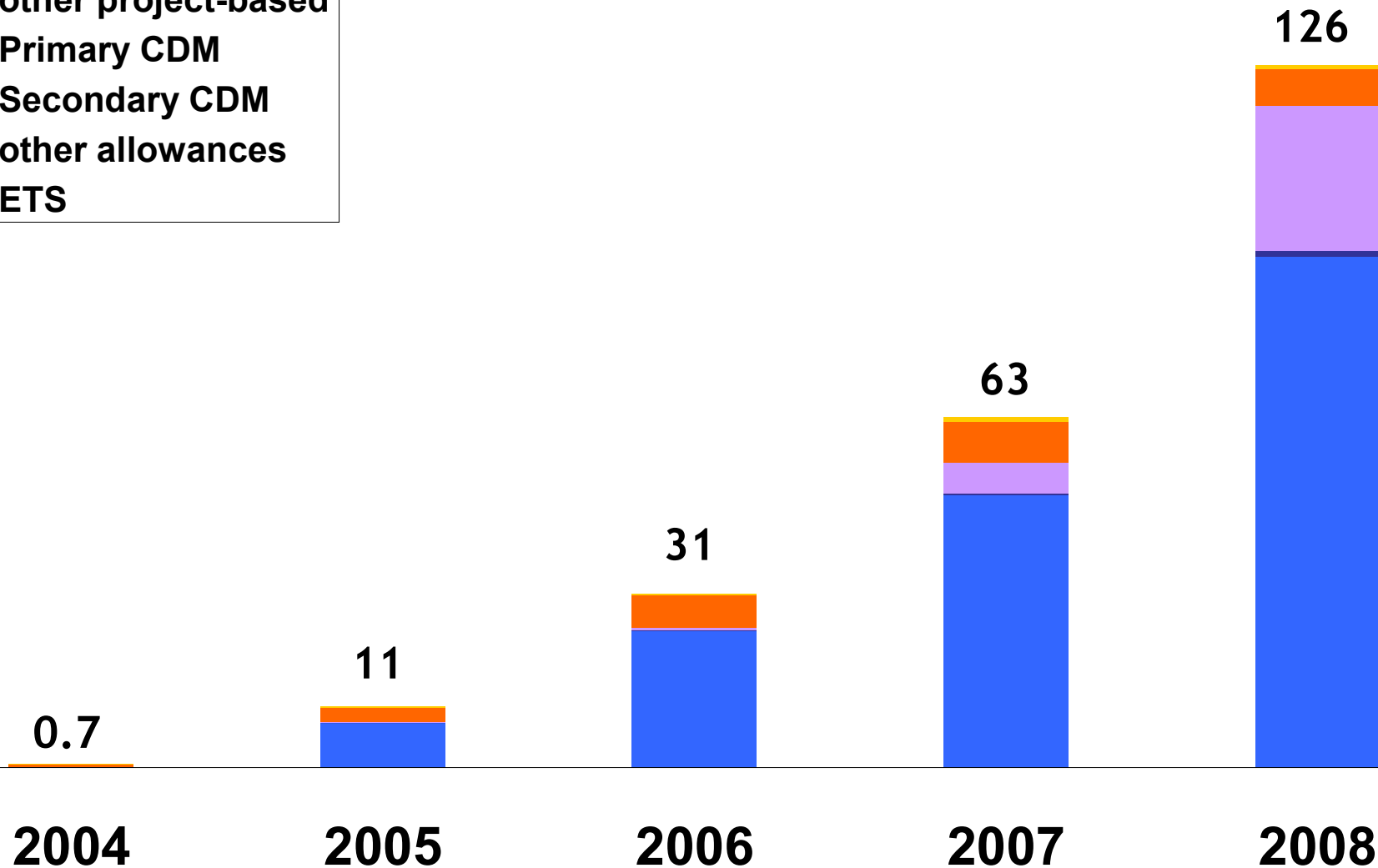
- From **major exchanges and OTC sources**.

Overall Market Doubles but CDM & JI Value Declines



(in Billion US\$)

- other project-based
- Primary CDM
- Secondary CDM
- other allowances
- ETS



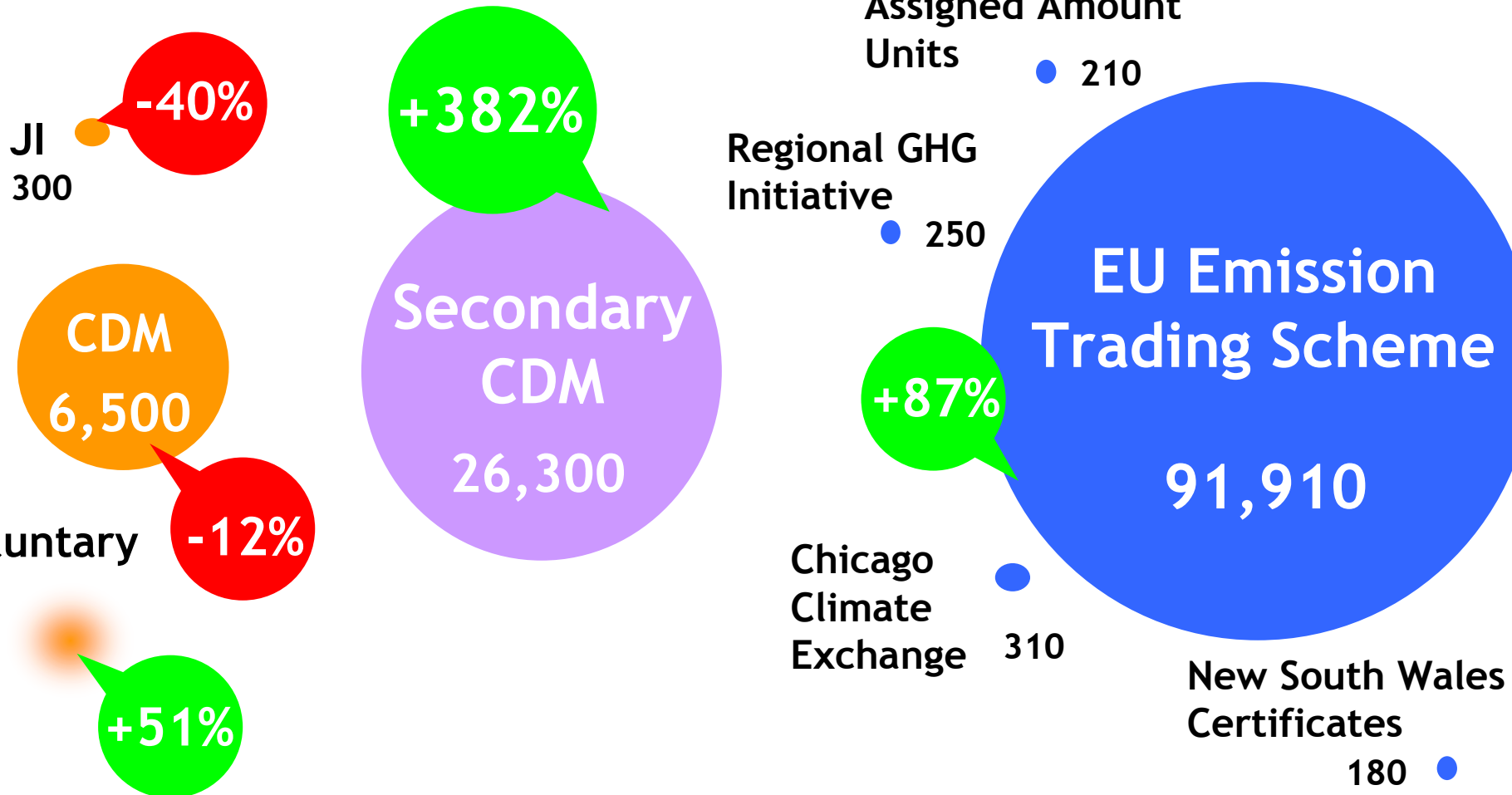
Market Value Grows in 2008



(in M US\$)

Project-Based Transactions

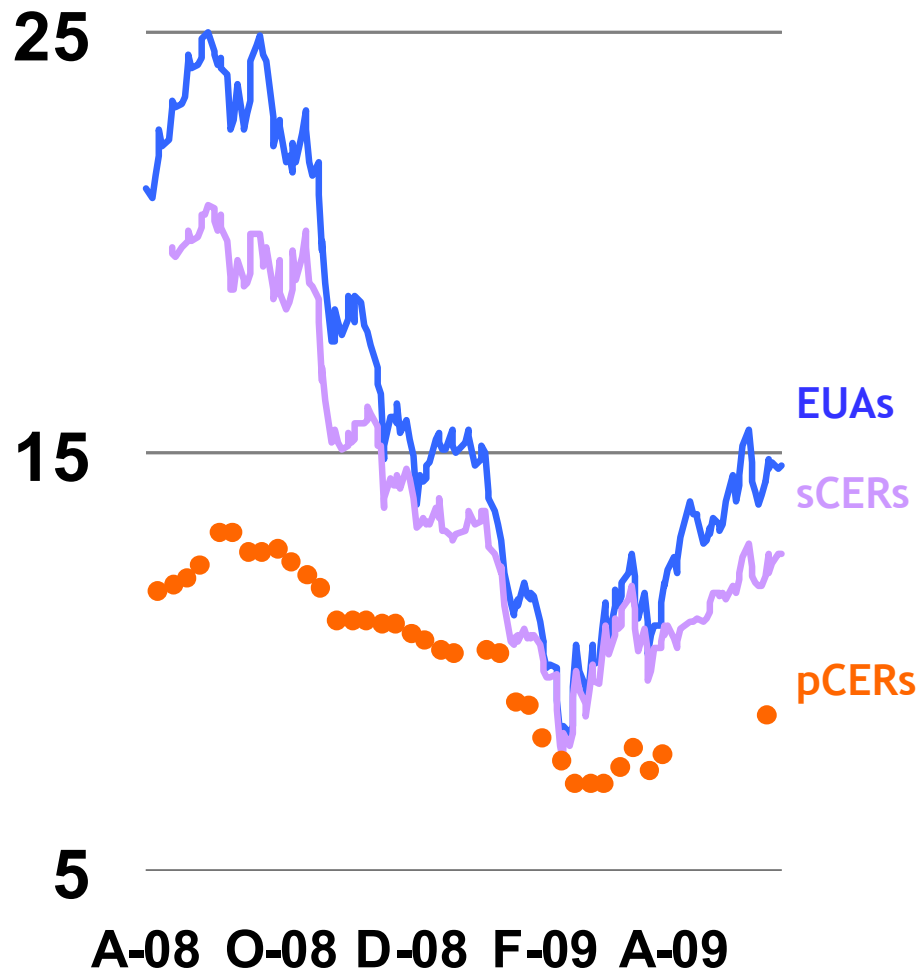
Allowance Markets



Cashing in on Carbon



Spot EUA, spot CER & primary CER prices
(€ per tCO₂e)

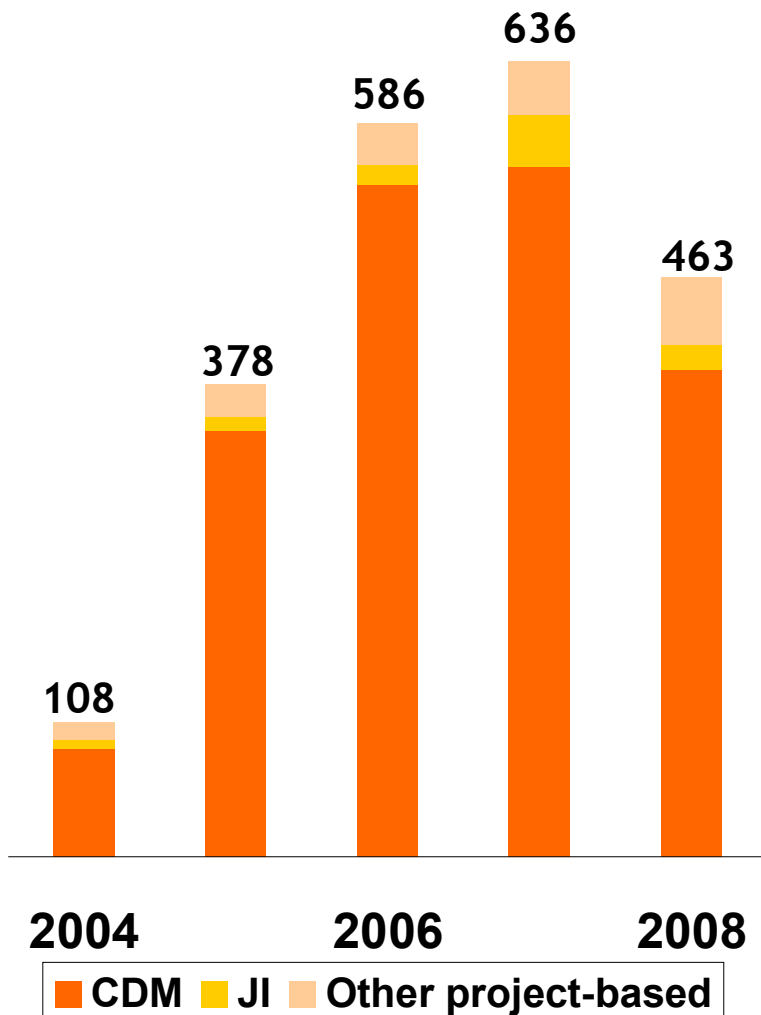


- Recession = Lower Output and Emissions = Lower compliance needs in EU ETS
- EUA sell-off raises cash; enabled by free allocation and overlap of issuance
- Large EUA supply with no matching demand
 - Spot EUA price dropped 75%
 - sCERs squeezed
 - pCER purchases, prices down
- ETS short in 2008
 - Phase II likely to be long

Project Transactions Decline

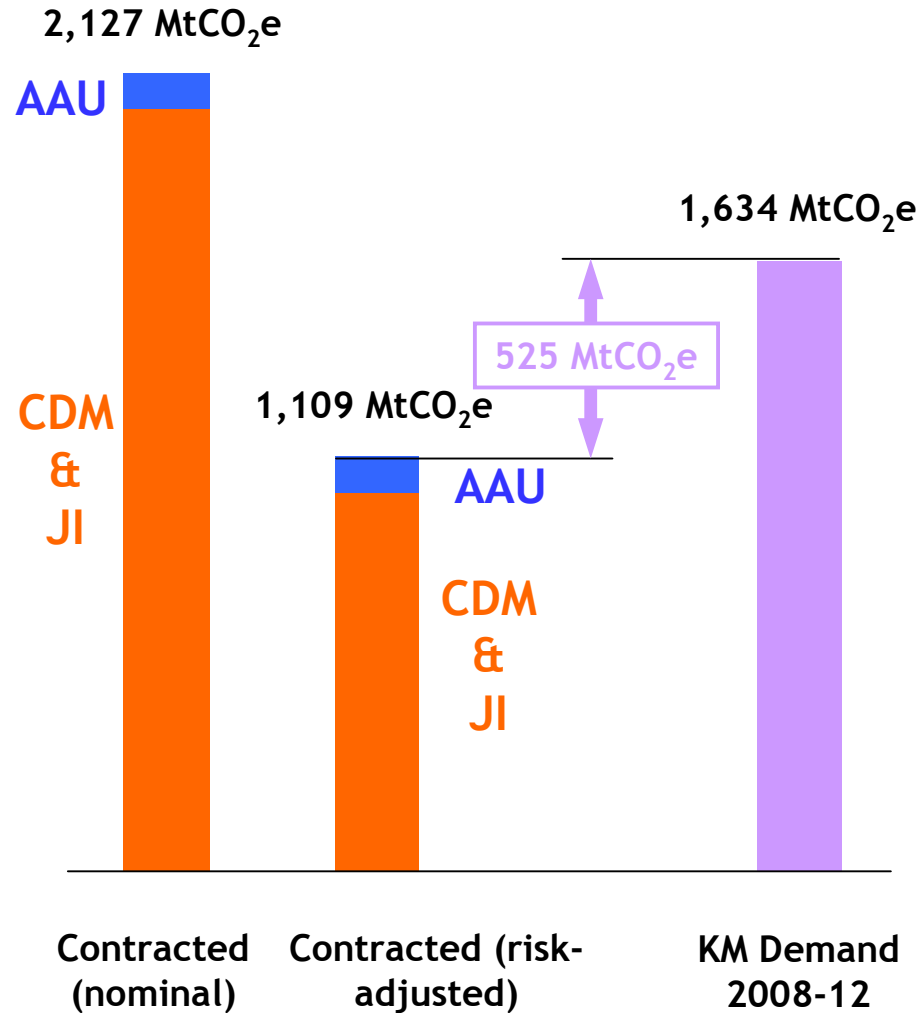


Project-based Transactions (MtCO₂e)



- Lower compliance needs over 2008-12
- Competition from AAUs
- Uncertainty of rules beyond 2012

Updated KM Demand Scenario



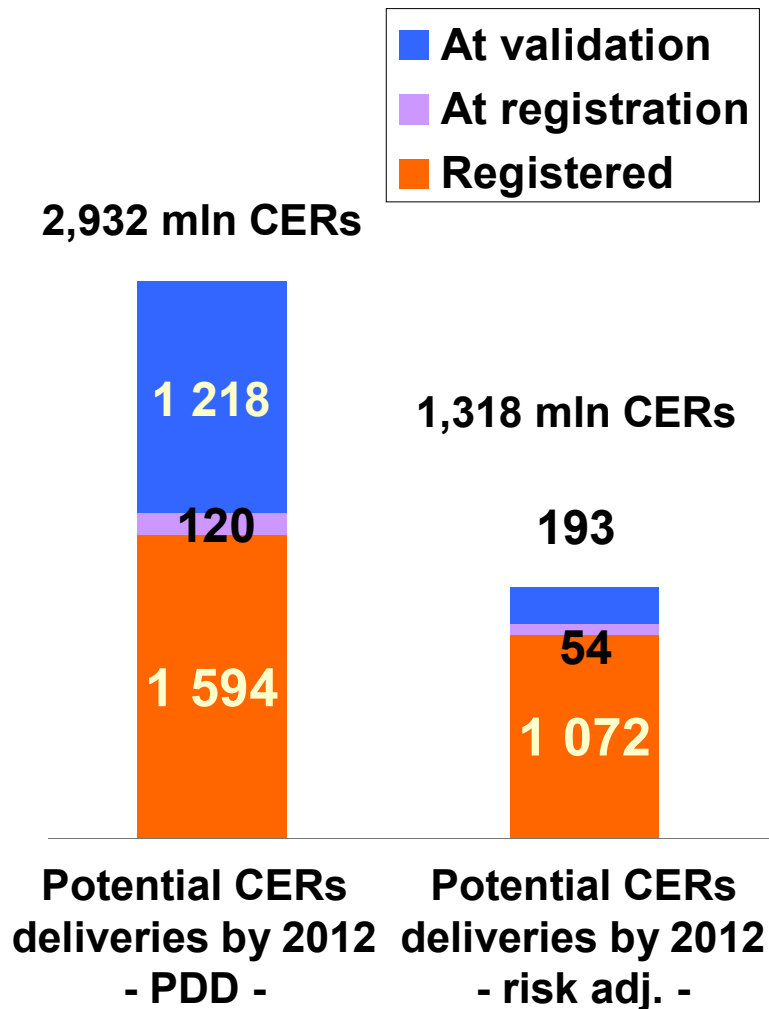
- 2012 KM est. demand is now ~1.6 billion tCO₂e (2.4)
- Overall contracted = 2 billion credits + 90 million AAU
- Risk Adjusted = 1 billion + 90 m
- Residual 2012 Demand ≤ 525 m
- Demand will depend on:
 - Level of risk adjustment
 - Banking for post-2012
 - Attractiveness of AAU/GIS

**Recession erodes
2008-12 demand**

Updated CDM Supply Scenario



Delays Halve Prospects



- New pipeline projects unlikely to deliver much before 2012
- EB starts to streamline registration and issuance process
- **R**ecast Additionality to **A**ddress delays; **P**reserve integrity; **I**ncrease efficiency **D**eepen reach and **E**xpand scale

Market Design post-2012



- Each ETS package has attractive design features:

EU ETS high level of auctioning for power sector; performance benchmarking agreed for free allocation to industry to the extent possible; high penalty for non-compliance

CPRS 10-year visibility for caps with option to adjust next phase effort within specified range; limited borrowing

US W-M large space for offsets (not limited to CDM); supplemental efforts on RED; dedicated auctioning resources for international action, including adaptation; high environmental integrity for borrowing (system level)

- Designs can benefit from simplicity and harmonization around best features of each

Potential for offsets post-2012



OECD Annex I: 25-40% below 1990 levels by 2020
3.1 GtCO₂e per year (2.0-4.4 GtCO₂e per year)

EU (30%) and W-M, by 2020
600 MtCO₂e per year

All CDM registered projects

80 MtCO₂e per year,
building up to
292 MtCO₂e per year



Thank you

Full report available at

www.carbonfinance.org