
IETA-IEA-EPRI 9th Annual Workshop on Greenhouse Gas Emission Trading

Session 6: Markets in a downturn

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▶ Main drivers of CER prices

▶ Primary market:

- The marginal abatement cost is not the main factor (past experience of seller, stage of operational project development, stage in the CDM/JI cycle, level of risk sharing between buyer and seller, level of Chinese price floor)

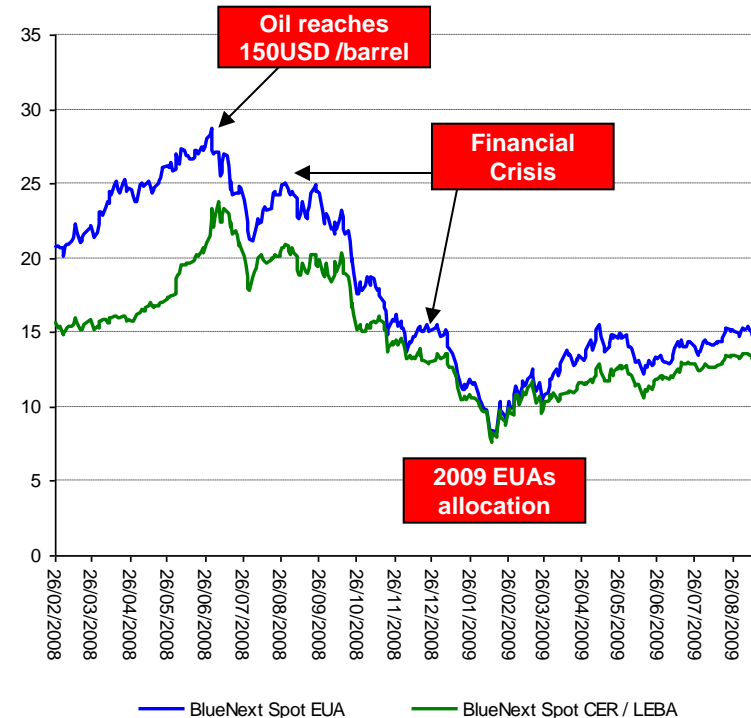
▶ Secondary market:

- Level of demand of CERs by EU companies and governments vs level of supply; EUA prices; timing of CER supply)

▶ Future trends:

- Long term trend is unclear:
 - Bullish (less CER supply towards 2012, stricter UN registration process, increased demand outside EU);
 - Bearish (lack of certainty about post 2012 framework, no additional demand from EU and others, competition from AAU deals).

Historic CER Price Development



- ▶ The global credit crisis has a **negative effect on the financing of clean energy projects**:
 - Liquidity is at a premium making banks very selective in bringing on new business;
 - Banks financing energy projects are currently unable to sell down (syndicate) deals to other banks;
 - Less players in the market with adequate balance sheets;
 - Management « bandwidth » is simply not there for new transactions.
- ▶ **Only the best deals** will come to market (proven players, strong equity position, proven technologies, necessary transactions)



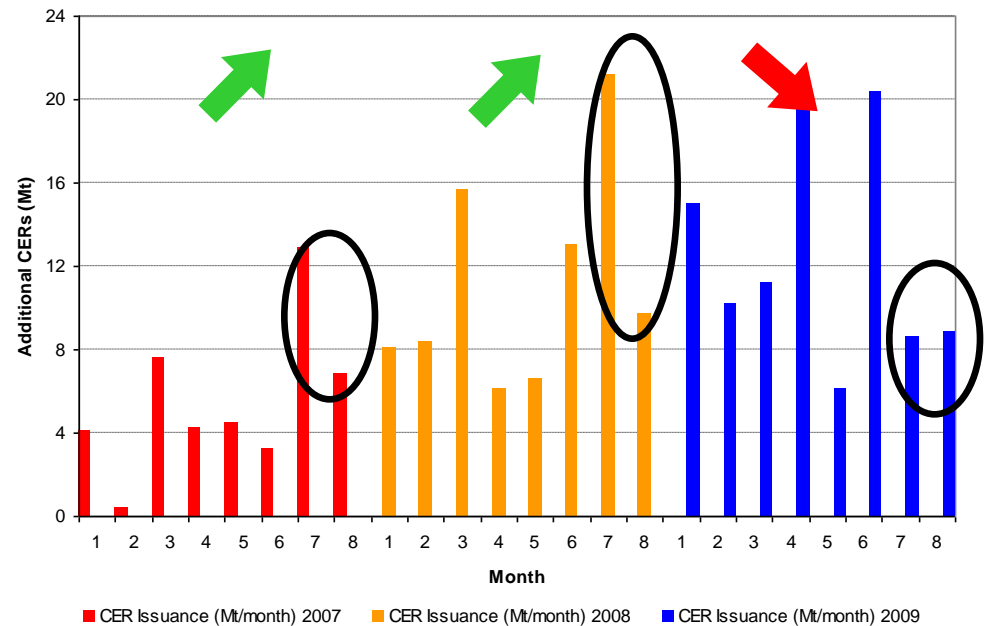
- ▶ Downward impact on supply
 - Stricter rules on project registration and CER issuance;
 - Limited validation capacity by DOEs;
 - Uncertainty on post 2012;
 - Financial crisis to limit financing;

- ▶ Downward impact on demand
 - Financial crisis to compromise post 2012 deal;
 - Financial crisis to lower industrial output;
 - GIS of AAUs from former communist bloc

CERs Issuances Slowing Down

- ▶ UNEP Risoe cut its forecast for CER supply twice this summer. **It now estimates that 1,24 billion CERs will be issued by the end of 2012** : this is 6% fewer than its July's estimate.
- ▶ Although the secretariat has been instructed to perform completeness checks of requests for issuance within 20 working days **it often takes up to 2 months.**
- ▶ **Various reasons** for the slow down: lack of resources at the CDM EB, economic slowdown (which reduces industrial output and thus lowers project efficiency)...

Additional CERs Issuance per Month

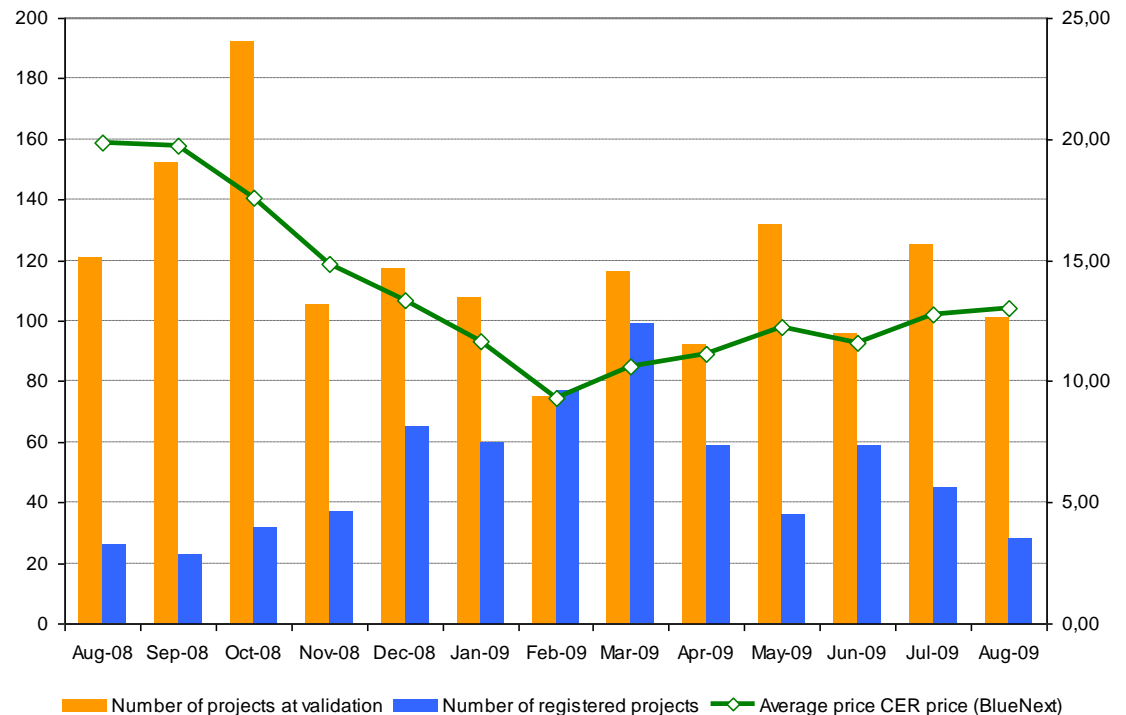


Number of Projects: Too early to say if the Financial Crisis has an Impact



**Number of Projects entering the Pipeline (per month),
Number of Registered Projects (per month) and Prices**

- ▶ **After Q1 2009**, we observe a strong decrease of registered projects whereas projects at validation remain roughly unchanged.



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CER demand post 2012- A complex equation (1/3)



- ▶ Depending on the advancement of their legislation, certain countries could evolve toward a total acceptance of the Kyoto CDM credit, or their rejection.
- ▶ CER demand is driven by several factors:
 - Sovereign demand (from countries who signed Kyoto protocol)
 - Private demand (from capped businesses)
 - CERs recognised in regional or domestic Cap and Trade scheme
- ▶ Sovereign demand
 - is driven by states which have ratified the Kyoto protocol:
 - These countries are allowed to meet up to 3% of their realized emissions (in 2005)
 - These represent in total a maximum of 836 Mt for the considered period (from 2012 until 2020)
 - In case of international treaty in December 2009, other project-based CERs like reforestation and land use management (AFOLU/ LULUCF) may increase this limit
- ▶ Private sector demand
 - Depending on an international deal, the demand could evolve from
 - 1.5 GT in a situation with no international treaty
 - 2.3 GT in a situation where there would be a treaty

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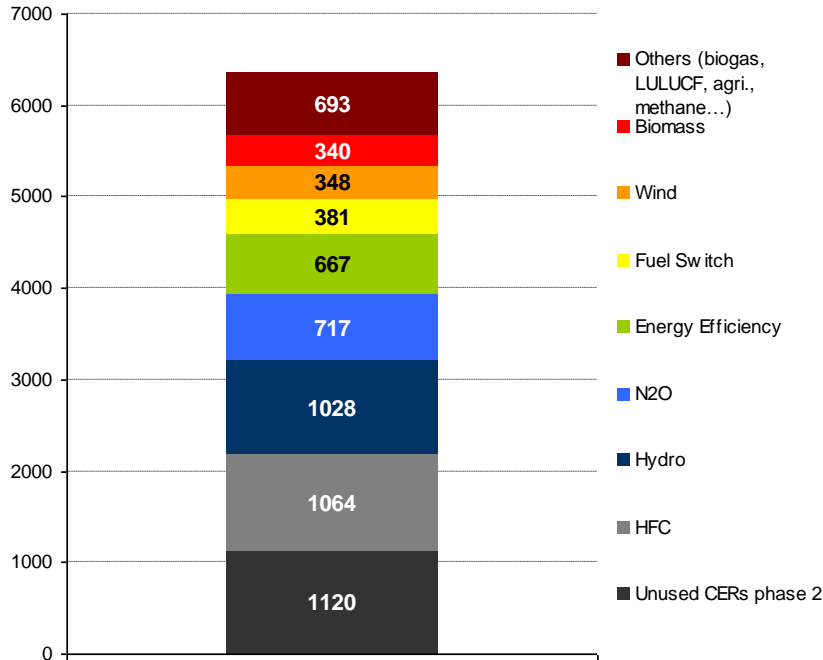
CER demand post 2012- a complex equation (2/3)



- ▶ CER demand is different in every continent. In North America:
 - US is doubtful about environmental quality of CER and its interest could switch from 0 to 1 GT depending how legislation evolves in the US senate (1GT per year with a 5 to 10% usage as mentioned in the Lieberner Warner Draft legislation).
 - Canada will try to link up its scheme to the US. US CER acceptance may influence Canada's adoption of CDM.
- ▶ In Asia:
 - Australia recognized the CDM credit- the size of the ETS would cap the demand to 100 Mt
 - Japan has set its target reduction for 2020, demand could reach 1600Mt for the period
- ▶ In Europe:
 - For EU ETS states demand will grow from 1.5 GT to 2.2GT
 - For Non EU participating states, demand remains at 0.8GT

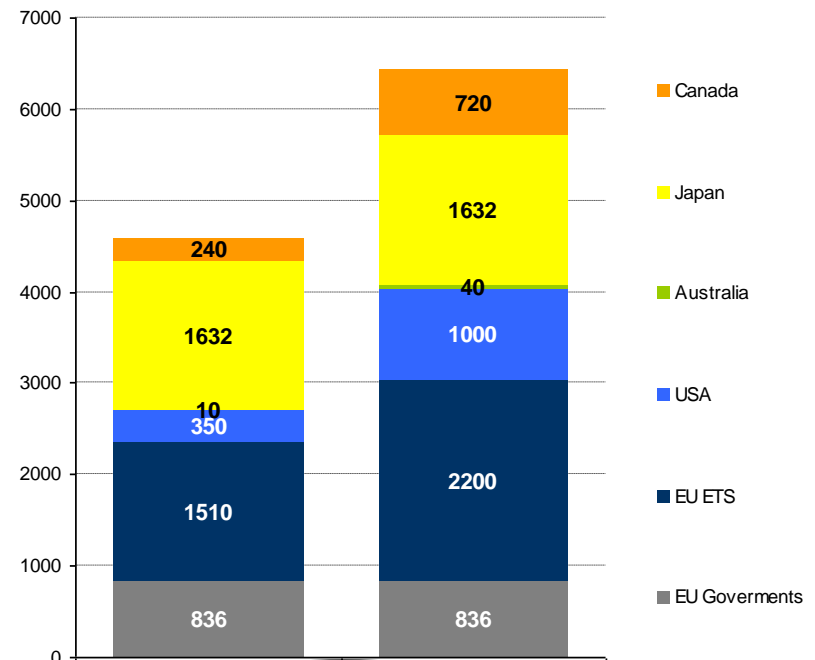
CER demand post 2012- a complex equation (3/3)

Supply



**CER Supply 2013-2020
5239Mt to 6359Mt**

Demand



**CER Demand 2013-2020
4578Mt to 6428Mt**

All CERs coming from existing at validation and registered projects according to performance ratios

CER demand in the US (1/2)

- ▶ Waxman Markey bill (ACES Bill) passed on 26/06/2009 by the House of representatives. US Senate is reviewing ACES Bill and will draft its own Bill the ACELA (American Clean Energy Leadership Act of 2009).
- ▶ In its current state, Offsets play an important part in the cost containment of the US Cap and Trade system.
- ▶ For domestic offsets, ACES Bill clearly focused on projects “outside” what we can observe on the “Kyoto world”:

Methodologies allowed under ACES vs. standards endorsed by US domestic projects

		ACESA	CDM	JI	VCS	GS	ACR	EPA	CAR	WCI	CCX	RGGI
Agriculture	Farm Waste Methane	Red	Green	Green	Green	White	Green	Green	Green	Green	Green	Green
	Agricultural Soil Management	Red	Green	White	Green	White	White	White	White	Green	Green	White
	Grassland Soil Management	Red	White	White	Green	White	White	White	White	Green	Green	White
Forestry	Afforestation/Reforestation	Red	Green	Green	Green	White	Green	Green	Green	Green	Green	Green
	Improved Forest Management	Red	White	White	Green	White	Green	White	Green	Green	Green	White
	Avoided Deforestation	Red	White	White	Green	White	Green	White	Green	Green	Green	White
	Urban Forestry	Red	White	White	Green	White	Green	White	Green	Green	Green	White
	Agroforestry	Red	White	White	Green	White	Green	White	Green	Green	Green	White
Others	Landfill Methane	White	Green	Green	Green	White	Green	Green	Green	Green	Green	Green
	Coal Mine Methane	White	Green	Green	Green	White	Green	White	White	White	White	White
	Waste Water Methane	White	Green	Green	Green	White	Green	White	White	Green	Green	White

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- ▶ For international offsets (section 733/743) mentioned that:
 - **“Credits issued by an international body:** The Administrator, in consultation with the Secretary of State, may issue international offset credits in exchange for instruments in the nature of offset credits that are issued by an international body established pursuant to the UNFCCC, to a protocol to such Convention, or to a treaty that succeeds such Convention. Starting January 1, 2016, no such offset credit shall be issued if the activity occurs in a country and sector identified in the sector-based credits provision”;

- ▶ But, it seems that US offsets demand will primarily need to come from US-administered sectorial crediting schemes and REDD programs, leaving little demand for UN mechanisms such as the CDM.

Conclusions



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