

Looking Ahead: Market Developments and Outlook post-2012

Prospects for the CER market

Austrian JI/CDM Workshop

27 – 29 January, Vienna

▶ 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)

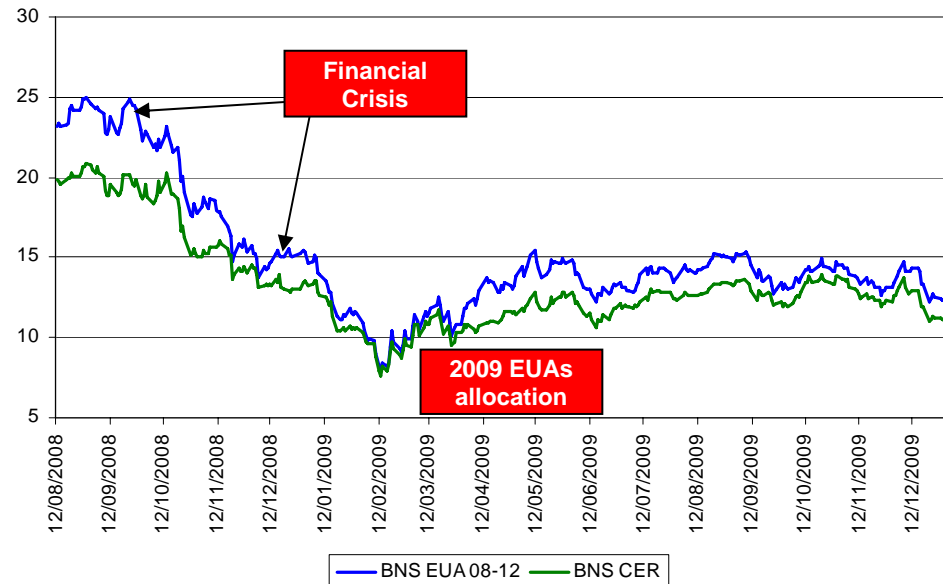
▶ Secondary market:

- 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).

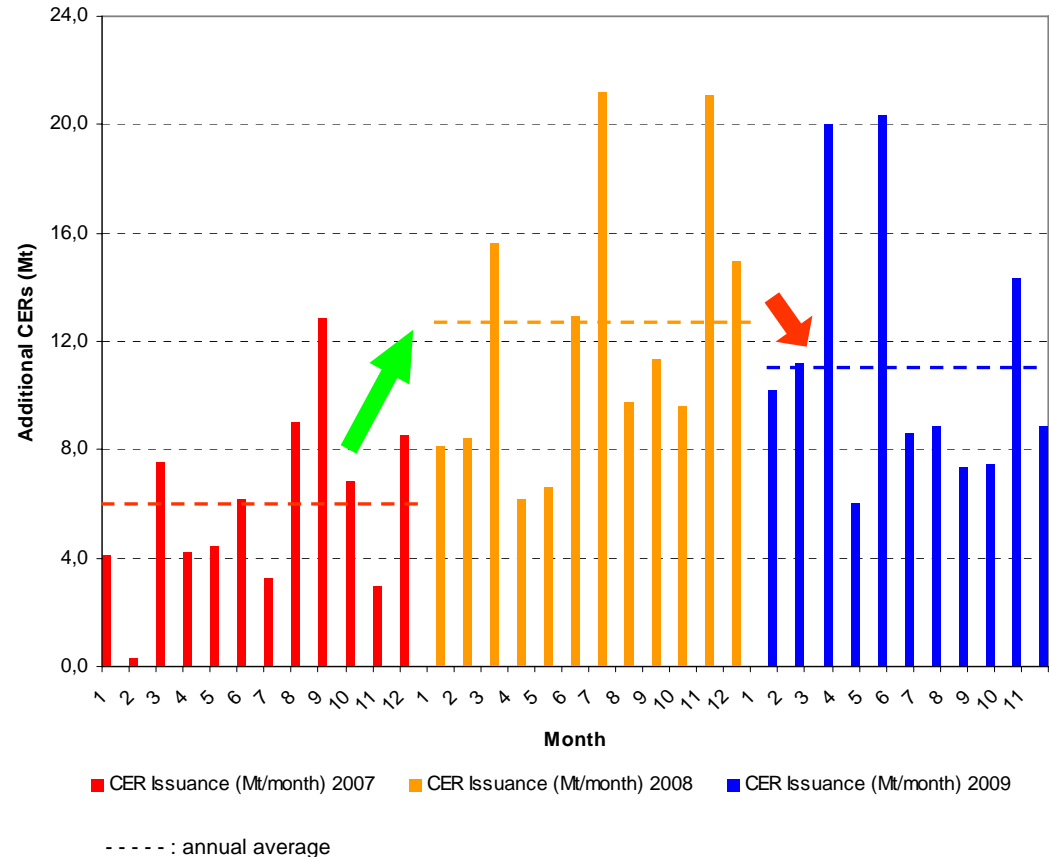
Historic CER Price Development



CERs Issuances Slowing Down in 2009

- ▶ UNEP Risoe cut its 2012 forecast for CER supply by 25% over the past year from 1,5Gt to 1,15Gt.
- ▶ At the beginning of 2010, the issuance forecast went down again to 1,1Gt tons by 2012.
- ▶ **Various reasons** for the slow down: lack of resources at the CDM EB, economic slowdown (which reduces industrial output and thus lowers project efficiency), some projects developers request fewer issuances to save costs until the sCER price goes up.

Still some issuance peaks when large projects deliver but general slowdown in 2009

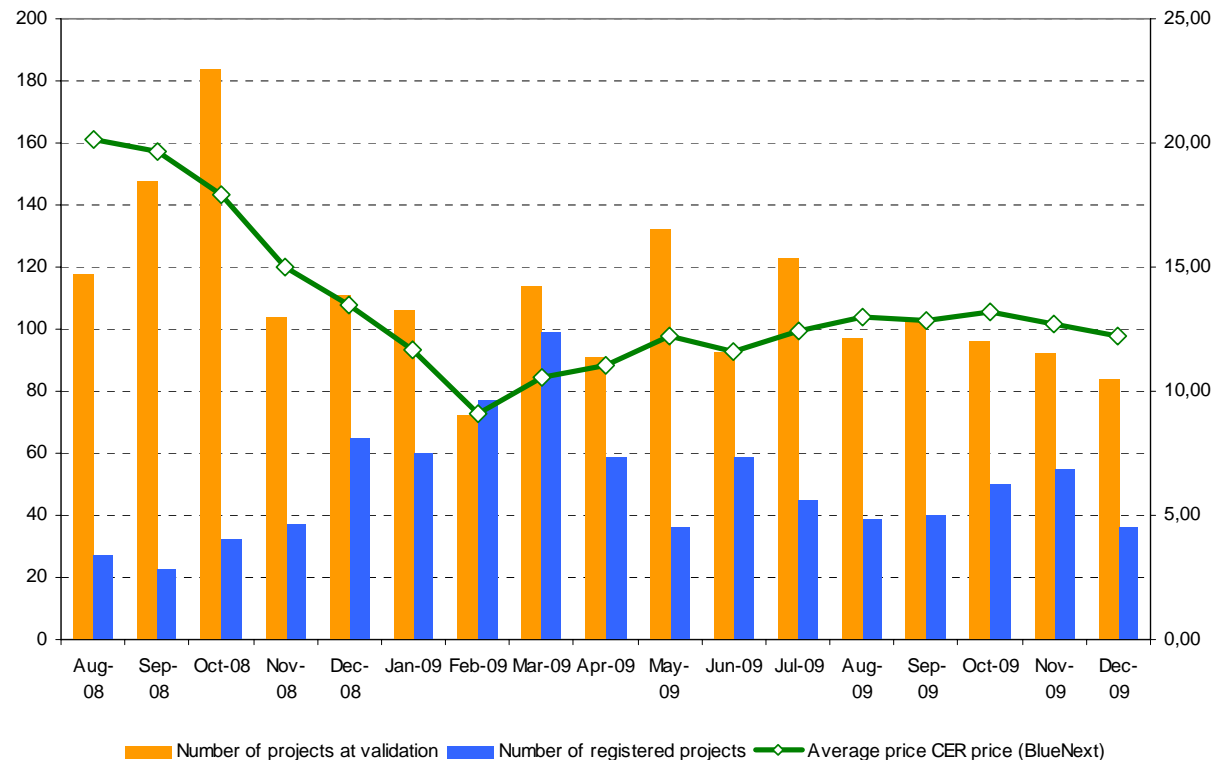


Number of Projects: Too early to say if the Financial Crisis has an Impact



**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 until mid 2009.
- ▶ Number of projects at validation start to decrease after the summer (maybe due to the expectations on the COP outcome).



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COP15: what changes for CDM?

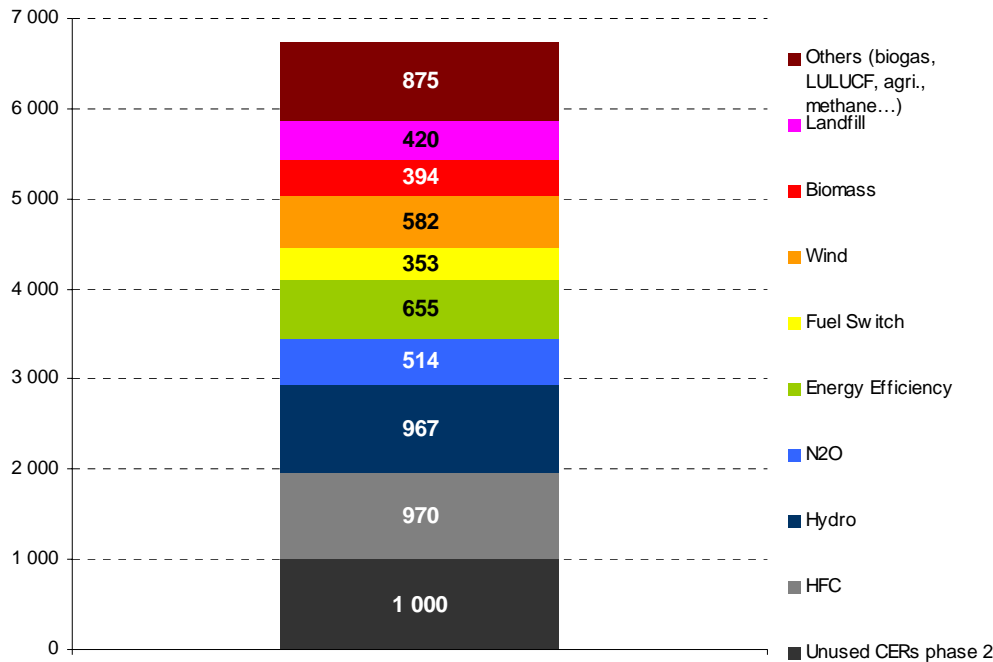
- ▶ **Institutional changes** : COP 15 gave some signs of improvement but which will take time before coming into force:
 - Improve the timeline of the registration and issuance processes.
 - Strengthen transparency (requires EB to publish full rationale of the decision)
 - Appeal against decisions by DOEs and by the EB is made possible.
- ▶ **Methodologies and guidance** :
 - Additionality guidances will be given for:
 - standardized methods to calculate financial parameters;
 - treatment of feed-in tariffs in the additionality analysis;
 - simplified modalities to demonstrate additionality for renewable energy projects under 5 MW and for energy efficiency projects with energy savings under 20 GWh per year.
 - Standardized baselines: SBSTA is to develop modalities and procedures (no short-term decision on that)
 - Program of Activities : define more clearly the situations in which a DOE can be held liable for erroneous inclusions of a component project activity.
- ▶ **However,**
 - No element on the scale up of finance under the CDM (sectoral crediting, benchmarks).
 - Still few clarity on who will use CER for compliance post 2012 in Europe.

CER demand post 2012- a complex equation (1/2)

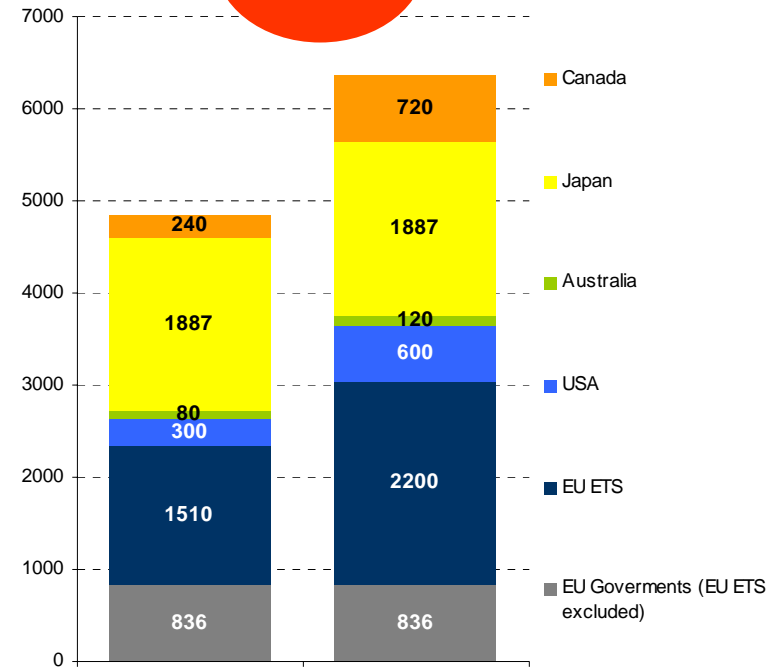
- ▶ CER demand is different in every continent. In **North America**:
 - **US** is doubtful about environmental quality of CER. However, the Waxman-Markey allow for an import of around 0,75Gt/y of international offsets (between 0,5 and 1Gt). If we apply the Lieberman-Warner rate (5 to 10% for CERs), we estimate a demand of around 300 and 600Mt over 2013- 2020. Of course, this will depend on how the legislation evolves in the US.
 - **Canada** will try to link up its scheme to the US. US CER acceptance may influence Canada's adoption of CDM.
- ▶ In **Asia**:
 - **Australia**: theoretically, should be able to import between 500 and 1000Mt over the 2013- 2020 period. However, due to the low internal abatement costs, analysts estimate a demand of around 100Mt over the eight years;
 - **Japan** has set its target reduction at -25% by 2020 (compared with 1990). We estimate the demand could reach 1800Mt for the period (gap compared with BAU).
- ▶ 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
- ▶ Unused CERs:
 - we estimate that the quantity of CERs used for compliance will be around 80Mt/y (2008 data) as the whole phase is long.

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

AAUs?



CER Supply 2013-2020
5730Mt to 6822Mt



CER Demand 2013-2020
4648Mt to 6508Mt

Source: Mission Climat, Barclays, Point Carbon, BlueNext

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