

Volume 3, Journal 2 - May 2008

25 Degrees in Africa - CDM

The international carbon market: status and way forward

Climate change and the carbon market were in the international spotlight during the first quarter of the year, with the 2008 version of the world's premier carbon market trade fair being held in Cologne, and the tentative commencement of negotiations on the post-2012 international climate change regime.

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This is part of a series of articles dealing with legal and commercial issues associated with climate change and the international legal regime founded on the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol.

The Kyoto Protocol's quantified emissions limitation and reduction commitments currently expire at the end of 2012 and negotiations on the architecture of the period after that date are required to be concluded by the end of 2009.

The international carbon market: status

Carbon Expo 2008 took place in Cologne, Germany, from 7 to 9 May 2008. The event is an opportunity for colleagues, competitors and market-players to obtain in-depth insight into the international carbon market, to identify "new players", share experiences and information on technologies, methodologies, projects and services, and gain insight into the future dynamics of the market.

This year, approximately 3000 visitors attended the plenary sessions which focused on a number of pertinent issues, including: expansion of the carbon market into the United States and Australia, the importance of new technologies such as Carbon Capture and Storage (CCS), auctioning and allocation of carbon-offset allowances, trading and pricing trends and potential for the pre- and post-2012 periods. (For a recent report on CCS see: http://www.accsept.org/outputs/wp_5_2dec_2007_final.pdf.)

Overall sentiment appears to have been that there was substantial growth of the international carbon market in 2007 and that projected, future carbon price levels are a cause for optimism. However, concerns were raised that uncertainties surrounding the outcomes of the negotiations for the post-2012 period might challenge the stability of the market. Questions were also raised regarding the future of the CDM and implications for CER prices.

The annual launch of the World Bank's State and Trend of the Carbon Market series has become a highlight of the Carbon Expo. This year was no exception with the release of "State and trends of the Carbon Market, 2008" authored by Karan Capoor and Phillipe Ambrosi (see: www.carbonfinance.org). Two further reports have contributed to recently collated data on the various aspects of the increasingly multi-faceted carbon market: "The State of the Voluntary Carbon Markets 2007: Picking Up Steam", was published by Ecosystem Marketplace and New Carbon Finance (www.ecosystemmarketplace.com); and the International Emissions Trading Association was responsible for the third edition of the "GHG Market Sentiment Survey" (see: www.ieta.org).

The main findings of these reports include:

- The global carbon market more than doubled in value in 2007 to \$64-billion, comprising approximately \$50-billion in transactions involving European Union Allowances, and more than \$13,5-billion in transactions of project-based emission reductions, including the CDM.
- The total value of the primary CDM market, i.e sales of CERs directly from the CDM projects which generated them,

amounted to \$7,4-billion in 2007, up 28% from 2006.

- The secondary market, which encompasses all subsequent transactions following the primary sale, swelled eleven-fold to reach \$5,5-billion in 2007.
- Prices for primary forward CERs progressed slowly throughout 2007 and early 2008, with the vast majority of transactions occurring in the range between €8-13, with an average contracted price of €9,90 (up 24% from 2006). The minimum price for CERs rose to €6,5 in 2007 from €5,6 the year before (a 26% increase).
- Price for CERs from CDM projects at an early stage of regulatory and operational preparation transacted at around €8-10, while registered projects with streamlined technology attracted prices between €11-13.
- CDM projects demonstrating strong sustainability attributes and community benefits (such as those certified under the Gold Standard) could easily fetch a €1-1,5 premium, obtaining a price of €15 for Gold Standard CERs.
- The global voluntary carbon market was worth a total of \$331-million in 2007 more than triple the 2006 market value of \$97-million.
- At least 65-million tonnes of Voluntary Emissions Reductions (VERs) were transacted in 2007, a 165% increase over 2006 and a nearly 200% increase for the over-the-counter (OTC) market.
- The average price paid for a VER rose 49% from 2006 to 2007, from \$4,10/tonne to \$6,10/tonne. The average prices of a VER on the OTC market were between \$6,10/ tCO₂ and \$3,15 / t CO₂.
- Volume in the OTC market nearly tripled in 2007, to 42-million tonnes of carbon credits. In the OTC market, energy efficiency, renewable energy, methane destruction, and forestry/land-based projects were the most dominant project types in 2007.

	2006		2007	
	Volume (MtCO ₂ e)	Value (MUS\$)	Volume (MtCO ₂ e)	Value (MUS\$)
Compliance	597	6 466	832	13 376
<i>of which</i>				
Primary CDM	537	5 804	551	7 426
Secondary CDM	25	445	240	5 451
Jl	16	141	41	499
Other	19	76	na	na
Voluntary market	14	70	42	265
TOTAL	611	6 536	874	13 641

The international carbon market: way forward?

Given that the initial impetus for development of the carbon market, and still its greatest single motivation, is the international emissions reduction generating and trading architecture created by the Kyoto Protocol, the market is keenly attentive to negotiations on the future of the regime. Recent international meetings relevant to the regime include:

- the Gleneagles Dialogue/G 20, from 14 to 16 March 2008, in Chiba;
- the Major Economies Meeting on Energy Security and Climate Change, held in Paris from 16 to 18 April 2008;
- the G8 meeting held in Tokyo in April 2008, and;
- the Bangkok Climate Change Talks, which took place from 31 March to 4 April 2008.

During these meetings, the following affirmations, reaffirmations and recommendations were made regarding the development and future of the international carbon market:

- The importance of the carbon market was reaffirmed at each meeting and further motivations were made for a global carbon market with a single market price for carbon.
- The inclusion of credits from the project-based mechanisms in various market-based measures was reinforced.
- The importance of the CDM was reinforced as well as the need to ensure the efficient functioning of the CDM.

In addition to the above, the recent legal developments in the United States surrounding the climate change Bill proposed by Independent Senator Joe Lieberman and Republican Senator John Warner have focused attention on the future potential of project-based market mechanisms, such as the CDM. The Bill proposes the implementation of a carbon trading scheme in the US with a view to allowing US companies participating in the scheme the potential of using project-based carbon offsets to comply with part of their emissions reductions targets.

IMBEWU Sustainability Legal Specialists (www.imbewu.co.za) is a specialist legal consultancy providing professional legal consultancy services in the area of environmental, health & safety and climate change law.

Contact: andrew@imbewu.co.za. IMBEWU collaborates with Warburton Attorneys in providing CDM project development and contract advice to clients. This article should not be regarded a comprehensive discussion of the topics addressed, and should not be taken as legal advice or relied upon. Those seeking to participate in climate change-related activities are advised to seek specific legal advice.