

CARBON TRADE MARKET OVERVIEW – SEPTEMBER 2009

Throughout the summer holiday period both volume of carbon trades and prices reflected a degree of cautious apathy, with those buyers remaining active bidding well below sellers expectations, creating an unusually wide gap between the offer and bid price. For example, in the GS VER market, the gap last month on occasion widened to some 5 Euros with a bid price at Euro 6.00 and offers as high as Euro 11.00 – even the odd exotic African carbon GS VER being on offer at Euro 15:00!

Price differentials can be attributed to many factors not least imperfections in a global market having far too many project validation standards and numerous registries. Then there are also Kyoto Protocol extension uncertainties, fickle buyers preferring certain geographical locations and exotic carbon products; and an increasing number of carbon exchanges catering for local market whims. Currently throughout the market both supply and demand remains thin and is not expected to pick up significantly until year end.

With the French, German and Japanese economies now out of recession and strong indicators that the USA economy and EU economies are also on the path of economic recovery, this has had some impact on negating the effects of a weakened energy sector.

Of a positive note, in the first few days of this month there has been an upward movement in carbon prices as fuelled by returning confidence based on the improved economic news with benchmark December delivery of EU Allowances reaching a high of Euro 15.00 on September 2nd with a forward delivery scale moving steadily upward with market price expectation to over Euro 19.50 for December 2014 delivery.

CER prices

Reflect a rather flat yield curve with opening September trades taking place at just over Euro 13.00 for spot delivery upward to Euro 13.50 for December 2012 transactions.

In the first week of September CER volume picked up with spot trades moving up to Euro 13.33.

The reason for the flat CER yield curve, centres on the expiry of Kyoto protocol in 2012 and remaining uncertainty amongst some buyers surrounding the likely extension – here again the talks in Copenhagen with, I am certain, active participation by USA delegates, will bring clarification and confidence back to the market by largely removing uncertainties post 2012.

CER price projections

According to market analysts, between now and 2012 the range is forecast from Euro 7:00 to Euro 18:00.

According to supply and demand, prices range from 13.45 to 13.52.

Gold Standard VER

Buyers are appearing more discerning than ever in thin market trading with preference clearly being for what are termed “exotic products” i.e. VER’s from African projects demanding premium bids as high as Euro 11.00 CO2-e and offers at Euro 15:00.

Overall there appears to be limited supply of GS VER’s in the market. Generally the bid/offer range in London for GS VER on September 2nd was Euro 6:00 bid and offered Euro 11:00.

VCS VER’s

Globally market volume and trading continues to be very thin as we enter the first week of September with few buyers and sellers and small volume traded or on offer.

However, traders are currently busy finalising many carbon trade contracts and believe that the market activity and prices are bound to pick up later this month and toward year end. Trades taking place are being executed at the USD 4:00 CO₂-e levels.

As the carbon trading market sector becoming increasingly commoditised, OTC (Over-The-Counter) business will gradually be replaced through more sophisticated trading mechanisms such as real time on-line auctions. In addition, we will see greater innovation of product trade such as forward/forward transactions.

FUTURE OF THE VER MARKET SECTORS

Carbon trade suppliers will progressively, in the near future, no longer offer VER's on a direct one to one basis to end buyers. The 'key' therefore will be for carbon trade development companies' (such as our Company) to place utmost emphasis on, and focus jointly with each project client to ensure that the quality of the VER origination and origination processes are executed transparently at the highest available standard of validation and verification excellence to the satisfaction of the increasingly sophisticated buyer/s.

Ultimately, the price achieved will be determined by the quality of the product offered.

One thing for certain is that the smart traders will use every endeavour to encourage trade through introducing new trade types and innovative mechanisms and the carbon market sector can only benefit by the dexterity and broadening of the carbon market sector.

Post Copenhagen I fully expect a resurgence of buyer activity as within a stronger overall market atmosphere as confidence returns and opportunities within the carbon market sector become more attractive to buyers than alternative investment choice.

For some time I have said that in my opinion the carbon market will post 2012 be buyer pulled rather than supplier led as the market settles down and the impact of greater USA activity becomes apparent and the market grows globally to top the one trillion USD trading volume. I still have confidence in this view today.

Despite the recessionary blues, one must remember we experienced a relatively stable carbon commodity throughout as compared with almost any other commodity traded.

TURKEY – POST 2012

Ratification and signature of Turkey to the Kyoto Protocol came into legal effect on August 26th 2009.

Turkey appears to be taking the early posture that the country is prepared to reduce its carbon GHG emissions by 2020 by 11% below estimated emissions calculated on a baseline year of 2005 if emission actions are not taken - this without asking nor receiving subsidies from developed nations.

Clarification and acceptance of Turkey's position by Kyoto member states will no doubt be subject to some negotiation as to the actual reduction level agreed and approved.

Until the level of carbon emission reduction commitment by Turkey is approved formally it will remain unclear as to whether or not post 2012 becomes as a mandatory compliant member part of the CER market sector or remains within the VER sector. Certainly, Turkey's position as an advanced developing nation and still an annex one Kyoto signature will enable the country to negotiate preferential treatment.

USA

Actions on climate change will undoubtedly, progressively impact global carbon prices as we approach 2012. However the path to compliance regulation is never easy and despite President Obama's commitment and dedication, pending legislation (already over two months delayed) continues to come up against various self interested political obstacles with consequential Senate delays.

These delays weaken the USA, in the context of Obama's administration having the required strong influential hand of negotiation in time for the crucial upcoming Kyoto extension talks to be held in Copenhagen this December.

A positive USA Senate reaction is crucial to positively influence carbon reduction commitments by China and India as they observe closely Washington's responses to the June House of Representatives Bill.

The movement forward toward a USA compliance market based on reducing USA carbon emissions by 17% below 2005 levels by 2020 is of fundamental importance. A positive USA legislation will provide the needed underpinning of the market's stability whilst providing the necessary stimulus and impetus for global carbon emission reduction trading markets in all sectors.

The USA influence on market actors cannot be over stated and can provide the carbon trade market with the required level of international stability as required, thus further encouraging positive climate actions by all nations.

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