

Post-2012 Market

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International Context (1)

- Political
 - No post 2012 international agreement
 - Failure implement domestic emission trading schemes
 - Impact of recent or upcoming elections (Australia, US)
- Market
 - Impacts of the global financial crisis in 2009
 - EU ETS Phase III uncertainty
 - Lack of long-term price signal
- Public
 - Issue Fatigue



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International Context (2)

- But....
 - Scientists continue to support climate change science
 - Demonstrated political commitment
 - New post 2012 national emission trading schemes announced (Japan, Korea)
 - Bilateral offsetting mechanisms announced
 - Carbon market is operating and has matured
 - EU ETS will continue until 2020 with new sectors, new entrants
 - CDM: 2300+ projects registered, significant learning

Post 2012 Market

- Market is immature with low liquidity; lack of long term price signal
- Exchanges do not offer post 2012 CER futures; primary market/OTC
- Some exchanges offer post 2012 EUA futures (low trading volumes)
- EU ETS Phase III demand uncertain: banking/allocations/auctioning
- EU ETS Phase III CER/ERU eligibility criteria
- **Who is buying post 2012?**
 - Sovereigns
 - Private-sector Buyers
 - Carbon Funds with sovereign & private-sector participants
 - CDM Consultants/Intermediaries

Project Developers' Needs

- What is needed to continue to drive development of emission reduction projects?
 - Underlying finance
 - Host country incentive schemes
 - Reduction in post 2012 regulatory risk
 - Post 2012 buyers
 - Fair price
 - Implementation and CDM Support

Post 2012 Carbon Funds

- Existing Funds that are dedicated Post 2012
 - ADB Future Carbon Fund
 - NEFCO Carbon Fund, Tranche 2
 - Post 2012 Carbon Credit Fund (EBRD/EIB - First Climate)
 - Others (existing and proposed)
- Funds characterised by: Participants, objectives, project and/or regional focus, compliance or cash return, contracting/payment terms

ADB Future Carbon Fund: Key Features

- Payment in advance, assists in reducing upfront capital requirements
- Proposed in conjunction with ADB financial support and CMI, TSF
- Associated costs and risks are largely reduced due to “piggy back” design and strategy
 - General technical, financial and legal due diligence carried out by ADB main operations to process/approve financing
 - CDM specific due-diligence carried out by CMI
- Priority projects: renewable energy, energy efficiency



7

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ADB Future Carbon Fund: Advantages for Project Developers

- Certain funds today, for commodity with uncertain value in the future
- Reduced budget commitments to close the financing plan of projects (payment-in-advance)
- Comprehensive technical and implementation support
- Commitment to pay in absence of CDM post 2012



8

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How to succeed in the Post 2012 Market

- Some ideas....
 - Select a buyer with aligned interests (think long-term)
 - Add certainty for buyers (i.e. current “LDC advantage” under EU ETS Phase III)
 - Ensure adequate CDM technical support (Buyer, CDM consultant)
 - Reduce transaction costs (keep the structure simple, i.e. number of counterparties, fixed vs. floating prices)
 - Build-in additional environmental and social co-benefits
 - Request certainty from buyer (unconditional purchase)
 - Be reasonable but negotiate...



9

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10

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