

11 March 2009 Voluntary Market – Research Note

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Voluntary Carbon Index, Jan-Feb 2009

1. Summary

The downward trend of voluntary carbon prices and transacted volumes during January and February indicates that the global economic recession has now also spread to the voluntary carbon market. Our New Carbon Finance Voluntary Carbon Index (VCI), which tracks over-the-counter (OTC) transactions on the wholesale market, decreased by 29% from Nov/Dec price levels (from \$7.3/tCO₂e to \$5.2/t), and by 38% from its peak in July/Aug (from \$8.4/t to \$5.2/t). The economic recession has also impacted trading activity as transacted volumes tracked by the VCI decreased by almost 70% since Nov/Dec (from 2.7Mt to 0.9Mt).

Table 1: Voluntary Carbon Index⁽¹⁾ (VCI)

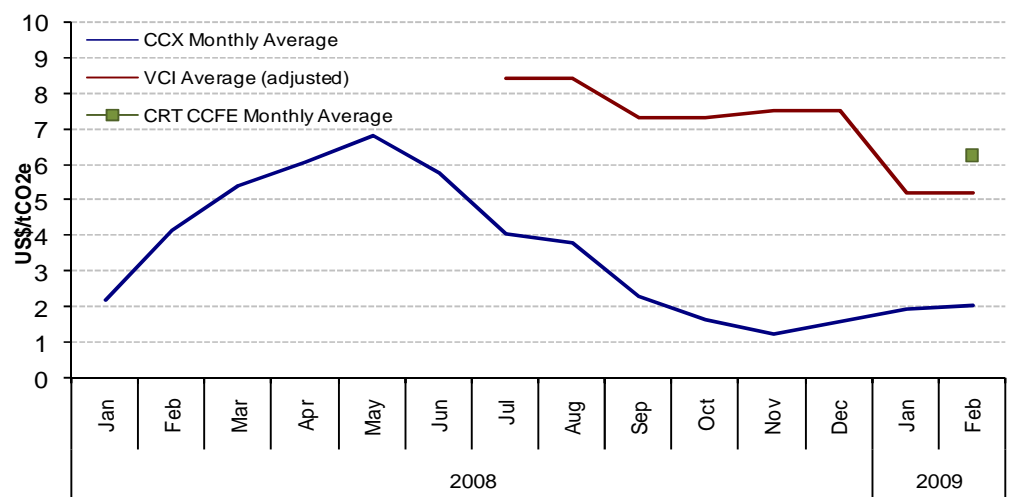
US\$/tCO ₂ e	Nov/Dec	Jan/Feb
VCI	7.3	5.2

Notes: (1) Methodology has changed, see Appendix. Source: New Carbon Finance

The VCI data collected over the past 8 months has revealed that standards are by far the largest price driver for voluntary credit prices. As a result of this clear finding and using our data on each standard's market share over the past 6 months we have opted to make a one-time change in our VCI methodology. Going forward VCI prices will be weighted according to each standard's current market share rather than transaction volume (see Methodology section at the end of this document for more information). The index will be re-evaluated on a six-monthly basis.

In this edition we differentiated between international and North American (US and Canada) offsets for the first time and as expected, credits originating outside of North America fetched lower prices: \$3.9/t versus \$5.4/t. The lack of pre-compliance demand outside of North America directly exposes international offsets to cuts in corporate discretionary spending—the backbone of demand in the “pure” voluntary market.

Figure 1: Historical Prices for New Carbon Finance's Voluntary Carbon Index, the Chicago Climate Exchange, and Chicago Climate Futures Exchange CRTs



Notes: Methodology has changed since last edition, see Appendix for more details. Source: New Carbon Finance, CCX and CCFE

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Although OTC VER wholesale prices have decreased since mid-2008, prices for voluntary credits on the Chicago Climate Exchange (CCX) are starting to rebound in 2009 from the historical lows seen in November 2008. We attribute the CCX price rebound to actions by the Administration and Congress to develop and pass federal cap-and-trade policy, which has reinvigorated pre-compliance trading activity on the exchange, as opposed to market fundamentals.

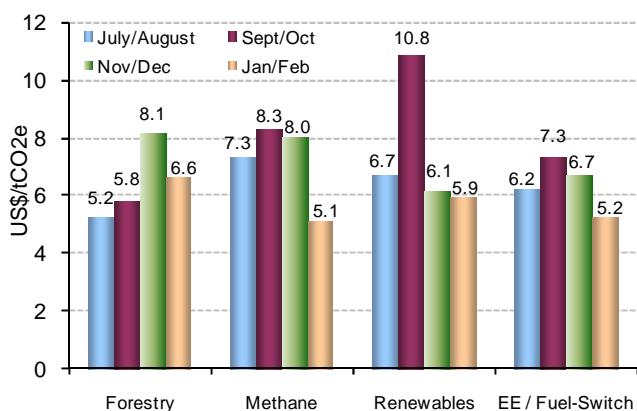
On 20 February 2009 the Chicago Climate Futures Exchange launched futures contracts for Climate Reserve Tonnes (CRTs), voluntary credits verified to protocols developed by the Climate Action Reserve—the programme established by the California Climate Action Registry (CCAR). CRTs (Dec 09 vintage) sold for an average of \$6.3/t in February with 39kt transacted, as expected higher than the VCI for that period. Trading, however, has been patchy and it is still too early to determine the extent to which the exchange will foster liquidity in the pre-compliance offset market. Nevertheless CRTs listed on the CCFE provides increased transparency and price discovery for players in the pre-compliance market hedging against the future risk of cap-and-trade regulation.

2. Market Trends

With respect to VER price trends during Jan/Feb, we can identify the following:

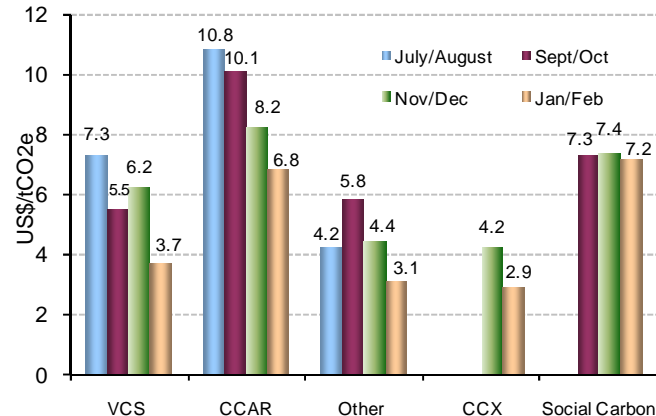
- **VCS prices lower, but differentiation persists.** VCS credits sold for an average of \$3.7/t, 40% lower than their Nov/Dec level (\$6.2/t) and 29% lower than the VCI average (\$5.2/t). This large decline is likely the result of an oversupply of pre-registered CDM credits and lower demand from the “pure” voluntary market. Renewable Energy (RE) VCS credits, however, declined by only 2% since Nov/Dec levels (from \$6.1/t to \$6.0/t), suggesting project type differentiation continues to have some influence on prices despite standards being the primary price driver. Interestingly, Social Carbon also upheld its premium prices as the market continued to value its additional differentiation over and above VCS.
- **CCAR continues its decline.** Perhaps most surprising is the observed drop in CCAR credits (CRTs), which decreased by 17% from Nov/Feb price levels (\$8.2/t to \$6.8/t). The price drop may indicate that not even the pre-compliance market is shielded from the overall deflation of consumer and commodity prices. It is interesting to note that the VCI average for CRTs in Jan/Feb (\$6.8/t) is 8% higher than CRTs traded on the CCFE in February (\$6.3/t).
- **CCX credits becoming more popular.** Bilaterally traded CCX credits included in the ‘other’ category sold for an average of \$2.9/t, 31% lower than their Nov/Dec level (\$4.2/t). Despite the price decrease the volume of CCX offsets traded on the OTC market continues to increase because suppliers can still fetch higher prices than on the exchange.
- **Prices decline across all project types, but largest for methane.** Methane credits decreased by 36% from their Nov/Dec level (from \$8.0/t to \$5.1/t) mainly due to transactions verified to other standards (CCX, EPA) other than CCAR. CCAR methane credits continued to be sold 33% higher than the average at \$6.8/t. The smaller declines for the other project types are in line with price declines observed throughout the voluntary carbon market.

Figure 2: VER Prices by Project Type



Source: New Carbon Finance. Project types displayed for which multiple data points were available.

Figure 3: VER Prices by Standard



Source: New Carbon Finance. Standards displayed for which multiple data points were available. "Other" incl. CCX, ISO, EPA Climate Leaders, ERT/ACR, GHGS).

3. Methodology

Each month New Carbon Finance collects price, volume, standards and project type data from a wide range of participants in the voluntary carbon market. The US bias in our previous reports has largely been eliminated due to increased participation from international offset suppliers. Project developers and aggregators report sales prices, wholesalers and retailers report purchase prices (from project developers, aggregators, and brokers), and brokers report closing prices.

Prices for standards are volume-weighted to derive the average price for each standard, then weighted according to the proportion the standard is utilised in order to generate a price representative of the overall market. Using our transaction data for the period July 2008 to February 2009 the Voluntary Carbon Standard (VCS) is weighted at 42%, the California Climate Action Reserve (CCAR) at 17%, the Gold Standard (GS) at 14%, and all other standards at 27%. For instances in which we lack transaction data for the Gold Standard we use the bimonthly average of bid-ask prices for Gold Standard VERs (across vintages) reported in Tullett Prebon's VER Monitor as a proxy. Prices shown for project types are volume-weighted and not indexed to standard usage.

Essentially, the VCI tracks voluntary carbon prices at the wholesale level and is considered to be an accurate assessment of pricing trends in the voluntary market. However, it should be noted that the VCI can only give an average picture. Given the illiquidity of the market at the present and the many different transactions (size, contract structure, vintage etc.) that can be done individual project prices may diverge from the values shown in this report.

About us

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