



21 May 2009

Voluntary Market – Research Note

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Voluntary Carbon Index, March-April 2009

1. Market Overview

The voluntary carbon market continues to struggle this year, both in terms of prices and trading activity. This is largely due to a demand glut as a result of the global economic recession and an oversupply of voluntary credits caused by the bureaucratic delays that plague the Clean Development Mechanism (CDM) approval process.

New Carbon Finance's Voluntary Carbon Index, which tracks bimonthly price trends of over-the-counter (OTC) transactions on the wholesale market, decreased by 6% from Jan/Feb price levels (from \$5.2/t to \$4.9/t). Prices do, however, seem to have stabilised after their precipitous decline earlier in the year.

Although tracked trading activity increased by 33% since Jan/Feb (from 0.9Mt to 1.2Mt), it is still down 56% from 2008 levels (a bimonthly average of 2.86Mt). US-based offsets comprised 83% of volumes tracked, in line with our expectation that the US pre-compliance market will continue to support the voluntary market as discretionary corporate budgets are cut as a result of the recession.

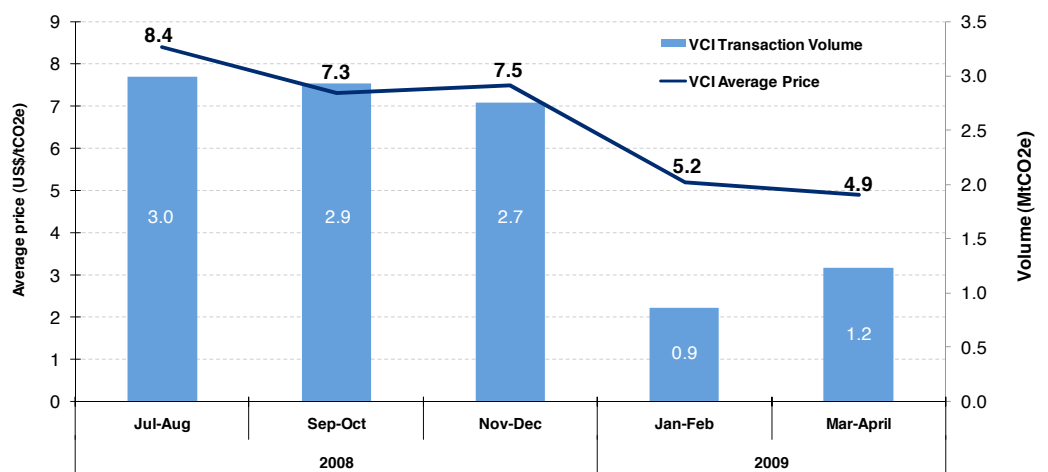
New Carbon Finance's VCI covers approximately one-third of global voluntary transactions and can therefore be regarded as indicative of the market's intra-year movements.

Table 1: Voluntary Carbon Index (VCI)

US\$/tCO ₂	Jan/Feb	Mar/April
VCI	5.2	4.9

Source: New Carbon Finance

Figure 1: Voluntary Carbon Index (VCI), OTC Prices and Transaction Volume



Source: New Carbon Finance

Prices on the Chicago Climate Exchange (CCX) decreased by 7% in Mar/April from Jan/Feb levels (\$1.84/t to \$1.71/t), but have dropped precipitously since then and now hover just over

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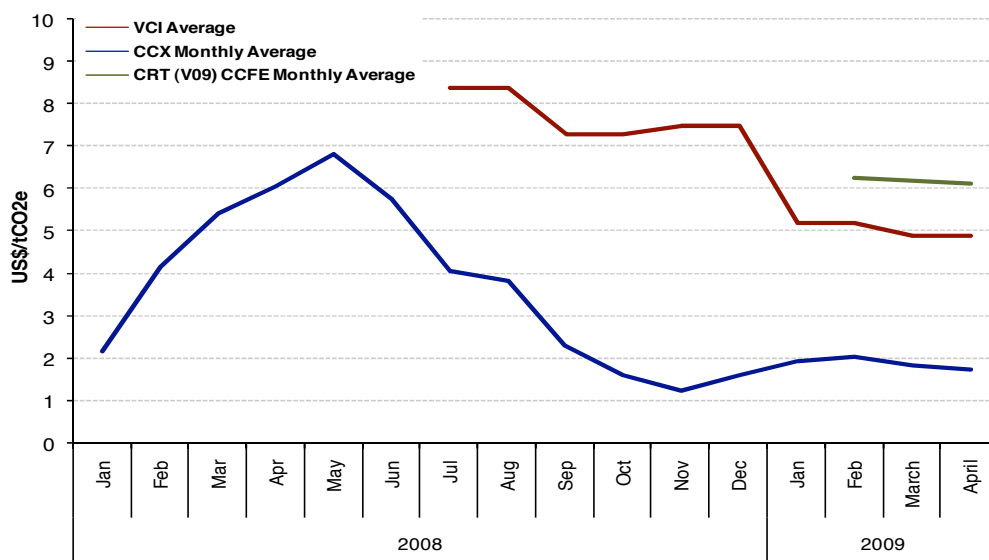
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\$1.40/t. Considering the extent to which the CCX is over-allocated any upward price movement will have to depend on pre-compliance speculation, and even that seems unlikely considering prices have been unresponsive to the current political momentum on the Hill to design and pass cap-and-trade legislation.

Prices for Certified Reduction Tonnes (CRTs) on the Chicago Climate Futures Exchange (CCFE) sold for \$6.1/t in April and \$6.2/t in March, small decreases from the \$6.3/t February price. CRT prices have broadly followed the slight downward movements in the VCI. However, trading remains extremely patchy with only 49kt sold during March and April.

Figure 2: Historical Prices for the Voluntary Carbon Index (VCI), the Chicago Climate Exchange (CCX), and Chicago Climate Futures Exchange CRTs



Source: New Carbon Finance, CCX, CCFE Notes: CCX data non-volume weighted average across vintages

2. Market Trends

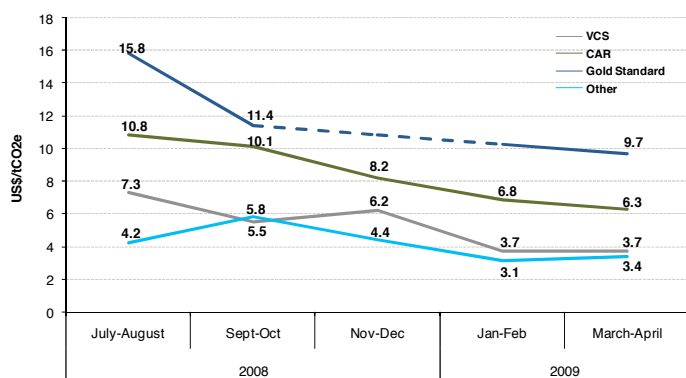
We identified the following trends in the voluntary carbon market during March and April:

- **Prices for VCS prices remain low at \$3.7/t; unchanged since Jan/Feb price levels.** VCS prices are currently almost as low as offsets verified to ‘Other’ standards, a basket of less popular and seldom used standards, as a result of a demand and supply imbalance. Since VCS credits are generally not perceived as a likely pre-compliance credit type, demand for VCS credits largely depends on the “pure” voluntary market, which has seen a decline in corporate spending budgets. Additionally, project developers sitting on emission reductions not yet registered to the CDM seek VCS verification to move their credits on the voluntary market, which has led to an (expected) increase of VCS credits on the market.
- **Gold Standard prices still highest despite 15% price drop from Sept/Oct levels.** Although the Gold Standard also primarily relies on the “pure” voluntary market due to its status as a high quality standard GS VER prices are still 162% higher than VCS prices (at \$9.7/t). In addition, trading activity for GS VERs has picked up in Mar/April. The VCI did not track enough GS VER transactions in Nov-Feb to include GS prices in our previous reports.
- **CAR prices decreased by 7% from Jan/Feb levels to \$6.3/t.** Despite CAR representing the premier US pre-compliance standard market prices continue to decline, now fetching \$6.3/t. This is somewhat surprising considering the legislative language in Waxman’s bill (H.R. 2454), which seems to favour the standard above all others for eligibility in its proposed federal cap-and-trade scheme. However, H.R. 2454 as it currently stands also stipulates that only credits with ‘09 vintages or later would qualify for inclusion, resulting in pre-2009 vintages not enticing pre-compliance demand. We anticipate CAR ‘09 vintages or later to fetch above-average prices as H.R. 2454 progresses through the legislative process.
- **Methane and Renewable Energy credits continue their price premiums.** Both project types are relatively more attractive to buyers; renewable energy is trendy in popular culture and the environmental benefits easily explained; methane credits are easily quantified with reliable technology and have relatively higher chances for pre-compliance eligibility. RE offsets increased by 7% from Jan/Feb levels (at \$6.3/t); methane offsets by 22% (at \$6.2/t).

RE offsets are generally more popular among “pure” voluntary buyers whereas methane offsets attract pre-compliance demand. However, there is evidence suggesting methane offsets appeal to “pure” buyers as well because methane offsets originating outside the US and Canada—where pre-compliance demand is non-existent—sold for \$7.6/t, 23% higher than US originated methane offsets (at \$6.1/t).

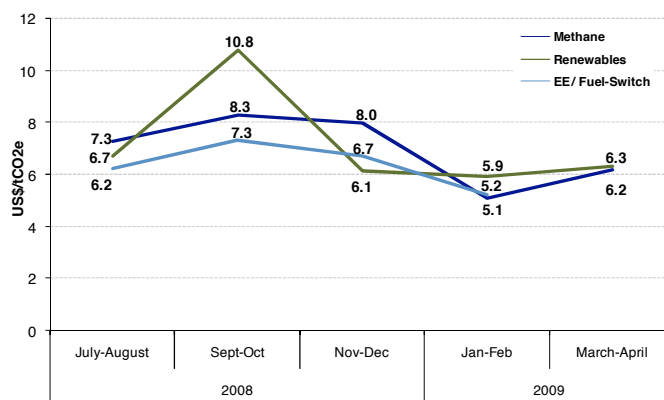
- **Transactions outside of North America trade in small clips and higher prices.** Despite the low volumes tracked for offsets originating outside of North America, trading was quite active albeit in smaller volumes and at higher prices. International offset prices were trading at a 12% premium to domestic offsets (\$5.5/t versus \$4.9/t). It should be noted, however, that the observed price spread is not particularly significant as transaction size is an influential price driver and the average transaction size of US-based offsets was 150.5kt, relative to international at 24.5kt. Hence, the smaller deal size contributed to the higher price.

Figure 3: VER Prices by Standard¹



Source: New Carbon Finance (1) Gold Standard price data interpolated from September to February

Figure 4: VER Prices by Project Category



Source: New Carbon Finance

3. Appendix: Methodology

Each month NCF collects price, volume, standards, and project type data from a wide range of participants in the voluntary carbon market. Project developers and aggregators report sales prices, wholesalers and retailers report purchase prices (from project developers and aggregators), and brokers report bid prices. All prices are volume-weighted and are only shown when multiple data points are available.

Essentially, the VCI tracks the price of carbon credits at the wholesale level and is considered to be an accurate assessment of pricing trends in the voluntary market. The VCI covers approximately one-third of global voluntary transactions and can therefore be regarded as indicative of the market's intra-year movements. However, it should be emphasised that the VCI can only give the average picture. Given the illiquidity of the market at present and the many different transactions (size, contract structure, etc) that can be done individual project prices may diverge from the values shown in this report.

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