CDM and Future Flexible Mechanisms Post-2012

A Carbon Investor’s Perspective

CEPS

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19th February 2009
The CDM market grew both in absolute terms and as a share of the global carbon market in 2008.
With the intensification of the economic crisis prospects for CDM in the short term have become more bearish.

Carbon Prices and CER-EUA spread (Apr.08-Feb.09)

Source: New Carbon Finance
CDM offtakers are bearing the brunt of the fall in secondary CER prices

Value Chain Analysis of CER Revenue

- Offtaker / Funds
- Project developer
- Average cost of production
- sCER price
- EUA price

Source: New Carbon Finance
Despite economies going into recession, there are still 20 countries with deficits under Kyoto Protocol.

**Deficit Country GHG Emissions (1990-2012)**

- **Historical emissions**
- **Emissions projections (pre economic crisis)**
- **Emissions projections (bearish GDP growth)**
- **Kyoto target with RMUs (deficit countries excl Canada)**

**Source:** New Carbon Finance
CER prices will remain relatively low for several years but are expected to pick up from 2015 as US demand picks up.

<table>
<thead>
<tr>
<th>Base Case</th>
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<tbody>
<tr>
<td>✧ Bearish GDP projections</td>
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<tr>
<td>✧ EU demand at 20% reduction on 1990 levels</td>
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<tr>
<td>✧ Japanese demand at 17% target level</td>
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<td>✧ Australian demand at 5% reduction on 2000 levels</td>
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<td>✧ Implementation of Dingell-Boucher bill</td>
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<td>✧ Governments willing to use AAUs for compliance</td>
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NCF January 2009 Base Case CER Price

- EU ETS participants set CER prices
- Governments are marginal buyers: downside risk from AAU buying
- Ramp up in US demand

Source: New Carbon Finance
CER prices are highly sensitive to the level of US engagement and treatment of AAUs

<table>
<thead>
<tr>
<th>Factor</th>
<th>Low</th>
<th>Base case</th>
<th>High</th>
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</thead>
<tbody>
<tr>
<td>US demand</td>
<td>No federal scheme in place</td>
<td>Implementation of Dingell-Boucher bill</td>
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<tr>
<td>EU demand</td>
<td>20% reduction on 1990 levels by 2020</td>
<td>30% reduction</td>
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<tr>
<td>Australia demand</td>
<td>5% reduction on 2000 levels by 2020</td>
<td>15% reduction</td>
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<tr>
<td>Japan demand</td>
<td>10% reduction</td>
<td>17% reduction</td>
<td>25% reduction</td>
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<tr>
<td>AAUs</td>
<td>High willingness to both buy and sell AAUs</td>
<td>Medium willingness to use AAUs</td>
<td>Low willingness to use AAUs</td>
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**CER Price Pathways (2008-2020)**

Source: New Carbon Finance
Any questions?

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