

IDEAS TO IMPROVE CER DEMAND AND TRADING IN DEVELOPING COUNTRIES DURING THE TRANSITION TO THE POST 2020 PERIOD

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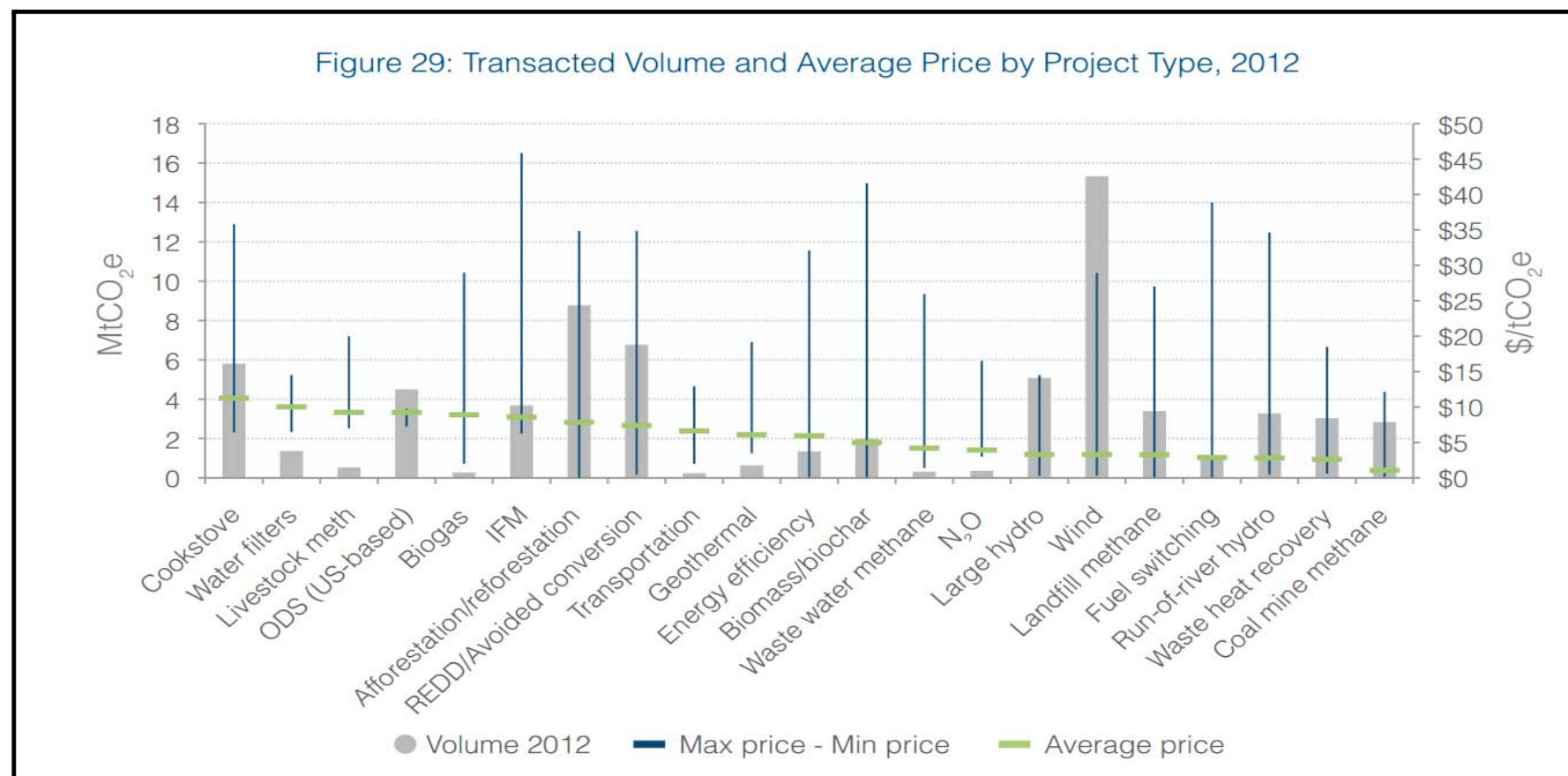
Bogota, Colombia

- Demand from industrialized nations could return but is probably several years away- post 2020.
-emerging Chinese markets could possibly absorb significant amounts of CERs by converting UNFCCC CERs to Chinese CERs
- ... Obama administration program to force US States to impose emissions caps and allow them flexibility to choose their preferred compliance strategy could possibly demand CERs....

What we have pre-2020 in Latin America: voluntary markets

- ... highly fractured demand
- ... niches with widely varied preferences,
- ... generating small transaction volumes,
- ... with a focus on project attributes instead of carbon,
-that generates no clear, single, carbon price signal.

*“demand continues to rest with those actors that have the desire and discretionary income to voluntarily purchase offsets. This represents a small number of buyers and transactions. In comparison to more active marketplaces, voluntary buyers are not always at hand and **offset prices are highly stratified and unpredictable**, even within similar classes of offsets”.*



Source: State of the Voluntary Carbon Markets 2013, p.26.

[HTTP://WWW.FOREST-TRENDS.ORG/DOCUMENTS/FILES/DOC_3898.PDF](http://www.forest-trends.org/documents/files/doc_3898.pdf)



NUMERCO LIMITED
US AND INTERNATIONAL VERIFIED EMISSION REDUCTIONS (VERs)
INDICATIVE PRICES, SUBJECT TO CREDIT AND CONTRACT

Numerco Limited
20 Birchin Lane
London, EC3V 9DU
United Kingdom

09 May 2014

09 May 2014					----- Deal Currency Pricing -----				---- USD Standardised Pricing ----				
Country	Methodology	Volume	Vintages	Certification	Currency	Buy	Sell	Trade	USD FX	Currency	Buy	Sell	Trade
Sri Lanka	Wind	50kt	2012-14	GS CER	EUR	3.25	/ 5.50		1.3287	USD	4.32	/ 7.31	
India	Solar	35kt	2011-12	Pre CDM VCS	USD		/	1.50	1.3287	USD		/	1.50
Brazil	LFG	130kt	2010-12	CER	EUR		/	0.40	1.3287	USD		/	0.53
Cambodia	Cookstoves	150kt	2012-13	Pure VCS	EUR	1.00	/ 1.50		1.3287	USD	1.33	/ 1.99	
Indonesia	LFG	100kt	2011-12	Pre CDM VCS	USD	0.50	/ 1.00		1.3287	USD	0.50	/ 1.00	
China	Wind	25kt	2012	GS CER	EUR		/	1.75	1.3287	USD		/	2.33
India	Irrigation	25kt	2013	Pure VCS	USD	3.00	/ 5.75		1.3287	USD	3.99	/ 7.64	
Turkey	Transport	40kt	2010-12	Pure VCS	USD	2.50	/ 4.75		1.3287	USD	2.50	/ 4.75	
South Korea	Wind	45kt	2010-12	CER	EUR		/	0.35	1.3287	USD		/	0.47
Thailand	LFGTE	150kt	2011-13	GS CER	EUR	3.00	/ 5.00		1.3287	USD	3.99	/ 6.64	
Brazil	REDD	600kt	2009-12	VCS + FSC	USD		/	P&C	1.3287	USD		/	P&C
India	Wind	45kt	2011-13	Pure VCS	USD		/	0.60	1.3287	USD		/	0.60
Chile	Small Hydro	25kt	2010-11	Pre CDM VCS	USD		/	2.25	1.3287	USD		/	2.25
Thailand	Solar	35kt	2012-13	GS CER	EUR	2.25	/ 4.50		1.3287	USD	2.99	/ 5.98	
US	Ag Meth	50kt	2012-16	CRT/COO	USD	6.50	/ 8.50		1.3287	USD	6.50	/ 8.50	
Nicaragua	Wind	10kt	2012	GS CER	EUR		/	P&C	1.3287	USD		/	P&C

DEALING AND ORIGATION

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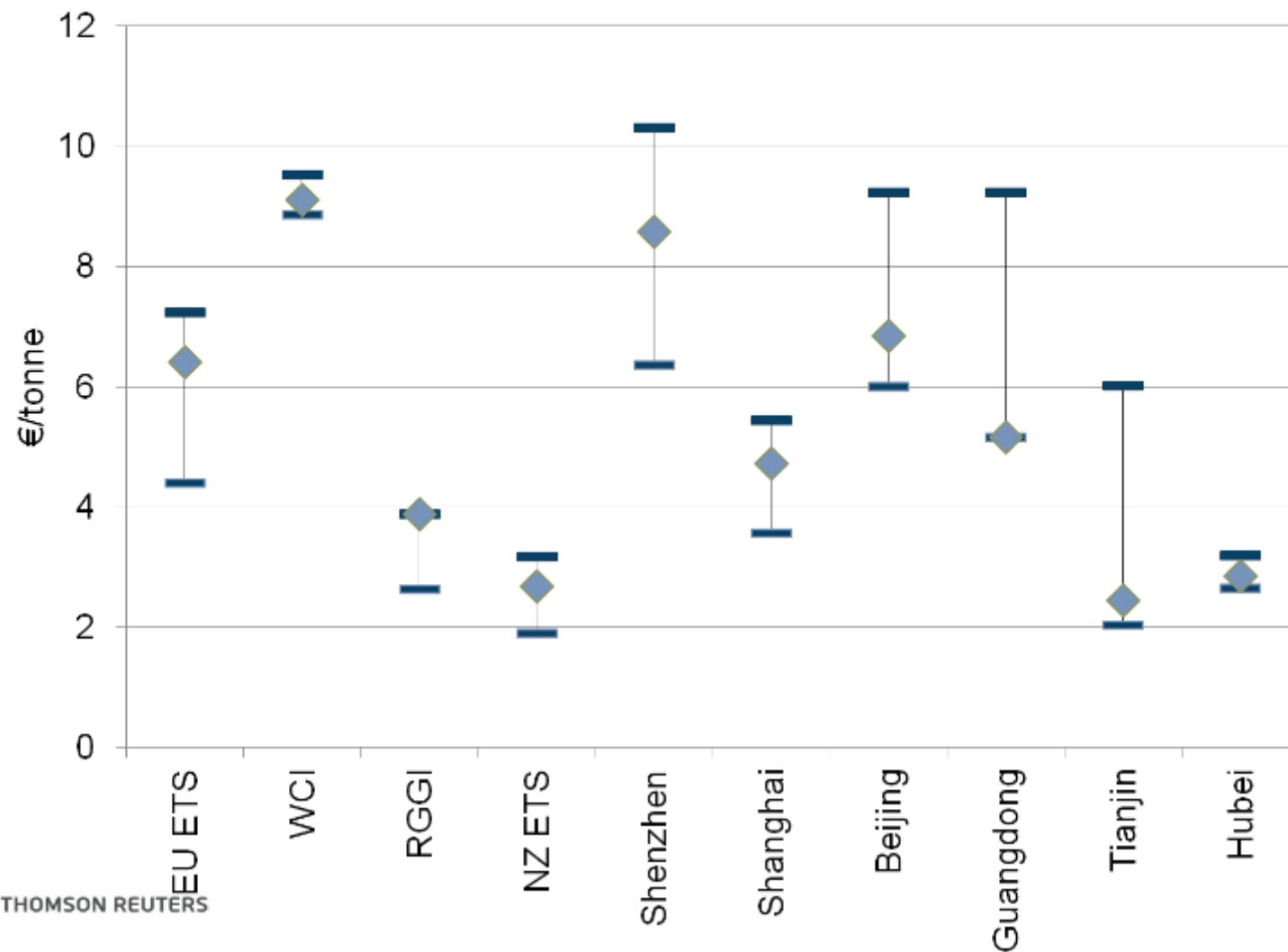
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STANDARDISED INDICATIVE VER PRICES, FY1-2 VINTAGES

TYPE	CCY	Change	BID	ASK	MID
VCS Premium	USD	-0.500	2.00	3.00	2.50
VCS Industrial	USD	-0.100	0.35	0.55	0.45
GS VER/CER Standard	EUR	-0.100	1.25	1.55	1.40
GS VER/CER Premium	EUR	-0.250	3.00	5.00	4.00

Market context: allowance prices



“Willing and Able” Buyers and Sellers face the Price Uncertainty Problem

- In the attribute-based world of voluntary markets, price reports are often confusing instead of clarifying.
- For a ***project owner willing and able to sell***, this information suggests that a “successful” trade should be realized near the top of the reported price range.
- For ***the CER buyer***, this price information leads to believing that a “successful” trade should be realized near the lower end of the reported range for his project type.
- When OTC negotiations reveal the widely differing price expectations, uncertainty grows and frustration can easily ensue.
- For both seller and buyer, it is safer to postpone the trade until future market conditions permit a safer decision.

FIRST-BEST OPTIONS TO INCREASE DEMAND AND TRADING IN CERS

- Domestic, country-wide cap and trade programs, that allow CERs for compliance
- Regional or sectoral cap and trade programs, such as California, that allow CERs for compliance
- Domestic carbon “***tax and trade***” programs, such as the South African and Mexican models, that allow CERs for compliance.
- *However, in many developing countries, imposing a compliance based carbon price through taxation of emissions, or a cap and trade system, may not be feasible in the short to medium term*

Difficulties with implementing compliance based pricing instruments in developing countries

- Perception of the rent seeking problem – govs will set the tax (or allowance auction price) level to ensure the size of the transfer of revenue from industry to government
- Equity issues: pass-throughs to energy consumers tend to affect poor the most
- Competitiveness: productive firms might find their competitiveness negatively affected vis-à-vis competitors that are located in countries without carbon pricing (e.g, USA)
- Developing Country environmental institutions often may not have the regulatory power, resources, political stability, or professional capacities to impose such a system, and may be unable to monitor and enforce

ELEMENTS TO BUILD UPON

in DEVELOPING KYS TO POST 2020

- **Climate change awareness at every level of society in Latin America – the media is strong proponent**
- **Corporate carbon footprinting and sustainability policies have become commonplace today**
- **Many government institutions are also following suit with public sector footprinting.**
- **The United Nations - CDM Brand is greatly respected in Developing Countries - competes very well with VCS, GS, other standards**
- **The Low Emissions Development Strategies (LEDS) teams are generating important and useful information.**
 - a realistic estimation of current abatement options and marginal costs of mitigation; sectoral and national MACs; POAs; NAMAs
- **Purchasing and Cancelling CERs from the CDM registry now has two benefits to incorporate all of society:**
 - **CERs are affordable to all**
 - **Cancellation from the Registry is simple and straightforward.**

A SECOND BEST OPTION TO
INCREASE CER TRADING: A
GOVERNMENT-PROMOTED
***INDICATIVE PRICE OF
CARBON***

*How to make buying and selling CERs
accessible to all, simple, with low transactions
costs?*

An Indicative Price to eliminate price uncertainty for those willing and able to buy and sell in dev kys

- If governments cannot implement a compliance-based carbon tax or cap and trade system for any reason,
- Could implement an INDICATIVE PRICE OF CARBON and vigorously promote voluntary purchases of CERS to offset carbon footprints in both the public and private sectors.
- The INDICATIVE PRICE OF CARBON would be continuously published along with the other leading price indicators by the news media, financial web pages, government publications, and mobile applications.
- Public and private entities could quickly reference the clear, single price of domestic carbon,
- eliminating the price uncertainty for buyers and sellers that are willing and able to trade.

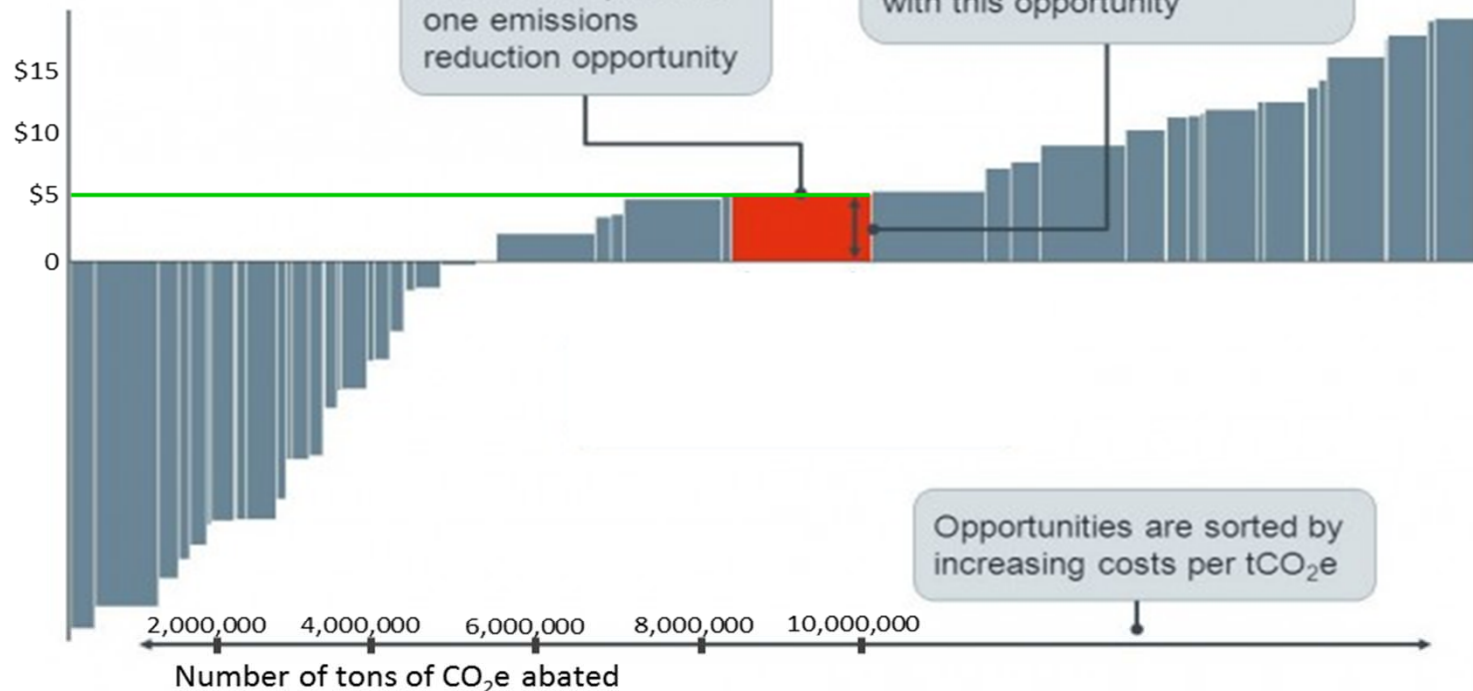
This “*Indicative Domestic Single Carbon Price*”
could be easily constructed.

- **First**, key stakeholders of the public and private sectors would meet yearly to determine a **voluntary national carbon reduction target**. (Baumol and Oates 1995, Tasa Retributiva Colombia 1997)
- By subtracting the agreed target level of emissions from the current year-to-2020 emissions levels, the **annual amount of GHG reduction required** can be calculated.

A Voluntary National Reduction Target Negotiated by Stakeholders		
Current National Emissions in Tons CO ₂ e		100,000,000
Voluntary National Mitigation Target	1990 level	90,000,000
Required annual reduction		10,000,000

- **Second Step:** use the national marginal abatement cost curve produced by the domestic LEDS team
- estimate the cost per ton reduced of the marginal mitigation option necessary to reach the required annual reduction: 10 Mn tons
- In the following example, the Indicative Carbon Price would be US\$5.

Cost per
ton CO₂e
abated



MAC derived from domestic LEDS work indicating that the marginal cost of abatement to reduce 10 million tons CO₂e per year is \$5 dollars per ton reduced. This is the indicative carbon price level for this country, reflecting its individual context, conditions and specific abatement options.

A Strong Promotional Program by each Participating Government would be Needed

- **A vigorous reporting program for Price Indicators to remove price uncertainty**
 - the Indicative Carbon Price should be reported along with other **leading price indicators** – coal, oil, energy, agricultural commodities, dollar and euro exchange rates.
 - In the newspapers, on the economic news on the radio and television, on relevant web pages, and through mobile applications.
- **Promote both the Indicative Carbon Price and the practice of Voluntary Contributions to Mitigation:** Government would continuously encourage the public sector, private firms and citizens to ***voluntarily contribute to the mitigation effort through the purchase of CERs.***
- **Public Disclosure of “climate Heroes/Leaders”** every year – firms that mitigate and report significant reductions of CO₂. Gov of Indonesia, *Public Disclosure Pollution Control Program 1996-2000.* (World Bank: GREENING INDUSTRY, 2000)

Complementary Policies Governments can more easily implement

- **Require public sector footprinting at all levels of government.**
- **Government purchasing policies that prefer GHG neutral products and services (w/offsets for high CO2 products)**
- **Improve and clarify tax benefits for corporations and citizens:** modify the tax code so that corporations and private citizens can ***obtain clear tax benefits, under category of environmental donations or investments, when they purchase locally generated CERs and cancel them at UNFCCC.***

What can be expected in terms of real increased CER demand?

- This can only be learned from trial and observance.
- It would depend on many factors, particularly on the strength and consistency of the Government promotion program by, acceptance and promotion by the news media, producer associations, and leading NGOs and citizen groups.
- But considering the state of CER demand to date, this may be worth a try.

Thank you for your attention.

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