



FORESTRY ACTIVITIES AND CARBON MARKET(S)

FCPF CARBON FUND THIRD MEETING
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Forest carbon is under-represented in compliance carbon markets (1)

Kyoto Protocol's Clean Development Mechanism (CDM) as of early 2012:

- ◆ 62 A/R projects submitted to the UNFCCC (0.1% of total)
- ◆ Expected CER generation: 20 million credits by 2012 (0.1% of total)
- ◆ Generate non permanent assets: temporary CER (tCER) or long-term CER (ICER)
- ◆ No issuance to date, as tCERs (no ICER contract known) are only issued once every commitment period, and for the net GHG removals achieved since the start of the project

Historical and technical reasons for this under-representation:

◆ Historical:

Negotiations over the integration of Land Use, Land-Use Change and Forestry (LULUCF) activities in the CDM ended two years after the conclusion of the Marrakesh Accords, as LULUCF's main supporters - the U.S. and Australia - had announced in 2001 that they would not ratify the Kyoto Protocol

◆ Technical:

Concerns from stakeholders, notably environmental NGOs, over measurement, monitoring and additionality demonstration in forestry activities led the CDM to leave out REDD and IFM project activities and only include A/R (Article 3.3 of KP)

Forest carbon is under-represented in compliance carbon markets (2)

CERs from LULUCF projects are excluded from domestic markets in operation:

- ◆ tCER and ICER are excluded from the European ETS which has been the main driver of the CDM
- ◆ tCER and ICER are excluded from the New Zealand ETS

Brighter outlook in coming initiatives, for domestic projects ...

- ◆ California's Compliance Offset Program: two offsets protocols developed for US-based forestry projects, eligible under the Californian ETS (start date 2013); "Early Actions" recognized through the voluntary standard Climate Action Reserve
- ◆ Australia's Carbon Farming Initiative: methodology in development for Australia-based reforestation, forest management and native forest protection projects, eligible under the Australian ETS (start date mid-2013)

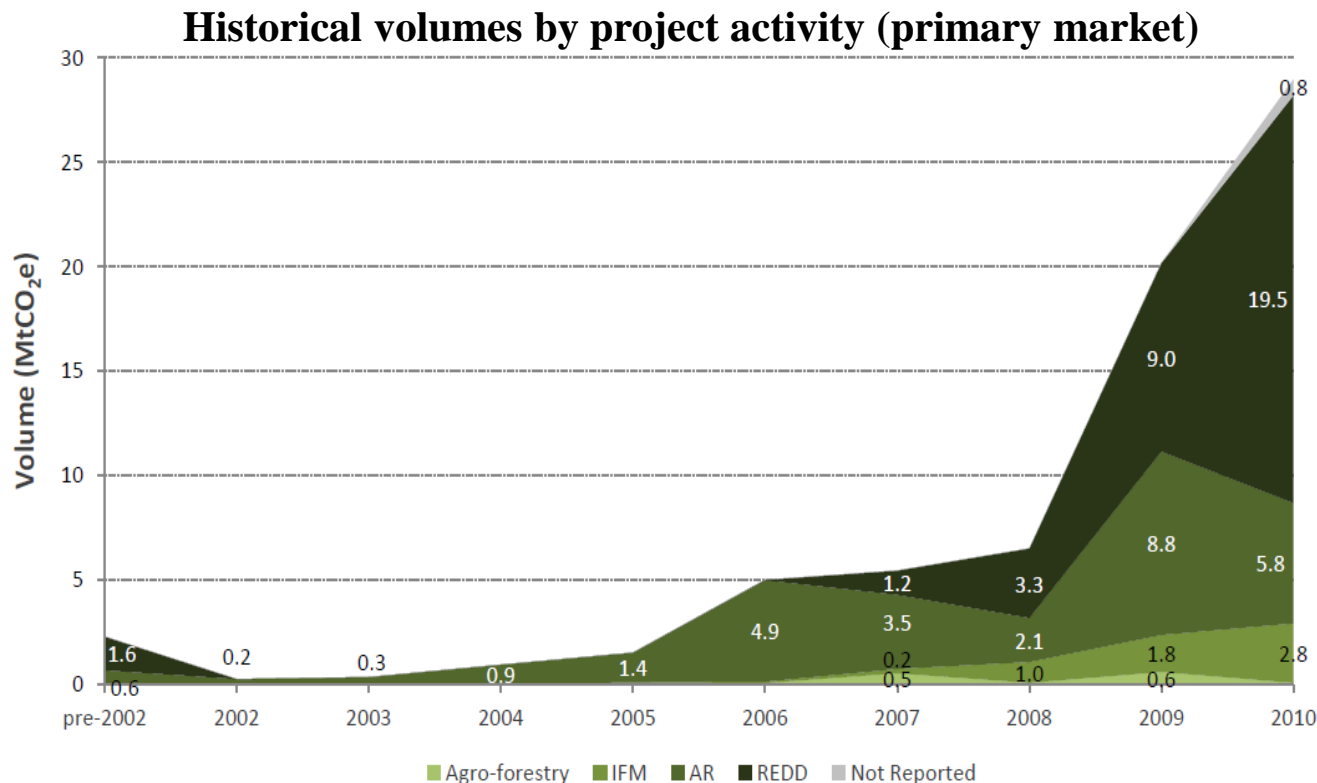
... and REDD+ :

- ◆ California will accept offsets issued by sector based offset mechanisms, including REDD+, from developing countries or from sub national jurisdictions within those developing countries. MoU signed with Acre in Brazil and Chiapas in Mexico. Final inclusion is subject to additional policy-making
- ◆ Australia may accept international credits, including REDD+ if accredited under UNFCCC
- ◆ Japan's Bilateral Offset Credit Mechanism: several REDD+ pilot projects selected

Forest carbon has found more fertile ground in the voluntary carbon market (1)

What drives the voluntary carbon market?

- ◆ “Pure voluntary” demand for credits generated by charismatic projects, from individuals or corporate social responsibility
- ◆ “Pre-compliance demand” from market participants betting on a possible value of the credits in emerging markets (Post-Kyoto, California)



Source: Ecosystem Marketplace (2011)

- 30.1 MtCO₂e traded in the forestry carbon market in 2010, 92% under the voluntary market

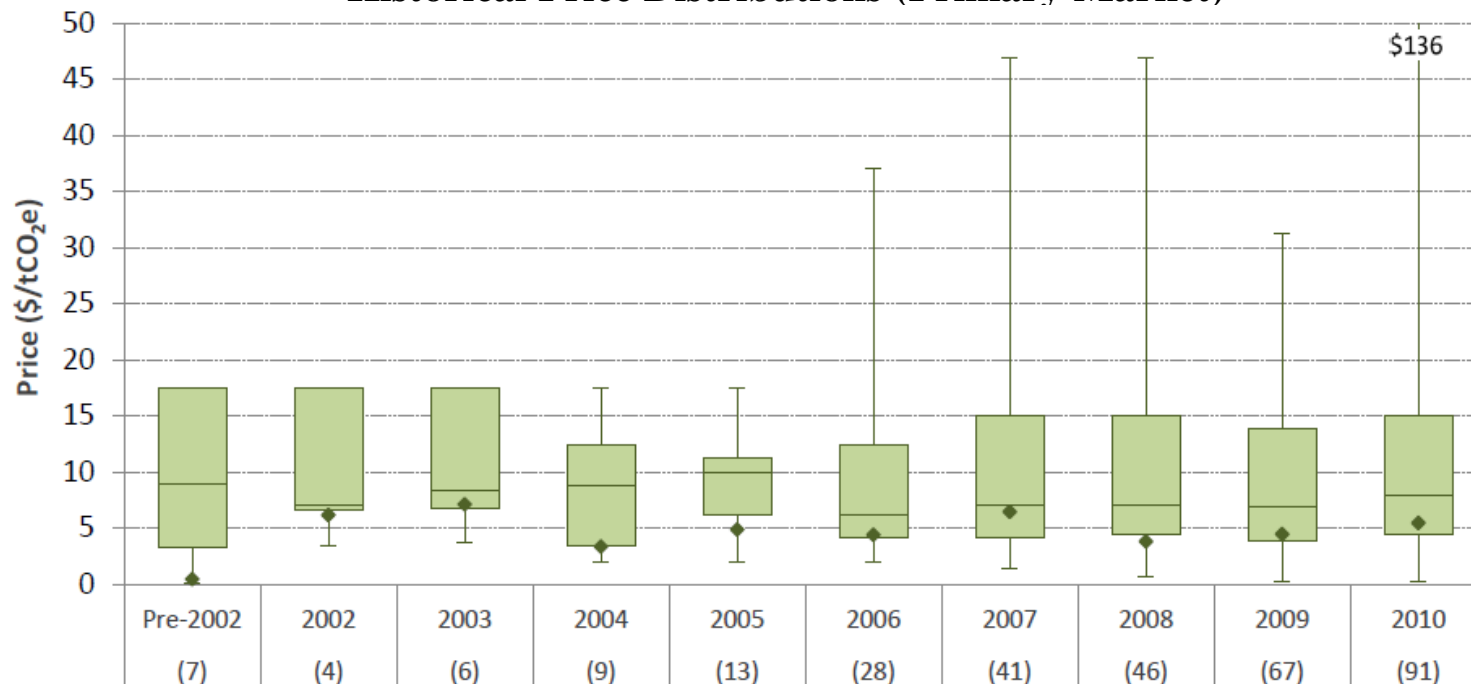
- Forest carbon accounts for more than 20% of global voluntary market

Forest carbon has found more fertile ground in the voluntary carbon market (2)

Price heterogeneity

- ◆ Price depends on a series of factors such as the project's charisma, certification standard, pre-compliance likelihood in future regional or international regime
- ◆ Average price in 2010 was \$5.5/tCO₂e, up \$1/tCO₂e from 2009
- ◆ \$4.5/tCO₂e for REDD credits
- ◆ Total value of forest carbon market in 2010 was \$178 million

Historical Price Distributions (Primary Market)

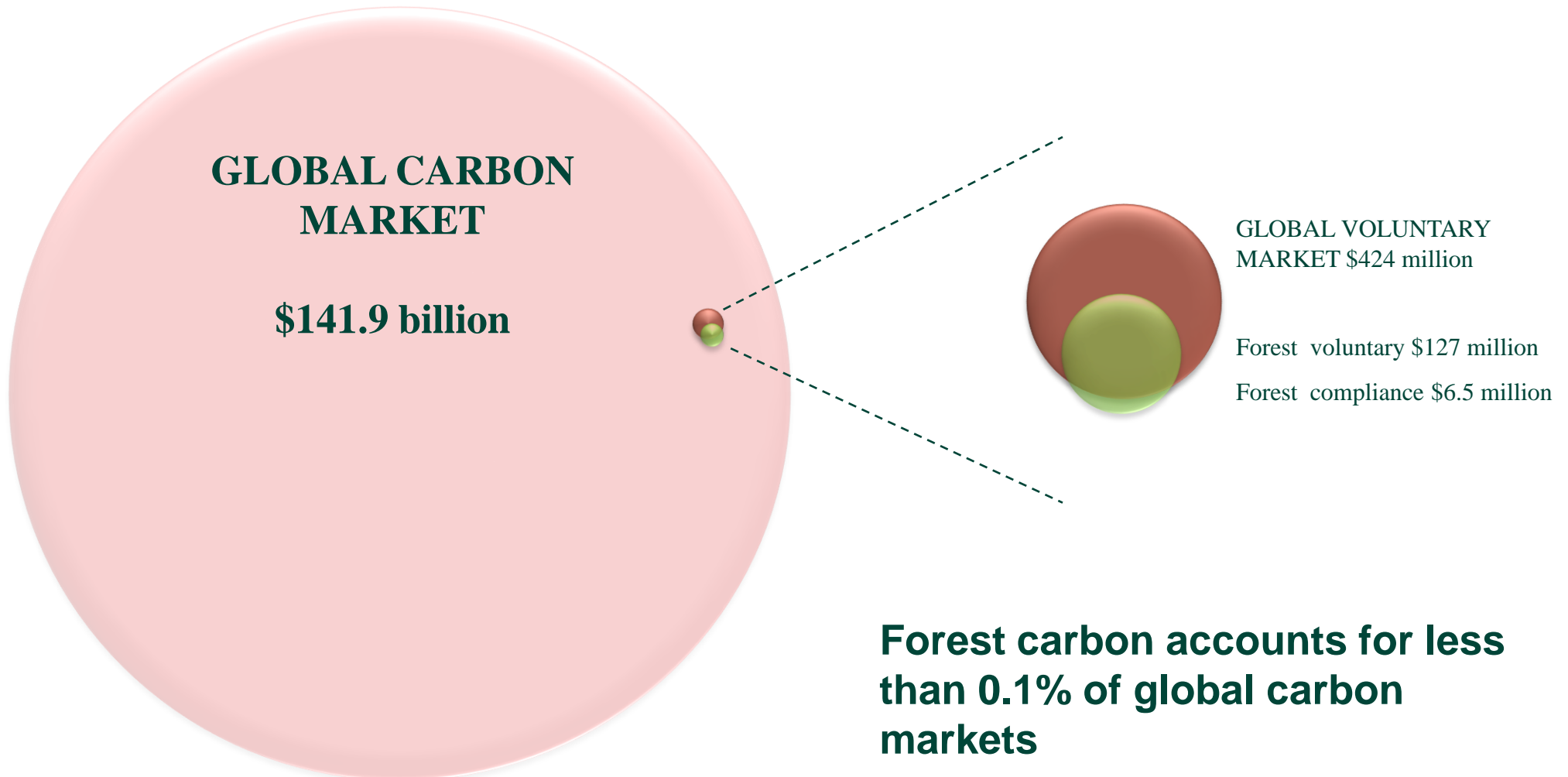


Values in parentheses show the number of reported prices included in each year.

Source: Ecosystem Marketplace (2011)

However, the voluntary market is very small...

Market values in 2010 (primary & secondary markets)



Source: World Bank, Ecosystem Marketplace

Several funds now support the emergence of forest carbon offsets supply

- ◆ Recent consolidation of forest carbon project supply in dedicated funds: total of about 150-200 project pipeline and more than \$1 billion commitment (targeted)
- ◆ Wide diversity of investors, strategies, portfolio, targeted markets (pre-compliance)

	Launch year	Targeted commitment (\$million)	Manager	Investors (non-exhaustive)	Investment strategy	Targeted emerging carbon market
Althelia	2011	325	Althelia Ecosphere	BNP, Allianz, The Dutch Development Finance Institution, Conservation International	Offsets	Voluntary, Pre-compliance: Post-Kyoto, bilateral
BioCarbon Fund I,II, III	2004	90+60	World Bank	Spain, Japan Petroleum Exploration, Tokyo Electric Power, Agence Francaise de Développement, Ireland	Offsets	Kyoto, Voluntary Pre-compliance: Post-Kyoto, bilateral
EKO Green Carbon Fund	2011	5-10	EKO Asset Management Partners	BP Alternative Energy, family offices	Offsets	Voluntary Pre-compliance: Post-Kyoto, bilateral North America
FCPF Carbon Fund	2008	205 (Carbon)	World Bank	Australia, BP, CDC Climat, European Commission, Germany, Norway, Switzerland, The Nature Conservancy, UK, USA	Market readiness, offsets	Voluntary Pre-compliance: Post-Kyoto, bilateral
Moringa	2012	130	ONF Int., Rothschild (CBR)	CBR, family offices	Equity	Voluntary Pre-compliance: Post-Kyoto, bilateral
Terra Bella Fund	2011	150	Terra Global Capital (TGC)	US The Overseas Private Investment Corporation	Offsets	Voluntary Pre-compliance: Post-Kyoto, bilateral North America
Carbon Fund for Forests	2011	130	CDC Climat Asset Management	CDC Climat, Orbeo	Offsets	Voluntary Pre-compliance: Post-Kyoto, bilateral North America
Livelihoods Fund	2011	130	Livelihood Venture	CDC Climat, Credit Agricole, Danone, Schneider Electric	Offsets	Voluntary Pre-compliance: Post-Kyoto, bilateral North America
Forest Carbon Partners	2012	NA	New Forests	NA	Offsets	North America

Conclusion

- Voluntary carbon markets have allowed the emergence of innovative tools and compliance-grade forest carbon offset supply
- But the demand side needs to be addressed, as the voluntary market is not sufficient to drive the growth of forest carbon
- Positive outlook at the regional and international level
- Predictable and reliable government actions further needed

Thank you

FOR MORE INFORMATION

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