



Forest Carbon Partnership Facility

Carbon Fund: Pricing and Valuation Approach

Tenth Meeting of the Participants Committee (PC10)

Berlin, Germany

October 18-19, 2011

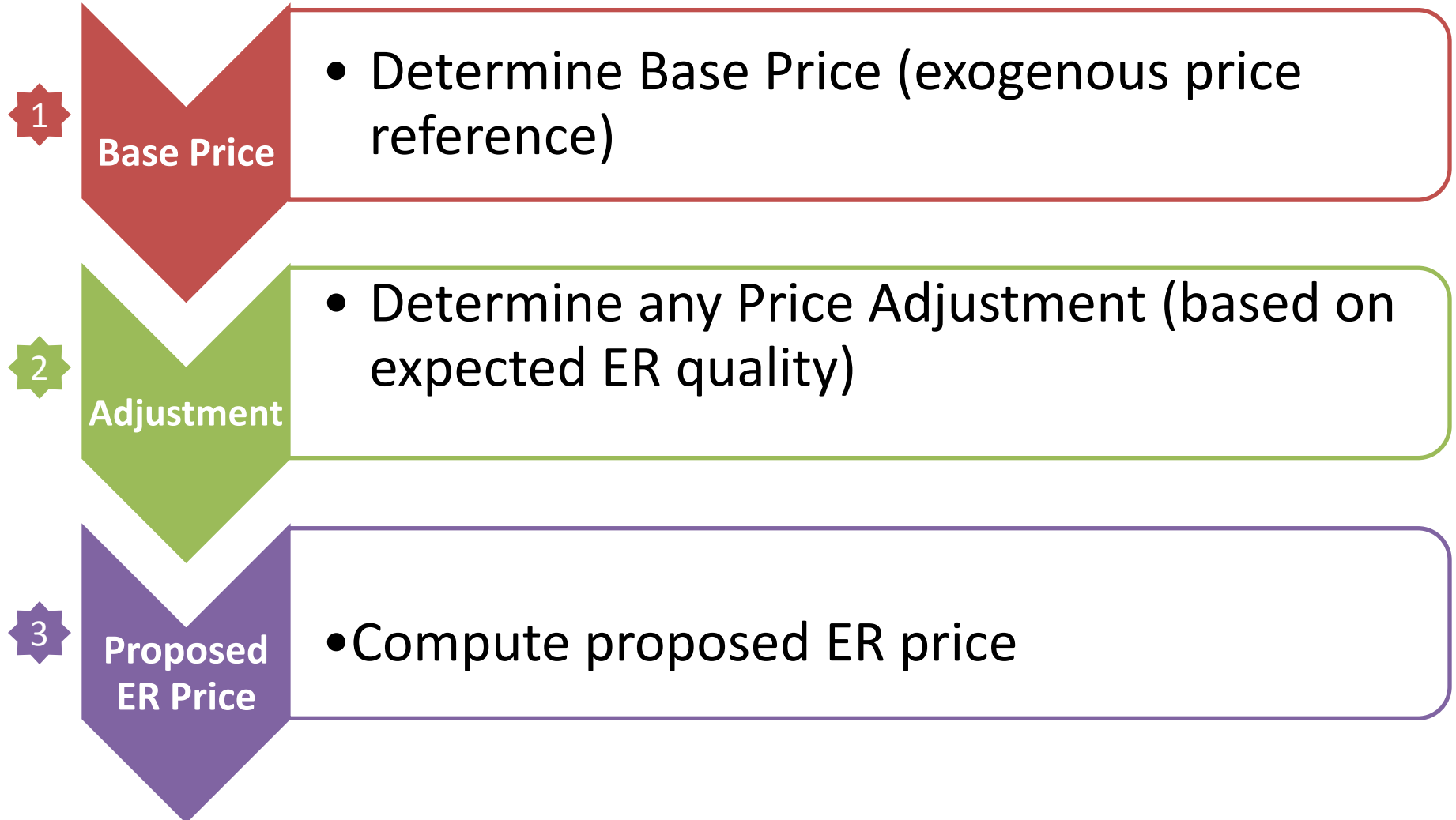
Carbon Fund Pricing approach and role of PC

- The FCPF Charter foresees in Section 11.1 (f) that the PC “adopts policy guidance on pricing methodologies for ERPAs”
- The goal set by the Carbon Fund Participants is that this would happen in June 2012
- This session presents some of the early thinking on the pricing approach although the end result might be different

Why is policy guidance on pricing required?

- REDD+ is new, few price references are available
- Voluntary forest carbon market has data, but generally small, project-based, transactions
- FCPF Carbon Fund is a different animal
 - Carbon Fund focus on a large scale e.g. administrative jurisdictions (national or sub-national) is an innovative approach and needs demonstration
 - Carbon Fund links ER Program implementation at sub-national level to national strategy and accounting systems
 - ER Programs can be a mix of policies and investments

Proposed steps in price formation



Price formation – Base Price

1

Base Price

- Based on external price references
 - Options
 - existing transactions, for example in voluntary market;
 - quotations by interested market players (e.g brokers);
 - auctioning?
- Can be based on price references at time of ERPA signing or at time of delivery of the emission reductions (or a combination)
 - Prices might differ over time, depending on progress of inclusion of REDD+ in different compliance regimes.
 - ERPA might have a variable model where the final base price is made up of the market price at different points in time
- Risks can be managed through price floors and price ceilings

Price formation – Adjustment

- Premium based on the quality of the emission reductions
- This quality could be determined through the application of the Carbon Fund methodological framework
- Can be a percentage or fixed amount

2

Adjustment

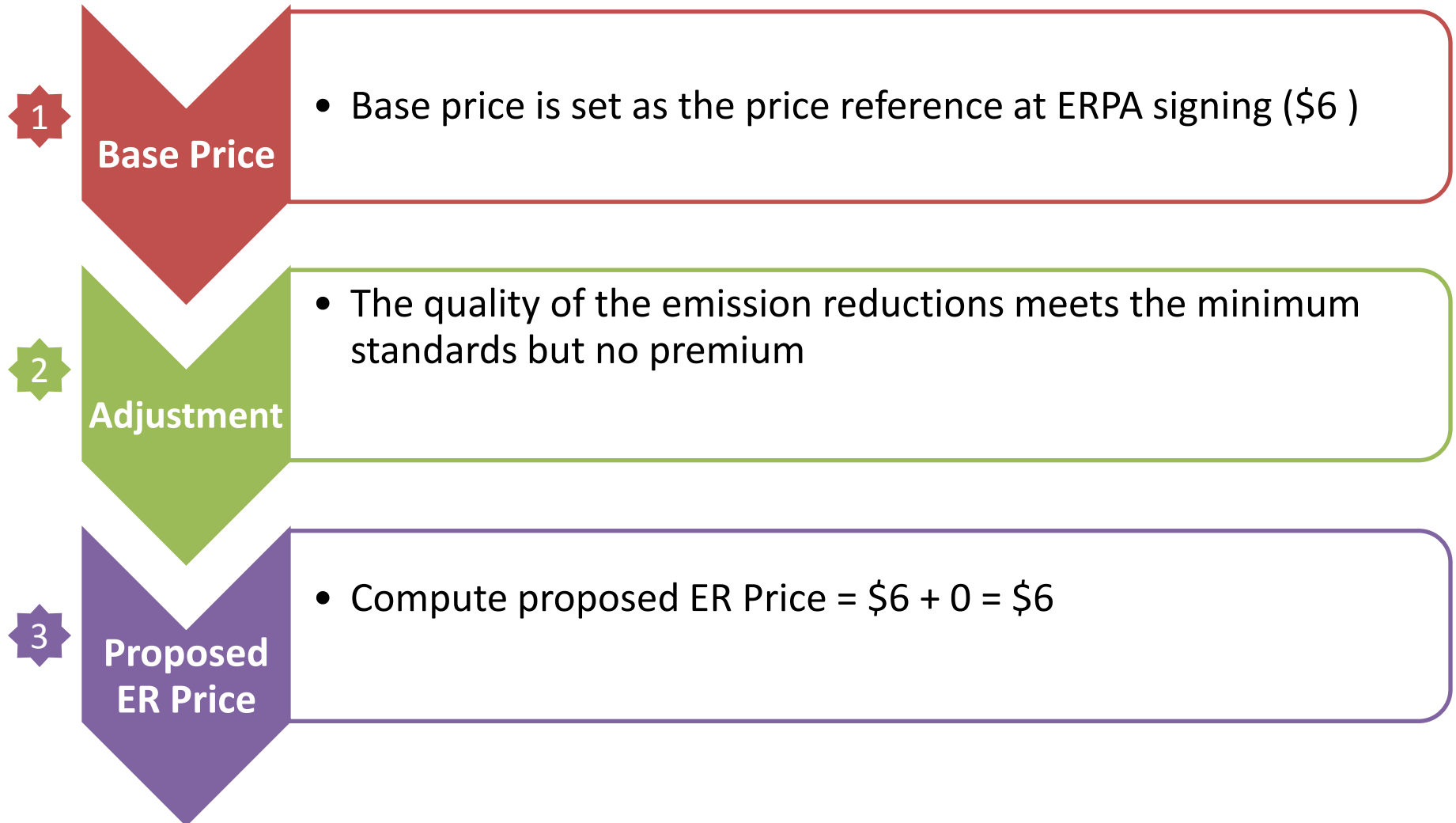
Price formation – Proposed ER Price

Compute proposed ER Price

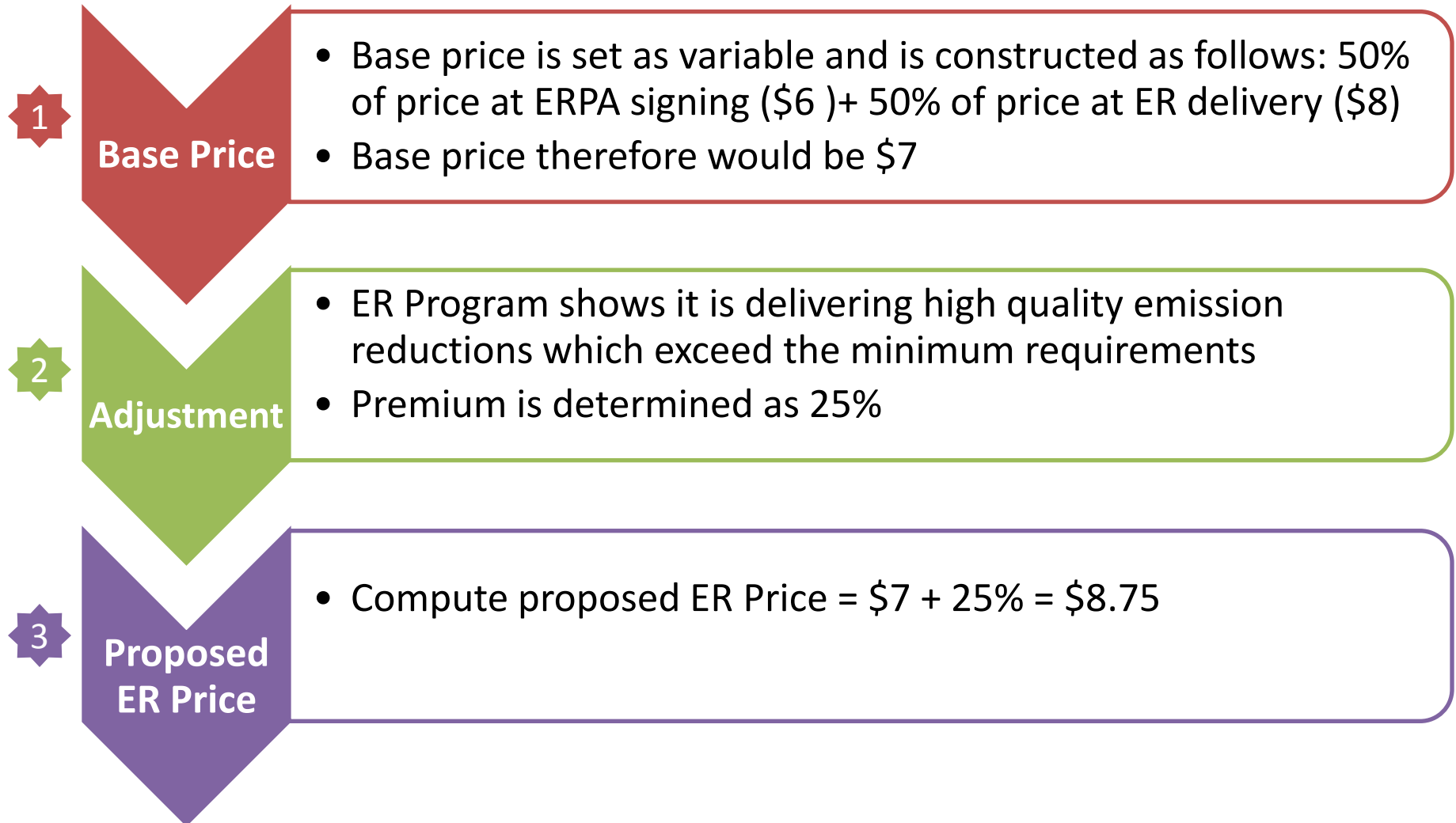
$$\begin{array}{r} \text{Base Price} \\ + \quad \text{Premium} \\ \hline = \text{Proposed ER Price} \end{array}$$



Price formation – hypothetical example (1)



Price formation – hypothetical example (2)



Next steps

- Explore if the proposed approach is feasible or too complex
- Consider alternatives
- Determine how the approach would apply to different ER Programs
- Discuss how the different variables would be determined, for example how much should the premium be (if any)
- Working Group on methodology & valuation



THANK YOU!

www.forestcarbonpartnership.org