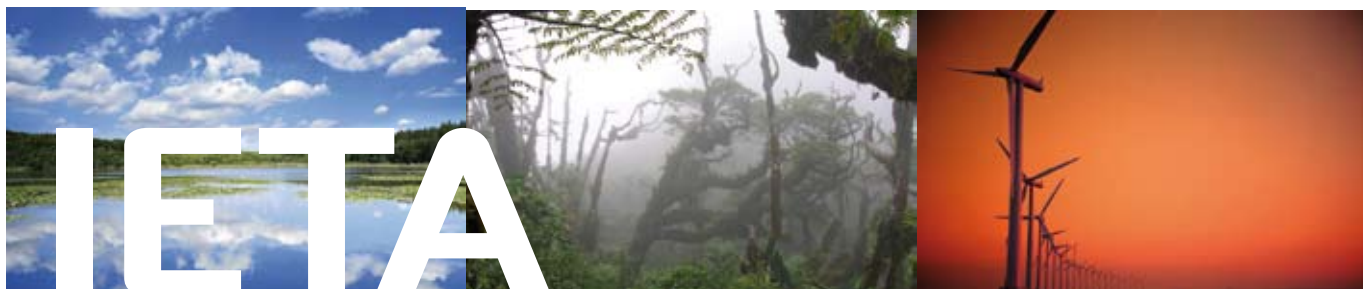


GHG MARKET SENTIMENT SURVEY

4th EDITION



Survey Highlights

- » “No major agreement is expected to result from Copenhagen”
- » “Copenhagen is unlikely to result in the EU raising its 2020 emission reduction target to 30%”
- » “Strong confidence in the long term viability of the EU-ETS”
- » “No to price caps or floors”
- » “Opinions divided on future US prices: \$20 - \$30 most likely”
- » “Confidence in the CDM is on the rise”
- » “Post-2012 uncertainty and lack of CDM-EB transparency are the main challenges to the future success of the CDM”

conducted by:

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Survey highlights

Key findings of the fourth IETA GHG Market Sentiment Survey

- » Survey opinions indicated **high levels of uncertainty surrounding the potential outcomes of the Copenhagen negotiations**. One third of respondents expect that the EU will raise its 2020 targets to 30% as part of an agreement in Copenhagen. However, 48% disagree with just fewer than 20% neither agreeing nor disagreeing.
- » **Over half of survey respondents** believe that any **major agreement in Copenhagen will be postponed** until further meetings in 2010.
- » In stark contrast to last year's survey where 80% of respondents indicated that they believe that GHG markets have delivered significant and cost effective emission reductions, this year's result of 63% and 59% (for delivering reductions in developing and developed countries respectively) **may reflect the impact of the power of the recession**.
- » Respondents gave a **strongly negative response to the introduction of price caps and price floors** as a mechanism to moderate extreme price fluctuations, with almost 75% stating that they would not favour such measures.
- » The **majority of respondents (79%)** stated that they expected **Phase II EUA prices to remain below €30**.
- » There is strong sentiment among respondents that Phase III of the EU ETS will see significant increases in EUA trading; indicating confidence in the **long term viability of the trading scheme**.
- » 57% of respondents expect pre-2012 CER prices to remain below €20. However, an almost identical proportion expects prices to rise above €20 after 2012. **Confidence in the CDM would appear to be on the rise**.
- » **Almost 28% of respondents expect average prices for credits in a US market of \$20 - 30**, with 24% expecting prices of \$10 - 20.
- » Respondents identified the **two key future challenges in the CDM** process as: uncertainties over the post 2012 regulatory regime, and the transparency and consistency of decisions made by the CDM-EB.

The 2009 IETA approach to GHG Market Sentiment

Since the writing of the 2008 report several developments including the deepening of the global economic crisis, the election of President Obama in the US and the upcoming Copenhagen negotiations in Copenhagen have prompted an adaptation of the survey questions, to ensure that they provide relevant insight into the sentiment of GHG market participants.

The new questions have been designed to complement, rather than duplicate, other carbon market surveys that have been recently conducted. In addition, this year IETA and PricewaterhouseCoopers jointly hosted a round-table discussion for some key IETA members and other leading carbon markets specialists to conduct a more detailed discussion of the survey results. Unattributed quotes from this session are presented throughout this report.

About this report

The survey was conducted on behalf of IETA by PricewaterhouseCoopers' International Survey Unit and this report was prepared for IETA by the PricewaterhouseCoopers Climate Change and Carbon Markets Services team.

Message from the President and CEO of IETA



IETA is delighted to present the 2009 edition of our GHG Market Sentiment Report, based on a survey conducted over the weeks leading up to Carbon Expo in May 2009.

This is our fourth survey of the views of our membership and other major players in the carbon

market worldwide and we believe these results provide an important barometer of carbon market opinion – not only of past and current performance, but expectations of the future from the people who will shape that future.

The survey goes beyond straightforward market sentiment, however. It covers a range of important policy-related issues that will impact on the market design issues that are all around in 2009. These include the negotiating round for a post 2012 international agreement which has begun with the US at last back at the table.

In the EU the framework ETS Phase III legislation has been passed, and Australia recently tabled laws to set up the Carbon Pollution Reduction Scheme.

In Washington President Obama has demonstrated his commitment to rapid progress with domestic cap and trade as a foundation for taking forward the international climate agenda.

IETA's membership covers a broad spectrum of participants from all parts of the carbon market, which makes us impartial between sectors, and ideally placed to give a broad view.

The survey was undertaken on our behalf by the PricewaterhouseCoopers International Survey Unit to ensure its impartiality, confidentiality and professionalism. Following the approach of the past three surveys, we have chosen to poll companies for their views, as opposed to individuals.

The GHG market continues to mature rapidly, with increasing volumes, new products and a host of new design issues in new jurisdictions across the world.

This Report provides the kind of information that this young but explosive market needs as it matures and becomes ready to perform the vital public policy task for which it has been created.

I hope that you will find the Report and results of the survey as useful and enlightening as I have. We always welcome all views and suggestions. If your company was not involved this time and would like to contribute to the next survey, please let us know.



Henry Derwent

Summary of IETA's fourth GHG Market Sentiment Survey

Summary of key results from IETA's fourth survey of GHG market sentiment

In the year leading up to the Copenhagen Climate Summit scientists have warned that the IPCC's assessment was likely to be too conservative and are calling for GHG emissions to be stabilised at a maximum of 450 ppm in order to avoid the most serious impacts of climate change.

This message however is in danger of getting overwhelmed by the worst economic downturn for a generation which is partly responsible for the recent fall in EUA prices. In response, regulators and commentators have started to question the role of free markets.

It is against this backdrop that we have conducted our fourth survey of GHG Market Sentiment.

Who was asked?

All of IETA's members were invited to take part in the survey and the invitees included many of the GHG market's major participants including compliance players, service providers, traders and investors.

Altogether 233 companies were surveyed with a response rate of 37%. This is slightly down from last year's response rate.

The respondents are dominated by companies from Europe and North America with 57% and 23% of responses respectively. A further 9% of respondents are based in Japan with the remaining 11% split across regions including Latin America, Africa and Asia (excluding Japan).

Changes in the market

The 12 months since the last IETA GHG Market Sentiment Survey have seen significant changes in the economic environment in which the carbon markets operate.

World economic growth has slowed sharply. The IMF is forecasting global GDP growth for 2009 of just 0.5%, down from 5.2% in 2007, with the economic contraction in the US and Eurozone which started in 2008 only returning to growth in 2011.

Bloomberg estimates that over \$14 trillion, or a third of the value of the world's companies has been wiped out by this crisis, although stock markets have recovered somewhat in March and April.

Victims of the economic crisis have included numerous high profile businesses. Lehman Brothers, an active participant in the carbon market, filed for bankruptcy in September 2008. The crisis has prompted unprecedented government interventions, with bail-out packages in European countries totalling some \$2 trillion and an economic stimulus package in the United States of \$787 billion.

One result of the economic downturn has been the collapse of international oil prices which hovered between \$110/bbl and \$115/bbl during the week of the previous report's launch before hitting an all time high of \$147/bbl on 3 July 2008. By late December 2008 these prices had dipped below \$40/bbl and at the time of writing stood at \$59/bbl.

The economic downturn has also led to a reduction in emissions resulting in reduced demand for credits. Credit lines and project finance have also dried up in response to the crisis, impacting the development of CDM and JI projects.

In the year since the last IETA Report Phase II EUA prices have fallen from highs above €30 in June 2008 to below €9 in February 2009. They have since recovered, hovering between €14 - €15 for the first half of May; however many market analysts have given overall average price forecasts for 2009 well below €15. Having exceeded €20 for much of last August, CER prices collapsed to a low of €7.6 in February this year. They have since recovered to between €12 - €13 at the time of writing.

Global carbon markets did however receive a boost with the election of Barack Obama whose administration is committed to the development of a US federal cap and trade scheme and has indicated that they favour long term emission reduction targets of 60 - 80% by 2050. The US economic stimulus package also makes significant investment available for the development of renewable energy clean technology and smart grids.

This stance was reiterated by both Senator John Kerry at COP14 in Poznan and Todd Stern, the US Special Envoy on Climate Change, at UNFCCC climate change talks in Bonn earlier this year.

"We're very glad we're back. We want to make up for lost time, and we are seized with the urgency of the task before us."

Aside from this and an agreement by EU ministers in Brussels that will allow them to hold on to their 20-20-20 targets, very little of note came out of talks during this period of intense discussions, and the meeting did not provide a clear sense of what the outcome might be in Copenhagen.

In fact, a deferral of key decisions to 2010 is considered by many commentators to be a possible outcome.

The response to the credit crisis has proven that a bold and internationally coordinated response to a global challenge is possible. For the most part governments acted quickly and decisively to intervene in an attempt to restore order to global markets. Climate change will require an equally bold, global response across a broader range of industries.

Summary of the survey findings

Survey opinions indicated **high levels of uncertainty surrounding the potential outcomes of the Copenhagen negotiations**. One third of respondents expect that the EU will raise its 2020 targets to 30% as part of an agreement in Copenhagen. However, 48% disagree with just fewer than 20% neither agreeing nor disagreeing.

Over half of survey respondents believe that any **major agreement in Copenhagen will be postponed** until further meetings in 2010.

In stark contrast to last year's survey where 80% of respondents indicated that they believe that GHG markets have delivered significant and cost effective emission reductions, this year's result of 63% and 59% (for delivering reductions in developing and developed countries respectively) **may reflect the impact of the power of the recession**.

Respondents gave a **strongly negative response to the introduction of price caps and price floors** as a mechanism to moderate extreme price fluctuations, with almost 75% stating that they would not favour such measures.

The **majority of respondents (79%)** stated that they expected **Phase II EUA prices to remain below €30**.

There is strong sentiment among respondents that Phase III of the EU ETS will see significant increases in EUA trading; indicating confidence in the **long term viability of the trading scheme**.

57% of respondents expect pre-2012 CER prices to remain below €20. However, an almost identical proportion expects prices to rise above €20 after 2012. **Confidence in the CDM would appear to be on the rise**.

Almost 28% of respondents expect average prices for credits in a US market of \$20 - 30, with 24% expecting prices of \$10 - 20.

Respondents identified the **two key future challenges in the CDM** process as: uncertainties over the post 2012 regulatory regime, and the transparency and consistency of decisions made by the CDM-EB.

IETA's fourth Market Sentiment Survey

Q The level of increase or decrease you expect in EUA trading volumes?
A "Strong confidence in the long term viability of the EU-ETS"

Market sentiment

Expectations of the market

The last 12 months have seen mixed progress on the climate change agenda due in large part to the global economic crisis. This is reflected in this year's survey results which indicate that 63% of respondents believe that GHG markets have delivered significant and cost effective emission reductions in developing countries. The corresponding value for developed countries is 59%.

"The core proposition that carbon markets solve climate change is perhaps under more threat than before"

This is in stark contrast to previous IETA surveys in which over 80% of respondents thought that the GHG markets are an effective means of reducing emissions and may indicate an erosion of confidence in the role and efficacy of markets. In return, this may reflect participants' consciousness of the awesome power of the recession in comparison to what the markets have achieved.

"The context in which the carbon market operates in terms of the surrounding financial regulatory framework is changing quite profoundly."

However the view of the overall market remains positive with seven out of ten respondents expecting trading activity to either grow or maintain current levels over the next 12 months. It is worth noting that compared to last year when none of the respondents expected trading volumes to fall, 12% of survey participants now

expect some decline in trading volumes in the next year. This may be due to a lack of optimism in the short-term resilience of carbon markets or an expectation that continued recessionary conditions will make European targets easier to achieve.

Despite the economic downturn and recent falls in carbon prices the long term outlook continues to be positive. Only 9% of respondents expect the recent drops in carbon prices to seriously undermine the long term viability of the carbon markets.

"We are in a time when markets are clearly under more scrutiny than they were before, there is no longer a blind faith in markets."

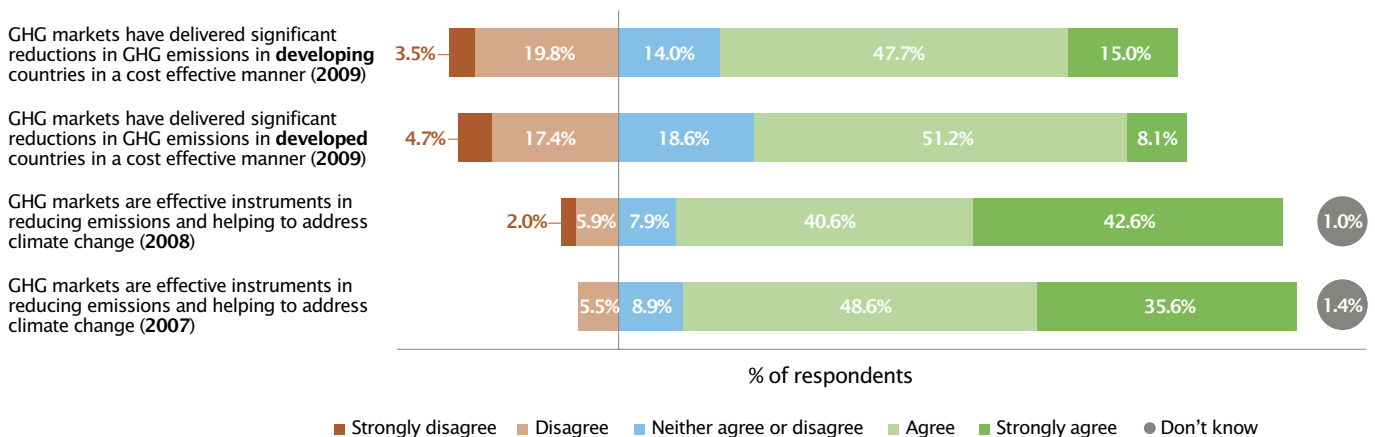
Market activity - trading volumes and prices

EUAs

Overall expectations for the trading of EUAs between now and 2012 are positive with three quarters of respondents expecting increases in trading volumes. The predicted magnitudes of these increases were quite evenly distributed with one fifth of respondents predicting an increase in EUA trading volumes of 25% - 50% and the same share predicting increases of 50% - 75%. Interestingly, over 16% of respondents also expect trading volumes to increase by more than 75% by 2012.

The outlook for Phase III of the EU-ETS is even more positive with 85% of respondents expecting an increase in EUA trading. More importantly, 55% of respondents expect trading volumes to increase by over a half, with

Changes in Market Sentiment: 2007 - 2009



Q The level of increase or decrease you expect in CER trading volumes?

A “Confidence in future trading volume of the CDM is on the rise.”

almost three out of ten expecting an increase of more than 75%. The strong sentiment among respondents that Phase III of the EU ETS will see significant increases in EUA trading indicates confidence in the long term viability of the trading scheme.

The majority of respondents (79%) stated that they expect Phase II EUA prices to remain below €30. The most popular price range was €20 - €30 with almost 45% of responses, followed by €10 - €20 with 28%. Less than one fifth of respondents expect Phase II EUA prices to cross €30.

As was the case with trading volumes respondents were more optimistic about Phase III prices with more than 50% expecting prices to be higher than €30. This is roughly comparable to last year’s survey in which 47% of respondents believed that Phase III EUAs would average more than €35. Only a tenth of respondents expect Phase III EUAs to be worth less than €20.

The trend of somewhat suppressed EUA prices for the remainder of Phase II followed by a recovery in Phase III corroborates similar findings in this year’s Point Carbon “Carbon 2009” survey.

CERs

When asked about future trading volumes of secondary CERs by 2012, 72% of respondents expressed a belief that volumes would increase, with two fifths predicting increases of over 50%. This compares favourably

with responses to similar questions a year ago. The 2008 IETA Survey found that only 23% of respondents expected significant increases in CER trading by 2012. A not insignificant 16% of respondents expected a decrease in CER trading volumes.

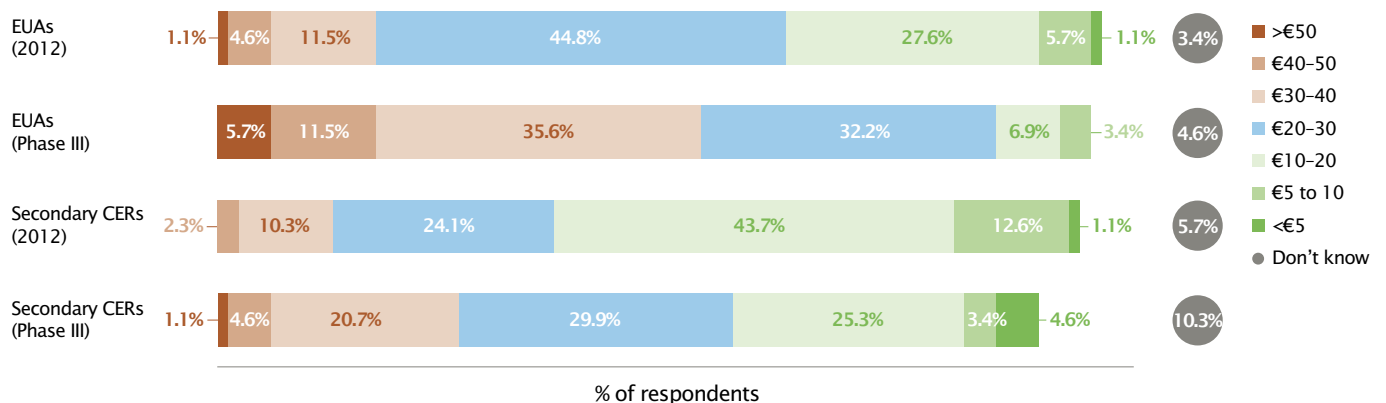
An almost identical 72% of respondents expect an increase in the trading volumes of secondary CERs from 2012 - 2020, demonstrating confidence that flexible project mechanisms will remain an important part of any post-Kyoto agreement. Again, a similar portion of respondents (just over 40%) expect the increase in trading volumes to be over 50%. From these figures confidence in the CDM would appear to be on the rise.

The big difference in CER predictions is found in the pre and post - 2012 price comparison. Almost 60% of respondents expect pre - 2012 CER prices to remain below €20 whereas only a third of respondents expect prices to remain that low from 2012 - 2020.

These, largely positive, views of the future of the CDM contrast with what were often pessimistic views expressed in our round-table discussion. Here many contributors voiced concerns on the long term viability of the CDM and on the likelihood of continued support for the flexible mechanisms.

“The EU is the only source of demand for CDM credits that anyone has had any experience with, and they have said they don’t want this anymore; not in policy terms, but in numerical terms.”

Predicted EUA and Secondary CER Prices for EU-ETS Phase II and Phase III



VERs

In the lead up to the current economic crisis interest in carbon-offsets and demand for high quality VERs increased significantly. This was partly driven by the establishment of the Voluntary Carbon Standard (VCS) which provided a program for the approval of credible voluntary offsets. The VCS was bolstered further in March of this year with the launch of the VCS Registry System allowing all credits generated under the VCS to be tracked from issuance to retirement.

Despite these developments the downturn has seen falling demand for offsets with resultant price decreases. Many organisations that are already committed to offsetting are sourcing lower quality credits and there are few first time buyers entering the market.

In light of this our survey attempted to collate opinion on the future of VER trading. The majority of respondents expect trading volumes to increase both pre 2012 and from 2012 – 2020 (53% and 52% respectively). Views on the magnitude of increase were quite evenly spread and both periods had a high proportion of respondents stating that they “don’t know”

what changes will take place in trading activities (23% for 2012 and 29% from 2012 – 2020).

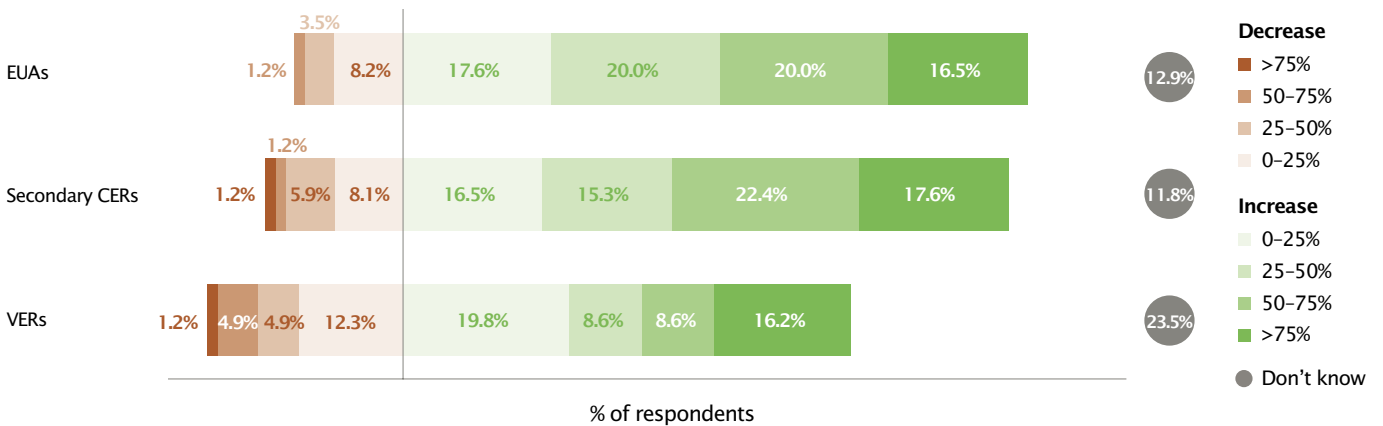
These results may indicate high levels of uncertainty about the future of what is a relatively new market.

Looking ahead, 47% of respondents agreed that a deal in Copenhagen later this year has the potential to act as a real driver for the voluntary market by boosting demand for credits. Alternatively, over a third of respondents thought that such an agreement would lead to no significant change in demand.

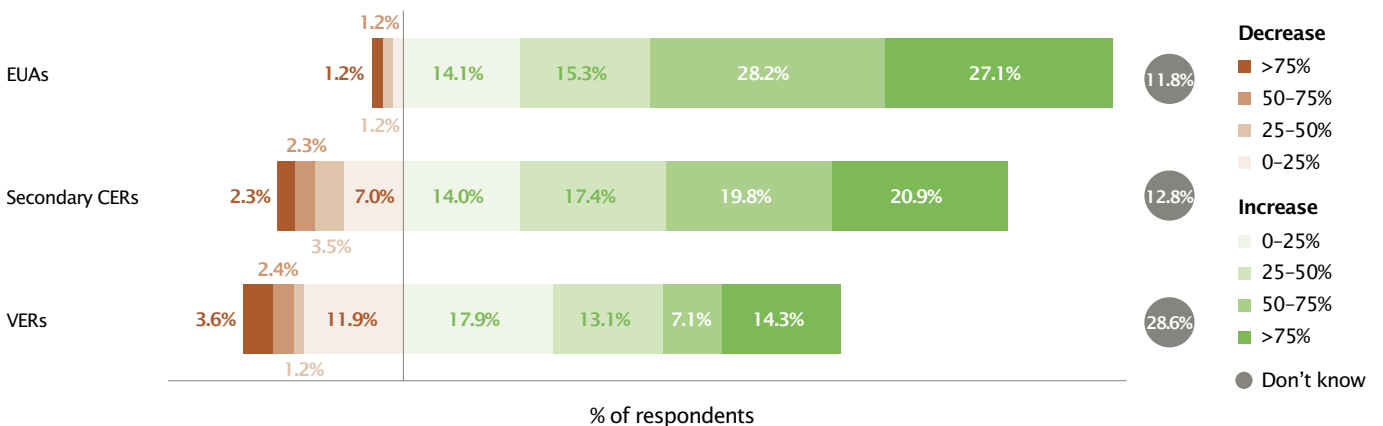
Interestingly there is a divergence between the perceived impact of such an agreement on demand and supply with almost half (47%) of respondents predicting that there would be an increase in demand whilst only 39% expect an agreement to drive increases in supply within the voluntary market.

This may indicate that there is already a perceived excess supply of voluntary credits in the market that could facilitate increases in demand. If demand does not redress this imbalance future prices of VER credits could be impacted.

Predicted EUA, CER and VER Trading Volumes for EU-ETS Phase II



Predicted EUA, CER and VER Trading Volumes for EU-ETS Phase III



Market structure

Q The level of increase or decrease you expect in EUA trading volumes?
A “Strong confidence in the long term viability of the EU-ETS”

Little support for price caps and floors

In response to growing criticism and concern about the design of GHG markets, and in the face of a global economic downturn and low carbon prices, we asked survey recipients to provide their views on a range of potential structural changes that have been discussed in some segments of the industry.

“We are all stuck in an in-between phase in which the old business model doesn’t really work but no one knows what the next business model should be.”

The first of these was the introduction of price caps and price floors as mechanisms to moderate extreme price fluctuations. However, despite increasing debate on the structure of GHG markets respondents gave a strong negative response to the introduction of such measures with almost 75% stating that they would not favour price caps and/or floors.

One fifth of respondents stated they would support such measures to some extent while only 5% said that they would be largely in favour of price caps and floors.

Carbon markets preferred to carbon taxes

The second question attempted to gain an understanding of respondents’ views on the relative merits of carbon taxes, carbon markets and a third, hybrid approach that makes use of both mechanisms.

Two thirds of respondents believed that carbon markets would be more effective than carbon taxes in

delivering significant reductions in GHG emissions in a cost effective manner, with only 10% of respondents holding the reciprocal view that carbon taxes would be more effective than carbon markets. Just over 30% of respondents believe that a hybrid approach would be a more effective and efficient means of reducing GHG emissions than carbon markets alone.

These results reflect the widely held view that while markets are imperfect instruments, there are currently no better alternatives.

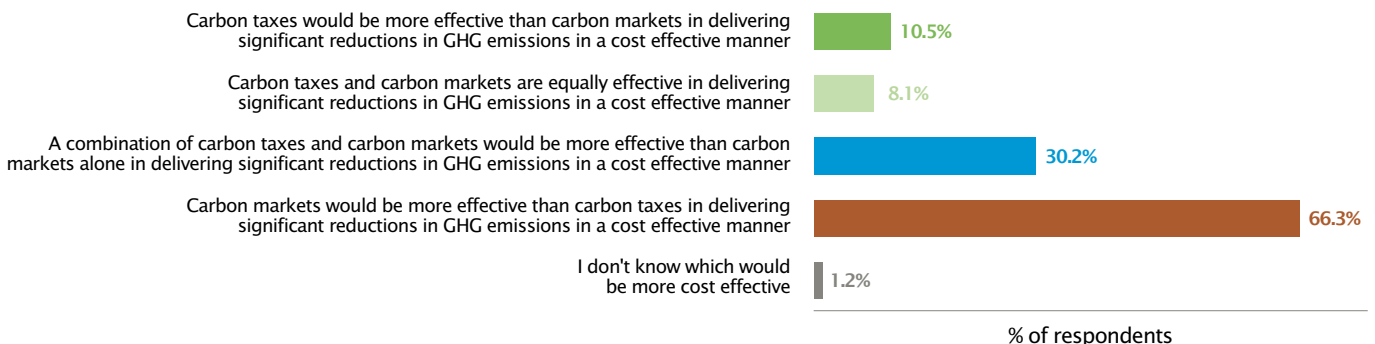
“The UK approach to markets still rules. This is very much a part of UK policy and very much one of the key drivers of EU policy. But it is cracking a little bit at the edges with ministers coming in who are clearly more sympathetic to regulatory approaches than their predecessors.”

Uncertainty surrounding the use of border adjustments and controls

Questions about the likelihood and timing of the introduction of border adjustments and/or other import controls were met with mixed responses, potentially indicating a level of uncertainty among respondents.

From the survey results, equal numbers (36%) of respondents believed that such controls would be introduced in the US within two years as those who believed these controls would not be implemented at all. Almost 30% of respondents believed these measures would be introduced more widely in carbon markets within the next two years.

Perceived Merits of Carbon Markets vs Carbon taxes



The role of the United States

Q What is your expectation of the average price level of a carbon instrument under a US cap and trade scheme between 2015 and 2020?

A "Opinions divided on future US prices: \$20 - \$30 most likely"

When will the US trigger demand?

After a decade of inactivity on the international scene the new US administration has made climate change mitigation an area of focus, having set the ambitious goal of reducing US GHG emissions to 80% below 1990 levels by 2050.

With no fewer than 10 bills proposing federal carbon caps, US companies are waking up to the realisation that they will face a carbon cap on their activities; indeed revenues from such a scheme have been factored into the federal budget from 2012.

"We have been waiting for a long time for the bride-groom to show up and now it has: but it comes with very little ownership at a political level of the notion of markets as a solution to this problem."

Most in the market see this timescale as likely, indeed 90% of US respondents in this year's Point Carbon survey, "Carbon 2009", believe that there will be a federal US emissions trading scheme in place by 2015.

Any such scheme is likely to boost demand for both locally and internationally sourced high quality offsets. The results of our survey indicate that respondents expect this to start with demand for domestic credits by 2012 with significant demand for international credits likely to start in the period 2013 - 2015.

US carbon instrument prices expected to range from \$10 - \$30

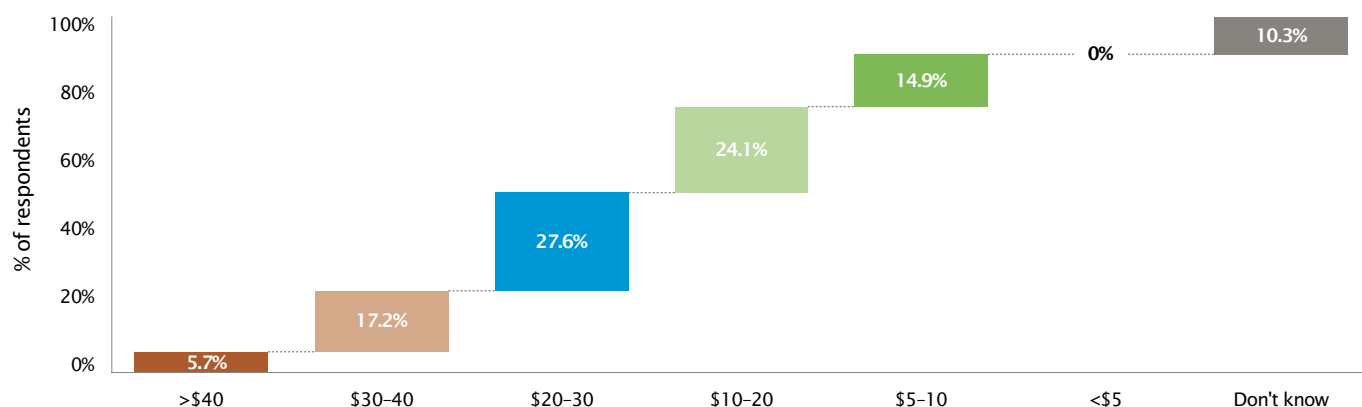
The majority of respondents expect the average price of US carbon instruments to range from \$10 - \$30 between 2015 and 2020. Breaking this down further, 24% of respondents believed that average prices would range from \$10 - \$20 with almost 28% expecting prices to range from \$20 - \$30. A further 17% thought that average prices may fall in the range \$30 - \$40. Only 5% expected prices to be above \$40.

Linkage with the EU ETS by 2020

A pre-requisite for a truly global carbon market is the linkage of existing schemes in different geographies and so the linking of a US carbon market to the EU ETS would be an important step towards establishing a global price for carbon.

Two thirds of respondents expect this to have happened by 2020 (26% by 2015 and an additional 40% by 2020). One fifth of respondents believed that such a linkage would only take place as part of a full OECD scheme. Only 7% thought that a US ETS would never link with the EU ETS.

Predicted Price Levels for US Trading Scheme Carbon Units (US\$)



The Copenhagen Climate Summit

Q What outcome do you see as most likely at Copenhagen in Copenhagen?
A "No major agreement will result from Copenhagen"

The pressure is on in Copenhagen

Following the relatively modest achievements that came out of COP14 in Poznan last December and this year's G20 summit in London, the shape of a binding post-Kyoto climate change agreement will be decided, in large part, at the UN negotiations in Copenhagen this December.

Already some sections of the climate change community are suggesting that any detailed, binding targets may need to be finalised in 2010 at a follow-up meeting to Copenhagen.

Another widely held view is that even if ambitious, binding targets are agreed by developed countries, it is highly unlikely that the major developing countries such as China and India will take on targets.

The results of our survey tend, to varying degrees, to support these views.

Potential outcomes

Over half of survey respondents believe that any major agreement will be postponed until further meetings in 2010; a position echoed in this year's Point Carbon survey which saw a significant drop in the proportion of respondents expecting an agreement to be reached compared to previous surveys.

Just over a third of respondents expect there to be some agreements reached which may include developed country targets as well as timetables for the introduction of targets for developing countries.

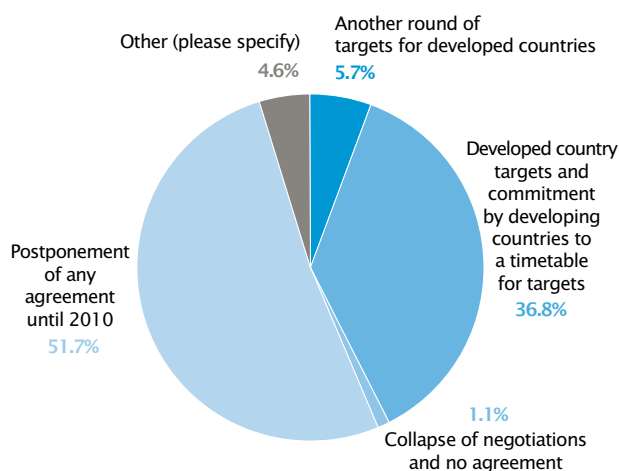
"There will be something coming out of Copenhagen because it will be too embarrassing not to."

In terms of the nature of any agreements reached, over two fifths of respondents expect only weak commitments, with less than 30% predicting ambitious targets being set. However, most respondents expected that there would be a good balance between long and short term commitments, an important characteristic of any post-Kyoto agreement.

"If at the end of Copenhagen Yvo De Boer gives a speech that lists the issues that have been progressed then it will mean that much has been accomplished. But it doesn't necessarily mean we have a new global agreement."

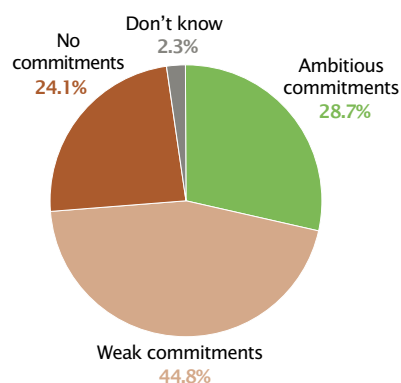
Likelihood and Characteristics of an Agreement at Copenhagen

Likely outcomes of negotiations at COP15

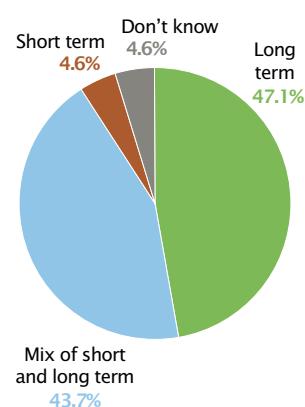


Characteristics of an agreement at COP15

Commitments



Timeframes



Q Do you expect that the EU will raise its 2020 targets to 30% as part of an agreement in Copenhagen?

A “Copenhagen will not result in EU raising its 2020 emission reduction target to 30%”

Copenhagen, developed and developing countries

The survey responses illustrate the stark contrast in current efforts to develop carbon legislation in different parts of the world.

One third of respondents expect that the EU will raise its 2020 targets to 30% as part of an agreement in Copenhagen. However, 40% disagree and just less than one fifth neither agreed nor disagreed. This split of opinion gives a fairly good indication of the levels of uncertainty that surround the potential outcomes of the Copenhagen negotiations, even with regards to the world’s most mature emissions trading scheme.

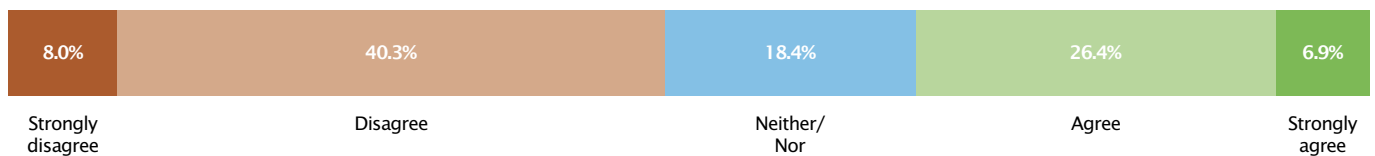
In contrast, only a fifth of respondents think that developing countries will adopt emissions targets by 2015. According to the survey, most participants believe that these targets are to be adopted between 2016 and 2020 (39% of responses), with post 2020 adoption accounting for 37% of responses. Only 1% of respondents think that developing countries will never adopt binding emissions targets.

New tools for the tool kit?

The arguments for and against the revision of the flexible market mechanisms and other aspects of a post – Kyoto agreement have been widely debated over the last few years. Our survey responses illustrated that support for each of these would appear to be quite balanced with few clear leaders.

Most respondents (63%) expect arrangements facilitating the growth of programmatic CDM to be included in any agreement signed at Copenhagen. Following this was the inclusion of Reduced Emissions from Deforestation and Degradation (REDD) within the CDM (56% of respondents). Carbon Capture and Storage (CCS) technology’s inclusion into the CDM, Nationally Appropriate Mitigation Actions (NAMAs) and sectoral CDM each received the backing of just under half of the respondents.

Likelihood of Increased EU Emissions Targets (from 20% to 30% by 2020)



The Clean Development Mechanism

Q What is the biggest challenge to the future success of the CDM?

A “Uncertainties over the post 2012 regulatory regime, and the transparency and consistency of decisions made by the CDM-EB”.

CDM’s biggest challenges

Like most other financial and carbon markets the UN flexible mechanisms have been negatively impacted by the economic downturn. Projected CER prices and trading volumes were discussed in the Market Sentiment section of this report.

In spite of this, recent months have seen increasing numbers of projects added to the CDM pipeline prompting some commentators to suggest that the overall impact on the CDM may be less severe than feared earlier in the year. This aligns with findings from Point Carbon’s 2009 survey which stated that many companies are intending to increase their CDM investment in 2009 and expect significant improvements through Phase III.

At the time of writing the CDM included 1613 registered projects with a pipeline of over 4700 projects.

It has been suggested that the economic downturn struck at a time when the CDM was less vulnerable than it had been in the past.

“If the wobbles coming out of the CDM concerning the quality of decisions had happened this year rather than two years ago it could be very catastrophic for the carbon markets.”

Wider criticism of the CDM process has included concerns around the speed and quality of the EB decision making process, issues related to the additionality and complementarity of projects, equity concerns, future uncertainty, and write-downs of CER delivery pipelines.

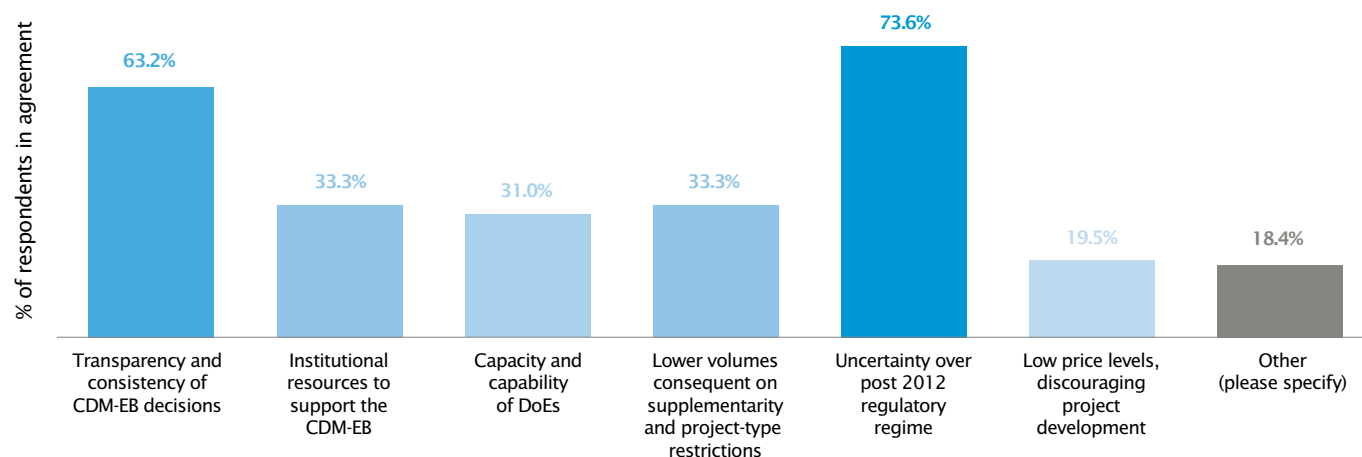
“There is an absolute need for very vigorous, robust and high quality processes throughout the market and I don’t think the CDM has quite moved with that.”

While the results of our survey identified several of these as key future challenges the two that stood out the most were uncertainties over the post 2012 regulatory regime and the transparency and consistency of decisions made by the CDM-EB. Both of these have the potential to negatively impact investment into new emission reduction projects and technologies.

South and East Asia will remain the world’s CER generating hub

Perhaps not surprisingly the results of our survey indicated that respondents expect South – East Asia to remain the dominant source of CERs between now and 2020. Central America is also expected to produce significant amounts of CERs with Africa seeing some increases in CER generation from current low levels.

Challenges Facing the CDM



About the survey

Conducting the survey

The survey was conducted on behalf of IETA by the PricewaterhouseCoopers International Survey Unit (ISU) in Northern Ireland. The questionnaire was jointly developed by IETA and the PricewaterhouseCoopers Climate Change and Carbon Market Services team.

All 172 IETA members were invited to contribute, together with other GHG markets participants. These covered all segments of the market including compliance players, service providers, traders and investors. Altogether 233 companies and other participants were surveyed including many of the major participants in the GHG markets.

Each participant company or organisation was sent an email with a web-based link to the electronic survey on 25 March 2009.

The survey was 'live' for just under 5 weeks, closing on 27 April 2009. Only one request was made to each company or organisation. During this period, scheduled electronic reminders were sent to non-respondents, in addition to personalised phone-calls made by IETA and PwC.

A total of 87 responses were received – a response rate of 37%. The respondents are dominated by companies in Europe and North America with 57% and 23% respectively. A further 9% of respondents are based in Japan with the remaining 11% split across regions including Latin America, Africa and Asia (excluding Japan).

The report on the survey was prepared for IETA by the PricewaterhouseCoopers Climate Change and Carbon Market Services team.

Survey Questions

The survey covered the following issues:

- » Where is the company's or organisation's head office located?
- » Is the GHG market an effective instrument in reducing emissions and helping to address climate change in both developed and developing countries?
- » Do you expect your organisation to increase or reduce its participation in GHG markets in the next 12 months?
- » Will the recent collapse in carbon prices impact on the long term viability of GHG markets?
- » Is the GHG market an established instrument that will continue beyond 2012?
- » What level of growth or decline do you anticipate on trading volumes in EUAs, CERs and VERs between: i) present day and 2012? ii) 2012 and 2020?
- » What are your expectations for the average EUA and CER prices: i) in 2012? ii) Phase III EU ETS?
- » To what extent do you support the introduction of a price cap and price floor for carbon?
- » What are the relative merits of carbon taxes, carbon markets and an integrated approach?
- » How likely is it that border adjustments or other controls could be placed on imports into trading scheme areas?
- » What are the likely outcomes of Copenhagen in Copenhagen?
- » What impact will an agreement in Copenhagen have on demand and supply in the voluntary market?
- » Will additional measures such as Carbon Capture and Storage (CCS) and Reduced Emissions from Deforestation and Degradation (REDD) be part of an agreement in Copenhagen?
- » When will the US introduce a federal cap and trade scheme?
- » Please indicate when you expect significant demand in the US for both domestic and international offsets.
- » What are the expected price levels in such a US scheme and will it be linked to the EU ETS?

Glossary

CCS	Carbon Capture and Storage	GHGs	Greenhouse Gases
CDM	Clean Development Mechanism	IPCC	Intergovernmental Panel on Climate Change
CER	Certified Emission Reductions	ISU	PricewaterhouseCoopers International Survey Unit
C02e	Carbon Dioxide equivalent	JI	Joint Implementation
COP	Conference of the Parties	NAMA	Nationally Appropriate Mitigation Actions
EB	CDM Executive Board	PPM	Parts per million
EUA	European Union Allowances	REDD	Reduced Emissions from Deforestation and Degradation
EU-ETS	EU Emissions Trading Scheme	UNFCCC	UN Framework Convention on Climate Change
G20	The Group of Twenty	VER	Verified Emissions Reduction

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About the International Emissions Trading Association

Members

The International Emissions Trading Association (IETA) is a non-profit business organization created in June 1999 to establish an effective international framework for trading in greenhouse gas emission reductions.

Our membership includes leading international companies from across the carbon trading cycle. IETA members seek to develop an emissions trading regime that results in real and verifiable greenhouse gas emission reductions, balancing economic efficiency with environmental integrity and social equity.

IETA currently comprises 172 international companies from OECD and non-OECD countries who operate in working groups following the major current issues in trading and climate policy.

Vision

IETA is dedicated to ensuring that the objectives of the United Nations Convention on Climate Change and ultimately climate protection are met through the establishment of effective systems for trading in greenhouse gas emissions by businesses, in an economically efficient manner while maintaining societal equity and environmental integrity.

IETA will work for the development of an active, global greenhouse gas market involving all three flexibility mechanisms of the Kyoto Protocol: the Clean Development Mechanism (CDM), Joint Implementation (JI) and Emissions Trading, as well as those outside the Kyoto Protocol.

Further information is available at www.ieta.org

