



The Clean Development Mechanism (CDM) and the Carbon Pollution Reduction Scheme (CPRS)

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Executive Summary

- State of the CDM Market
- Primary vs Secondary CERs
- Will CDM provide low cost offsets for liable parties under the CPRS ?
- CDM – Opportunities and Considerations for Australian Emitters



State of the CDM Market – CER Supply / Demand

Supply Side

CDM Executive Board approval process – significant delays

Bullish

Constrained global Credit markets / Distressed portfolios

Bullish

Suspension of validators such as SGS

Bullish

This most recent suspension could delay issuance of more than 10 million CERs from 2009 into 2010

Demand Side

European Recovery ?? – increased demand for emissions allowances

Bullish

Japanese Recovery ?? – while recovering, still weak demand as significant pipeline of primary deals

Bearish

Uncertainty over National Allocation Plans for countries such as Poland.

Bearish/ Bullish

Subject to EU Court decision regarding annulling their allocations



European Recovery – CER Prices Recovering ?



Source: Bloomberg



CDM Market Participation - Primary or Secondary ?

Primary CER Purchase: Non guaranteed volume of CERs, dependent on the performance of a specific CDM project or a portfolio of projects.

Secondary CER Purchase: Guaranteed volume of CERs, not linked to a specific CDM project / projects. Most buyers will prefer “ECX compliant” CERs to ensure “fungibility” of the CER

| | Primary | Secondary |
|---------------|------------------------|---|
| Price | 75% - 90% of Secondary | AUD 22 (EUR 13.50) <small>***current spot prices</small> |
| Volume | Project Risk | Fixed |
| Documentation | ERPA | ERPA / ISDA |
| Role in CPRS | Yes | Yes |



Primary CER Purchase – Typical Terms

CER Buyer / Seller:

Project/s:

Pre 2012 Volume: PDD Volume

Post 2012 Option: Option to buy Post 2012 CERs at \$X

Price: Floating Price with Floor / Fixed Price / Fixed & Floating etc...

Conditions Precedent: Project registration

Payment Date: On delivery



Will CDM Provide Low Cost Offsets for CPRS ?

- CERs **100% eligible** under current proposed CPRS
- Current Macquarie forecast for CER price range AUD 20 to AUD 22.50 in 2010 and 2011. Prices well below where the significant Australian emissions abatement opportunities become economic
- No barriers to entry to the secondary CER market for Australian emitters, although there may be a “management approval” delay to enter the international market
- Primary CDM may be a more challenging consideration for Australian emitters, given the project risk component and the volume uncertainty – having said this, it will play a role in a portfolio approach to risk management
- If Europe & Japan are any guide, CDM will be embraced very rapidly by Australian emitters



CDM – Opportunities & Considerations for Australian Emitters

- **Secondary or Primary** – low cost market entry vs due diligence required to properly assess delivery risk. Portfolio approach usually best to balance the relative cost / benefits
- **Regulatory Certainty** - CDM is an established framework until 2013 – regulatory certainty and a liquid market, allowing emitters to move in and out of positions. How about post 2012 ?
- **Lowest Cost Source Internationally** – CDM allows access to lowest source of emissions reduction allowances anywhere in the developing world
- **Likely to Set Australian Carbon Price** – as lowest cost source with 100% eligibility, CERs will set Australian price
- **Competitive International Market** – we will be competing with Europe & Japan, possibly New Zealand, US and other developed nations for CDM supply



Carbon Market Expo Australasia 2009

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Clean Development Mechanism Workshop

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