

The Domestic Offset Market Trends, Global Context and Predictions

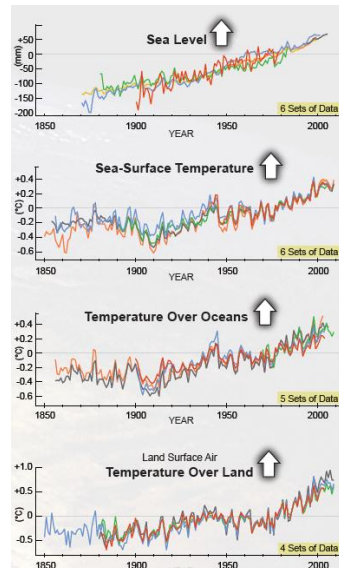
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Context - The gap between science and policy

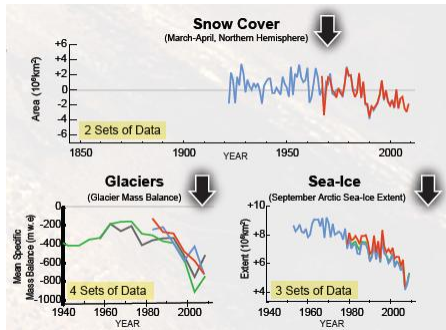
- Key global warming indicators are collectively showing compelling evidence of rapid warming occurring now at current CO₂ levels.
- Current policy is for a 5% emission cut commitment by 2020.
- Yet science tells us we need a 30% cut by then.
- A 30% cut would take 60 years under current policy.
- Yet we need to make this cut in 10 years, on the way to an 80% cut.
- The gap between the climate science and policy action is vast and widening.



Charts - National Oceanic and Atmospheric
Administration (NOAA) State of the Climate 2010



People are taking voluntary action additional to regulated cuts



- Strong policy or otherwise, concern about global warming is driving people and companies to take voluntary action.
- People are acting voluntarily to make a difference to emissions, over and above that required by legislation.
- Those taking action are leading corporates, business and individuals.



Charts - National Oceanic and Atmospheric Administration (NOAA) State of the Climate 2010



Market trends – A growing industry with some bumps along the way

- The global voluntary market is \$387 million. *
- Australian customers account for 4%. *
- The market contracted 47% globally from 08 to 09. *
- Climate Friendly achieved over a 100% increase in tonnes offset by customers in 2010.
- From 2003 to 2009 the global voluntary market grew at 58% compound annually *- making it one of the fastest growing industries in the world.
- The global voluntary offset market is bigger than either the NSW Greenhouse Gas Abatement Program or Joint Implementation under the Kyoto Protocol.

* Bloomberg New Energy Finance



Trend – Increasing use of quality carbon credit standards

- Popular standards include Voluntary Carbon Standard (VCS) and the Gold Standard.
- The Gold Standard is supported by virtually all environment organisations globally as the highest quality voluntary standard.
- Social Carbon which focuses on sustainability improvements is gaining attention.



Trend – Improving codes of best practice and better auditing

- There is a continued trend to following codes of best practice and voluntary government standards.
- The International Carbon Reduction and Offset Alliance is increasingly influential. Founded by a group of global carbon offset providers including Climate Friendly, this alliance was formed to define and promote best practice in the carbon offset industry.
- The National Carbon Offset Standard (NCOS) is a new voluntary standard and benchmark in Australia.
- Best practice is for offsets sold to Australian clients to be eligible offsets under NCOS, such as VCS and the Gold Standard.
- Independent third party audit is increasingly undertaken by leading providers.



Trend – Increasingly quality and sophistication of products

The voluntary market is arguably the most innovative part of the carbon market and is producing new and highly credible products, from renewable energy to reduced deforestation products. For example:-

- GoldPower™ is a global renewable energy product in MWh from developing country projects.
- This new global energy product was created in Australia by the innovative voluntary market (*).
- This is based on the Gold Standard and supported globally by WWF.
- Emission savings are reportable under NCOS, WWF's Climate Savers program and the Carbon Disclosure Project.

* Climate Friendly with the support of WWF



Trend – Increasing use of registries

- There has been a near doubling in the use of registries from 2008 to 2009(*).
- In Australia much of the carbon offsets are exchanged at these international registries.
- Registries are places where carbon credits have serial numbers assigned, ownership transfers are tracked and where they are finally retired.
- Registries play a key role in making the carbon market credible and transparent.
- They prevent double selling because serialised credits can only be transferred once by a seller.
- Registries also support the independent audit of carbon offset companies

* Bloomberg New Energy Finance



Project trends

- Typically the projects supported by Australian customers are in developing countries.
- Project types include wind, methane capture, afforestation/reforestation and increasingly Reduced Emissions from Degradation and Deforestation (REDD).
- Offset buyers are taking increasing interest in the actual project and whether there is a moving story behind it.
- REDD has increased 400% * in one year and at that rate will overtake afforestation/reforestation and become the number 1 global land based offset credit.
- REDD credits under VCS can be an eligible offset under NCOS, once the methodology is approved by NCOS.
- Projects in Australia can be those not covered by the Kyoto protocol, enhanced forest management, land management and non-forest revegetation.

* Bloomberg New Energy Finance



Project location trends

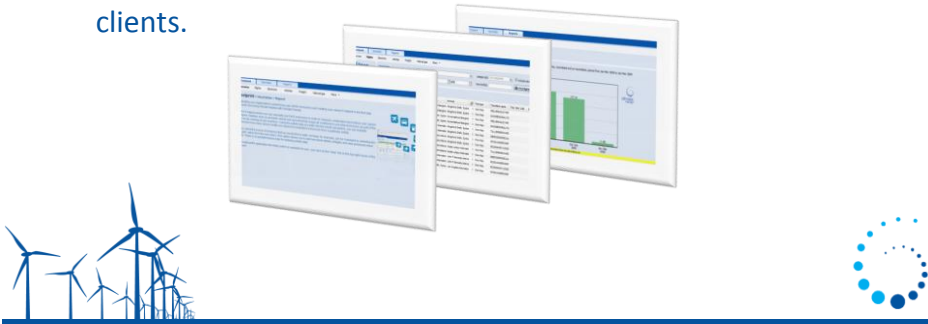
- USA is the major location of projects by volume.
- Australia has fallen dramatically in the last 2 years due to regulatory uncertainty and the ending of Greenhouse Friendly.
- Only 1% of carbon projects occur in Australia.*
- But Australian customers comprise 4% of the global offset market and Australia is the third largest offset market after USA and Europe.*
- Clearly there is more customer demand here than there are projects, with potential for rapid growth in local projects if policy can accommodate this and ensure additionality by retiring AAUs.

* Bloomberg New Energy Finance



Trend – Going digital

- There is a trend to increased use of online footprinting, offsetting and automated data capture.
- Increased use of web based systems that provide integrated footprint and offset tools for customers.
- Increasingly automated collection of emission data including flight data, electricity and fleet data. Reducing admin costs for clients.



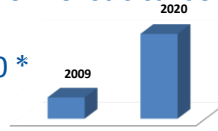
Trend – The voluntary market is the pioneer for compliance markets

- The voluntary market is a testing ground for different project types and methodologies to quantify carbon abatement.
- Under VCS, REDD methodologies are being developed which will be the cornerstone of the continued growth of REDD as a key carbon offset project type.
- This proving ground helps validate REDD and pave the way for REDD in compliance regimes.



Predictions

- Large growth in reduced deforestation offset products
- Offsets continue to mature as a key part of holistic carbon solutions.
- Volume predicted to grow 400% by 2020 *
- Government increasingly aware of industry value and continues to create policy that supports the growth of a vibrant voluntary market, that is complementary and additional to a compliance market.
- Large growth in carbon offset products such as cars, car hire, car leasing, events, holidays.



* Bloomberg New Energy Finance.



Thanks to Bloomberg New Energy Finance's
"State of the Voluntary Market 2010"

