

## Carbon Finance

While climate change has been grabbing headlines for years, efforts to combat it have increasingly focused on the regulation and reduction of carbon emissions. Addressing the links between climate change and America's economic future is at the forefront of President Obama's agenda. Already he has called for a market-based cap-and-trade program, a move that is certain to have profound planning and economic implications for American businesses and industries.

### The Carbon Market

#### *Kyoto Protocol*

Setting a price to GHG emissions is one of the most important goals of the Kyoto Protocol, which permits carbon emissions trading as a flexibility mechanism. Based on a country's total allowance of emissions as capped by the Kyoto Protocol, markets allocate companies emissions at a given threshold and charge them if they exceed it. Companies that have emission units to spare — emissions allocated to them but not "used" — can sell these to businesses that have exceeded their limits.

#### *In the US*

The Obama administration clearly intends to stand by the president's campaign promise of dramatically reducing greenhouse gases. A key part of the US's new energy plan is to reduce greenhouse gas emissions by 80% by 2050. This will be achieved through initiatives such as establishing an emission rights system at the federal level. The point of setting a price to carbon is so that companies take the cost of carbon into account as part of their budgetary decisions.

Several carbon markets have emerged in the US, outside the international Kyoto frame. Some states and regions have set up their own mandatory market-based cap-and-trade systems, including the Regional Greenhouse Gas Initiative (RGGI) and the Western Climate Initiative (WCI). This is in addition to voluntary market exchanges such as the Chicago Climate Exchange (CCX) -. The next eagerly awaited step is to make the leap from these disconnected voluntary and state-regulated markets to a federal, unified market.

#### *Carbon funds*

Certified Emission Reductions (CERs) are credits allocated to projects that reduce carbon emissions. CERs fulfill the standards laid out in the Kyoto Protocol.

Verified Emission Reductions (VERs) are tradable emissions reductions that meet voluntary standards, which are not compliant with the Kyoto framework. Both CERs and VERs have market value and are consequently tradable, although VERs are not fungible with CERs or any Kyoto quota. In response to these initiatives, carbon funds are expanding to finance these projects, creating a burgeoning new industry.

## **Going Global: a worldwide carbon market?**

While a single worldwide carbon market is not currently under consideration, several carbon market initiatives are underway. The main carbon exchanges are the European Climate Exchange (ECX), the Intercontinental Exchange (ICE) and BlueNext.

One of the challenges a single global market would pose is whether American and European quotas and credits would be fungible.

## **OTC Conseil Service Offerings for Carbon Finance**

Our company can provide private investors, banks and companies and the individual departments within them (i.e. general management; development and sustainable development management; and finance departments) with the following services:

- Conducting opportunity studies
- Setting up carbon trading desks, carbon funds or financing projects
- Organizing risk measurement and control
- Developing an arbitrage or allocation tool
- Assisting in new vehicles development
- Strategic marketing
- Carbon assessment paired up with climate vulnerability analysis for companies
- Corporate carbon management