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Highlights

 Bali will have little short-term impact on carbon markets. But it will set in motion a process that could lead to the creation of a €240 - 450 billion global market by 2020.

 Forestry is set to climb quickly up the climate change ladder in the upcoming year. We can expect an increase in carbon related investment in forestry but it will be circumscribed by guidelines on sustainable development

 The opportunities from climate change are much larger than just carbon markets, and will run into billions of dollars, estimates James Connaughton.

 A mosaic of regional trading regimes is emerging. Japan and to some extent Canada are the only leading western country that is not actively considering a mandatory cap and trade regime.

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Features

Bali and its implications for the carbon market

By Lord Nicholas Stern, Vice Chairman, IDEAGlobal Group



The Bali summit is the most prominent climate conference ever, with thousands of participants, high public expectations and massive media attention. It is also the most crucial Conference of the Parties since COP3 in Kyoto in 1997.

Whether it is a success or a failure, Bali will have implications on the global carbon market. But what are they?

The first thing to note is that Bali is mostly about process. The main objective of the summit is to agree on a roadmap for a Kyoto successor by the end of 2009, including progress on the deforestation agenda. There will of course be technical discussions. The subsidiary bodies are meeting, as are the CDM Executive Board and the JI Supervisory Council. They will discuss issues like carbon capture and storage, industrial gases and forestry, but ***we should not expect fundamental breakthroughs on substance at Bali.***

This means that the immediate market impact of Bali will primarily be on general sentiment, rather than market structure. A positive outcome in Bali will buoy market sentiment, while failure may create a bearish mood. In the complex world of international negotiations, success or failure is of course hard to gauge. Given the high expectations of some (the uninformed), it is entirely possible that Bali may be judged a failure even if negotiators accomplish what they

set out to achieve. This is the sort of psychology that can affect markets.

Fortunately, it appears that market participants have fairly accurate expectations about Bali and are quite relaxed about its immediate impact.

In a recent IDEACarbon survey, three quarters of respondents thought that unexpected success or failure in Bali would only have a slight or no impact on prices of EU allowances (EUAs). For Kyoto credits, Bali is more important. 68% of respondents thought an unexpected success would give a strong boost to the price for Certified Emission Reductions (CERs), while 55% expect a strong downward correction if Bali fails.

The market is right to remain calm, but should not discount completely the potential effect of Bali. The possibility (unlike in EU ETS phase I) to bank EUAs and CERs into the post-2012 market creates arbitrage opportunities and links today's carbon price to future policy developments.

The prospect of an extremely strict post-2012 regime, for instance, would cause carbon suppliers to hold on to their inventories until after 2012, thereby creating a shortage and raising the carbon price now. Conversely, if there were little prospect of a meaningful post-2012 regime, the market would be flooded with cheap CERs. Bali is unlikely to provide a strong signal which of the two scenarios is more likely. We are still too early in the process.

The most important impact of Bali will be long-term. If successful, ***Bali will set in motion a process that will define the structure of carbon markets - in terms of size, scale and scope - for decades***



to come. If all goes to plan, the end point of the roadmap agreed in Bali will be a new global deal to follow and replace the Kyoto Protocol.

A global, unified trading framework for carbon will probably not be part of that deal, at least not initially. But the global deal will influence and shape the mosaic of regional trading platforms that is emerging in Europe, Australasia and -for now at state level but eventually federally - in North America.

“Bali will set in motion a process that will define the structure of carbon markets... for decades to come.”

To understand how we have to look at the key features the global deal is likely to have. I have put forward six points that should, in my view, characterise the global deal. Three of them concern targets and trading. Another three have to do with public funding.

- First, there should be an overall target of 50% reductions in global emissions by 2050 (relative to 1990) as agreed at the G8/G5 summit in Heiligendamm in June this year. This is essential if we are to have a reasonable chance of keeping temperature increases below 2 or 3°C. Within this global target, even a minimal view of equity demands that the rich countries' reductions (direct or purchased) should be at least 80%.
- Second, there should be substantial trade between countries, both rich and poor, in greenhouse gas emissions. This will promote efficiency - in other words, the cheapest ways of achieving cost reductions. At the same time, the flow to poor countries will help them cover their costs of greenhouse gas reduction, thereby giving them an

incentive to join a global deal. Trade in emissions reduction has a double benefit: efficiency and glue for a global deal.

- Third, there should be a major reform of the Clean Development Mechanism. The CDM is currently much too cumbersome for the scale required and omits key technologies. Its successor should be based on sector and technological benchmarks against which reductions can be measured. In this way, it can move to 'wholesale' and build confidence in a flow of private sector finance to developing countries. Demonstrating the viability of these flows is crucial to any acceptance, eventually, of overall targets by developing countries.
- Fourth, there should be a coherent, integrated international programme to combat deforestation, which contributes 15-20% of greenhouse gas emissions. For US\$10-15 billion per year, a programme could be constructed that could stop up to half the deforestation.
- Fifth, the development of technologies must be accelerated and methods found to promote their sharing. This includes, in particular, carbon capture and storage (CCS) for coal, given that coal-fired electric power is currently the dominant technology round the world and emerging nations will be investing heavily in these technologies. Unless the rich world can demonstrate, and quickly, that CCS works, developing countries cannot be expected to commit to this technology.
- Sixth, rich countries should honour their commitments to 0.7% of GDP in aid by 2015. This would yield increases in flows of US\$150-200 billion per year. *The extra costs developing countries face as a result of climate change are likely to be upwards of US\$80 billion per*



year and extra resources are vital for new initiatives.

The actual deal may well fall short of this six-point programme. But *it is virtually certain that the pricing of carbon will be central to any successful deal*. Within different countries, there may be different choices of instruments to achieve this - such as taxes, trading and standards - and there will be different technological mixes. But trading will be a central part of the story because it can provide the international incentives for participation, and promote efficiency and equity, while controlling quantities of emissions.

A rough back-of-the envelope calculation tells us that **by 2020 trading volumes in the carbon market could be up to 13 GtCO₂ worth perhaps €450 billion annually**. This assumes that all Annex I

countries commit to a 20% reduction goal by 2020 (as the EU has), that emissions trading will cover about half of all emissions (as the EU ETS does) and that allowances “churn” 5 times (as is currently the case with European electricity).

If Canada, Japan and the US were to adopt less progressive policies, the size of the market would still around €240 billion. In other words, the process begun in Bali could transform carbon into one of the most traded and valuable commodities in the world.

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Financing forestry: the emergence of forest carbon

By *Mr. Ian Johnson, Chairman, IDEAcarbon*



Forestry is set to climb quickly up the climate change policy ladder in the coming year. This will be driven partially by the keen interest by many developing countries in promoting forestry;

pressure from conservation and other forestry related groups wishing to promote sustainable forestry; and recognition by financiers that forestry and carbon may offer high and sustained rates of return.

Deforestation, at current rates of almost thirteen million hectares a year, represents around 20% (close to 6GtCO₂/annum) of global greenhouse gas emissions (GHG). It is an important sector.

Yet few sectors have been as controversial as forestry. Poor forestry management has long been the flagship issue for the conservation movement; with one in every four poor people in the world living in or around forests the development aid community has kept a watchful eye on the sector; and consumers of timber products are becoming more aware of forestry standards.

Forestry provides multi-functional benefit streams and, potentially, multiple revenue streams that go well beyond timber revenues. From the climate change viewpoint, forestry plays a key role in both mitigating emissions as well as in helping to adapt to the effects of climate change (for example, moderating water run off as protection against flooding).

To add further complication the UNFCCC has defined forests to be more than



trees. It includes above ground biomass, below ground biomass, litter, dead wood, and soil organic carbon: a more encompassing and intellectually pleasing definition but clearly one that is a great deal more complicated to operationalise than “trees”.

There are four broad mitigation options to forestry management: afforestation; reforestation; improved forestry management; and avoiding future deforestation. Little wonder that, until recently, other simpler mitigation options were given priority. However, forestry's time has come.

“Forestry plays a key role in both mitigating carbon emissions and adapting to the effects of climate change.”

The upsurge in interest can be attributed to five reasons. First, ***developing countries are recognising the value of the forests they own***: almost all tropical forests are located in the developing countries.

Indonesia, hosts to the forthcoming Bali conference, has already laid down a marker that forestry needs an airing at the conference. Brazil and many Latin American countries are lining up in support of Indonesia. They hold an important political card in the future climate change negotiations.

Second, resistance by many of the more vociferous conservation groups to any form of forestry management other than pure protection has waned as a more realistic approach to improved management techniques has been proven. To this, ***new forms of third party certification and oversight have proven valuable in bridging the credibility gap between loggers and conservationists***. This is reflected, for example, in the recently revised World Bank policy on

forestry in tropical moist forests which now allows for sustainable logging following many years of a protection only policy and has resulted in a massive increase in lending by the Bank for forestry.

Third, recent work on estimating the costs of mitigation options suggests that addressing forestry is a realistically reasonable cost option: an issue we address below.

Fourth, ***the advent of sophisticated monitoring tools has reduced resistance to “avoided deforestation”***, a consensus is emerging that reasonable and plausible baselines can be constructed to allow for estimating the counterfactual. In turn, this has stimulated interest in the issue by developing country governments. And

Fifth, a number of timber companies (perhaps no more than 5% of the companies at present) have championed sustainable forestry management and are being recognised as leaders in their industry. Such leaders are routinely now part of international dialogues on sustainable logging; illegal logging; and improved forestry management. They perceive themselves to be the vanguard of change in the industry.

The question, of course, is what next? What factors might drive a greater level of investment into the sector?

It is clear that forestry will be on the agenda at Bali and that there will be considerable pressure to recognise its role more fully. An enlightened discourse on forestry will provide one avenue into the hearts and minds of the developing world.

Secondly, public policy support will be needed to transform the sector: to encourage timber companies to adopt new approaches that include carbon revenue and to discourage illegal logging. This will require support from the international community in the form of



loans and grants and partnerships between the public and private sector

The economics of improved forestry management will also come under greater scrutiny and may offer opportunities for new and creative financing opportunities.

The multiple benefits of forest management include both monetised and non-monetised benefit streams (externalities). Sustainable logging supplemented by carbon revenues may fall short of competing with traditional logging.

Three measures are likely to be considered. The first is to establish standards for third party certification for all carbon-related forestry deals. To some extent this has been introduced in another parallel, and no less controversial natural resources sector, hydropower.

The recent European Commission linking directive now requires all member states providing approval of hydropower projects for their national ETS registry to ensure that international criteria and guidelines, including those of the World Commission of Dams are respected. It must be expected that public and conservationist pressure will be applied to governments to adopt comparable standards, possibly through a requirement for Forest Stewardship Council (FSC) guidelines.

A second set of actions is that public funds, such as those from national funds, government aid budgets, the Global Environment Facility, and international financial institutions will step up their activities in the forestry sector by providing below commercial loans, equity, and grant funding in association with the private sector.

Third, and possibly more speculative, *new instruments may be created to provide reimbursement or additional revenue streams to pay for the currently non-monetised ecological*

benefit streams accruing to forestry such as wildlife and habitat protection; reduction in bush meat trade; watershed protection.

“We will see an increase in carbon related investment in forestry but circumscribed by guidelines on sustainable development.”

In sum, we will see an increase in carbon related investment in the forestry sector but it will be circumscribed by guidelines that ensure sustainable development criteria are met. It is unlikely that cutting down old growth tropical forests and replacing them with fast growing plantations will be acceptable, irrespective of their carbon impact.

New rules of engagement will be designed and should provide a renewed impetus to high quality investment in the forestry sector. In doing so, stakeholders from developing country governments to NGOs should help open the gateway to renewed and increased private sector investment in sustainable forestry and carbon credits. It is a promising future and just around the corner.

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Inside Policy Track: James Connaughton, Senior Advisor to President Bush



James L. Connaughton is chairman of the White House Council on Environmental Quality. In addition to serving as the key senior environmental, energy and natural resources advisor to President Bush, Jim Connaughton

oversees the development of environmental policy, coordinates interagency implementation of environmental programs, and mediates key policy disagreements among Federal agencies, state, tribal and local governments and private citizens.

IDEACarbon spoke exclusively to Chairman Connaughton ahead of Bali.

The post-Kyoto negotiations coincide with the US election cycle. Will this affect the ability of the US to negotiate?

There are two tiers to that. First, there's a broad alignment of views across party lines, and really regional lines, about how we view the relationship between domestic and international policy in climate change. The media tend to focus on where the differences lie and tend to overlook where the central agreement lies.

The central agreement lies in having a strong national strategy, it includes a broad variety of actions—regulations, incentives, and technology programmes and partnerships. It includes the idea that if we're engaging internationally, we need the major economies and major emitters working together towards achieving emission reductions over time. And that these strategies need to be on reasonable timelines, with reasonable ambitions taking into account advances in technology. So there's a common ground.

Then it should be possible to conclude a deal by 2009?

America's capacity to implement will be fairly well defined by the end of next year.

If we don't do the work next year, 2009 becomes very difficult for a new administration, regardless of party. If we are successful, 2009 becomes a reasonable possibility. The G8 and a number of leaders of other countries have pushed for 2009 as the time to conclude negotiations. That will be an open topic of discussion at Bali.

Where do you see the role of the CDM in the post-Kyoto regime?

In terms of the Bali agenda we are hopeful that the building blocks will move forward on mitigation, adaptation, finance and technology. The question is whether [we have] a narrowly defined or a broadly defined agenda on each. A narrowly defined agenda would focus exclusively on funding the CDM, which in real terms represents a tiny fraction of the investments and management decision-making that needs to occur.

A broader agenda would assure that the climate aspects of deforestation and the climate aspects of adaptation are fully integrated into the forest management conservation agenda globally and fully integrated into the much broader development agenda globally on adaptation.

So you see the discussion embedded in a broader agenda?

Yes, in terms of markets. On the technology side, on the forestry side and on the adaptation side private sector expenditure over the coming decades will be in the trillions of dollars. So if we are talking about markets, we need to talk about the private sector resources that are going to happen and how you take on board the climate aspects of those investments. We should look at this holistically and work on all the different market mechanisms that contribute to forward progress.

Would you say that influencing conventional money flows is more important than the carbon trading flows?

There's no question that will be the case.



Carbon trading is one of many mechanisms by which you influence the performance of these multi-trillion dollar investments.

In America currently we have four major sets of mandatory regulations that will reduce greenhouse gases, each of which uses a different version of a market mechanism. We also have tens of billions of dollars in federal incentives and state incentives that are nearly as sizeable, which are also classically market-based. Then we have just good old-fashioned innovation and consumer choice that is the result of better-informed consumers and purchasers. Each of those instruments has validity in its own setting.

What is the relative importance of these conventional incentives relative to carbon finance in the US?

Like any thriving market there's a great diversity of opportunity and a great diversity of cost.

For example, we have just put in place new mandatory fuel economy requirements for light trucks and SUVs. The President, in this year's State of the Union address, has proposed a brand new set of regulations that would reduce gasoline consumption across our vehicle fleet by 5% by 2017. This is an enormous fuel saving—8.5 billion gallons annually. It uses a set of fuel efficiency requirements and would allow for credit trading based on efficiency. The cost of that is in the tens of billions of dollars, probably in excess of a hundred billion dollars.

It is a classic situation of an efficiency-based constraint producing nearly equivalent CO2 reductions, with a very substantial investment required, but with trading to make the compliance overall as efficient as can be. The same is true of renewable fuels. Our renewable fuels [goal] right now, in terms of a gallon number, is 7.5 billion gallons. The President has called for that to be increased to 35 billion gallons. That would replace 15% of our gasoline use. It too places a limitation and then uses a flexible

credit trading system to build efficiencies into compliance.

The Lieberman-Warner bill is currently going through the Senate. Which elements of the bill do you expect will become part of future climate policy?

It's unclear at this point. We talked about it before President Bush came on board. At that time there was essentially a blank slate on these sector-by-sector programs.

We now have three of the biggest sectors regulated at the federal and state level by these market-based programs. One of the questions now is that if we have the major energy emitting sectors covered by mandatory regulation, what is the place of a cap and trade system. That's an open policy question.

Outsiders that reflect on our domestic situation tend to focus on legislation named 'carbon' rather than paying attention to the broader set of legislation that addresses CO2 emissions and energy security and other important objectives at the same time.

What is the size of this broader opportunity?

You'll see very shortly an economic analysis of the price profile of [individual] policies. Combined there is no question that it will be worth well in excess of US\$100 billion.

On the incentive side, they are clearly identifiable in the public sector with over US\$10 billion in incentives for technology purchases.

We just did US\$1.6 billion in leverage incentives for tax credits for advanced technologies. That should generate another US\$10 billion of private sector investment. This year and next year we have US\$13 billion in loan guarantees, which will produce hundreds of millions of dollars in leveraged investment.

Is there scope to link up with environmental markets abroad?

Let's look at trade broadly. The first, easiest and biggest thing we can do is the



elimination of tariff and non-tariff barriers to clean technology and technology services. There is a multi billion-dollar impediment to the free flow of the purchase of those technologies and services globally. That's something the President has called for.

Second, it has been estimated that up to US\$20 trillion will be spent globally on energy and associated services in the short term, the majority of it in the Asia-Pacific region. So we know the flows will occur. What we are talking about is the added margin toward meeting air quality goals and climate change goals. We can envision many billions of dollars oriented toward [cleaner] technologies. Of that, you can see a number of different mechanisms after you zero out the tariffs—you've got concessional financing and loan guarantees and high leverage items.

Carbon trading and CDM will be modest in their proportion of contribution but are tools some countries are electing to use. The US view on that—which I think is a view widely shared—is that different countries will use different strategies for wanting to deploy their own resources into the global market. Countries like the US and Japan and Canada favour direct financing instruments including development assistance as a way of making similar investments overseas. These tend to be more politically popular and defensible in our country.

You emphasise free trade, yet the Lieberman-Warner bill would impose import tariffs on carbon intensive goods. Trade liberalisation and technology innovation over the long term will be a much bigger impact than tariff imposition and taxation and we know this from economic history on both on a domestic level and a global level. You just have to pick your tool. We clearly come out in favour of trade liberalisation and technology innovation as a more sustainable way forward than creating a series of series of basically tariff and taxation based trade wars.



Feature

The emergence of regional trading regimes

By Dr Sam Fankhauser, Managing Director (Strategic Advice), IDEACarbon

While international negotiators prepared for Bali, policy makers at home were busy exploring options for domestic emissions trading schemes.

As a consequence, *the carbon market is diversifying and growing in scope*. The European Emissions Trading System (EU ETS) and the Clean Development Mechanism (CDM) will continue to dominate the market during the Kyoto period, but post-2012 we can expect the emergence of a mosaic of diverse but linked regional emissions trading schemes.

First off the block was New Zealand, which will start trading carbon in 2008. The world's second legally binding national emissions trading scheme (after the EU ETS) is notable less for its size - which, given New Zealand's carbon footprint, is small - than for its bold design. Starting in the difficult forestry sector, the NZ ETS, as it is known, will in the course of five years expand to include the entire New Zealand economy, including agriculture, which accounts for the lion's share of the country's emissions.

Serious cap and trade proposals also exist in Australia, which expects to start trading in 2011. The scheme, which has the support of both the new and the outgoing government, would cover up to 75% of Australian greenhouse gas emissions. The only sectors excluded are agriculture (16% of current emissions) and land use change / forestry (6%). A decision on waste and certain fugitive emissions will be taken later. Officials maintain that the reasons to exclude certain sectors are technical. The political will to seek full coverage would be there. IDEACarbon estimates that the scheme, as presented, would create a

market about a fifth the size of the EU ETS. Around 400 MtCO₂ in allowances could be issued per annum, compared with about two billion allowances issued annually in the EU ETS.

Less tangible at this point, but of immense long-term significance, are regulatory developments in the United States, where the American Climate Security act by Senators Lieberman and Warner - one of several competing climate change proposals - has been tabled for discussion in a Senate committee.

Given the intricate and deliberative process of US policy making, it is unlikely that a bill will be passed during the current Congress, that is before 2009, but it is now possible that a serious climate change bill may become law soon after next year's elections. This would pave the way for a US federal emissions trading system, with trading probably starting in 2013. In the meantime, the Regional Greenhouse Gas Initiative (RGGI) of 10 north-eastern states will start trading in 2009.

In Europe Norway, which has traded carbon since 2005, is slated to join the EU ETS in 2008. Similar moves are reportedly debated in Iceland and Liechtenstein. The Swiss trading system, expected to start in 2008, may also be linked to the EU ETS, although some legal hurdles will have to be overcome.

Of the major western economies only Japan and to some extent Canada remain lukewarm toward mandatory cap-and-trade, although there is discussion in both countries and emissions trading is considered at the sub-sovereign level.



With the EU committed to a third phase of the EU ETS some of the basic building blocks of the post-2012 market regime are thus beginning to appear - even if the future of the Kyoto mechanisms remains uncertain.

The current legislative flurry does not only allow a glimpse into the future of the market, it has also initiated an important phase of regulatory innovation and experimentation. No two proposals are the same as legislators try to find solutions, suitable to their country's circumstances, to a number of basic design questions:

- **Scope:** New Zealand's ambitious attempt to cover all emissions will yield important lessons about the suitability of cap and trade for sectors like agriculture, forestry and transport. The Australian proposal is also fairly comprehensive and includes an innovative upstream structure to deal with dispersed emission sources. RGGI in contrast focuses on the power sector.
- **Permit allocation:** Following the EU's experience with windfall profits in the power sector, there is a move away from grandfathering (allocation based on past emissions) towards good practice benchmarks and, in particular, auctioning. Many RGGI states, for instance, are moving straight to full auctioning. Elsewhere, legislators are targeting free allowances at disproportionately affected firms (in essence, an acknowledgement of past investments and compensation for stranded assets) and firms exposed to international competition (in an attempt to preserve competitiveness and prevent carbon leakage).
- **Price fluctuations:** There is a widespread willingness to protect industry from unintended price spikes, perhaps as a way to secure

stricter targets. (In reality, prices in practically all environmental markets have been lower than initially anticipated). Various ways to achieve this have been put forward - the possibility to pay a fee in lieu of surrendering permits (essentially introducing a price ceiling); an increase in import quota for (cheaper) offsets should prices rise; or the creation of a Carbon Central Bank that would intervene in the market (sell or buy permits) to stabilise the price.

- **Linking:** To varying degrees all schemes allow the import of carbon offsets from baseline-and-trade schemes such as the CDM - although Lieberman-Warner is notable for its domestic focus. Policy makers are invariably positive about linking up with other trading schemes, but in reality this raises delicate technical questions (for example the need to back allowances through AAUs) and issues of compatibility (for instance between schemes with different safety valves). It is unlikely that new schemes will be linked from the outset.

The emerging pattern of regional trading schemes offers both opportunities and regulatory risks. There is a clear risk of fragmentation, but the forthcoming phase of learning and experimentation could also yield important insights into the functioning of emissions trading schemes and can help to improve their effectiveness.

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Carbon Calendar™

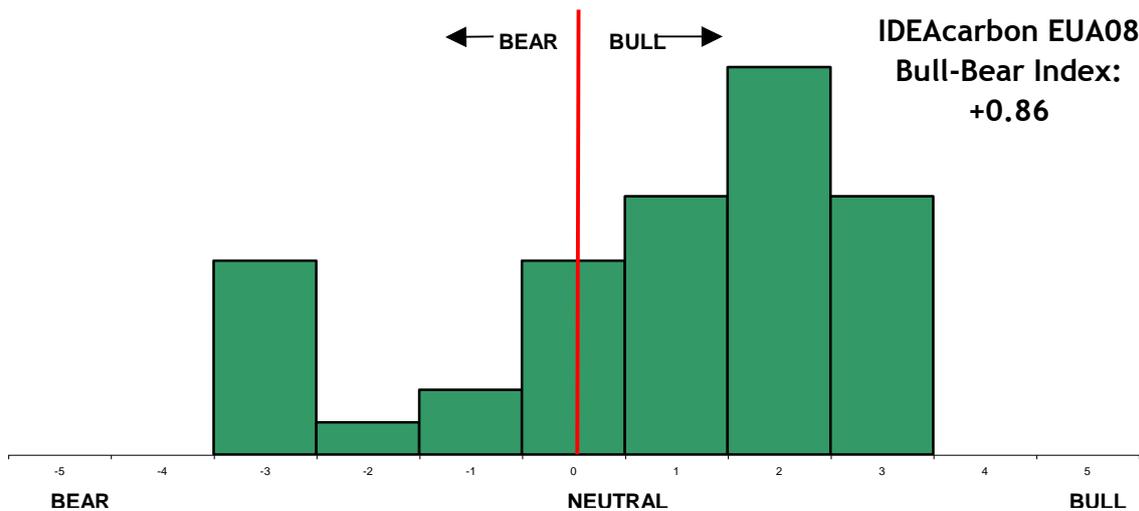
| Date | Event | Outlook |
|---|--|---|
|  03 December 2007 | Australia agrees to Kyoto ratification | Australia, the world's top coal exporter and among the world's highest per-capita GHG polluter will influence clean growth in the developing world through its Kyoto commitment, and open new doors to carbon offset markets. Analysts anticipate linkages with the EU ETS. |
|  3-14 December 2007 | 13th Conference of the Parties to the UNFCCC <i>Bali, Indonesia</i> | COP13/MOP 3 will kick-start in earnest discussions about the post2012 architecture of international climate policy. Host Indonesia will raise the profile of deforestation / LULUCF, but do not expect substantial outcomes such as new targets or commitments |
|  20 December 2008 | EU Council of Environment Ministers <i>Brussels</i> | EU Environment Ministers are due to vote on the EU ETS-aviation legislation proposed by the EU parliament. As Council members are likely to push for amendments to the bill, final adoption should not be expected yet. |
|  January 2008 | Release of the EU ETS Review | The European Commission's EU ETS review will propose changes to the scheme's design for the 3rd trading period starting in 2013. No fundamental overhaul is expected. However, the review will shape EUA price expectations for post2012 vintages and thus influence pre2012 trading. |
|  01 January 2008 | Launch of New Zealand's ETS | NZ is the first country to establish and emissions trading system covering all sectors—notably forestry and agriculture—and all gases. It will be definitely worth watching to see how successfully technological and economic adjustments take place. |
|  23-27 January 2008 | World Economic Forum <i>Davos, Switzerland</i> | Although climate change is not formally on the agenda, senior executives, political leaders and government officials will discuss the fall-out of Bali in the corridors. |
|  February 2008 | US Senate Vote on the Lieberman -Warner Bill | The Lieberman-Warner America's Climate Security Act goes to the full Senate for a vote. A watered down version, including provisions for a cap at 2005 emission levels, limited international linkage, and a national-cap-and trade are anticipated, though the scale is unknown. |
|  19-21 February 2008 | GLOBE meeting in Brazil | Members of GLOBE, senior advisors, and EU representatives are meeting with Brazilian parliamentarians and developing country representatives to outline steps forward in climate change legislation with a focus on forestry. Expect a roadmap a la Bali to emerge. |
|  March 2008 | Release of Japan's Kyoto Target Achievement Plan Review | This major policy review is expected to outline a strategy to close Japan's massive gap between current emissions and its Kyoto target. An activity boost on international carbon markets is likely |
|  14-16 March 2008 | G8 Gleneagles Dialogue | Informal policy dialogue between major economy's officials. Instrumental to ease negotiations under the UNFCCC. Will deliver policy recommendations to the G8 Summit in July |



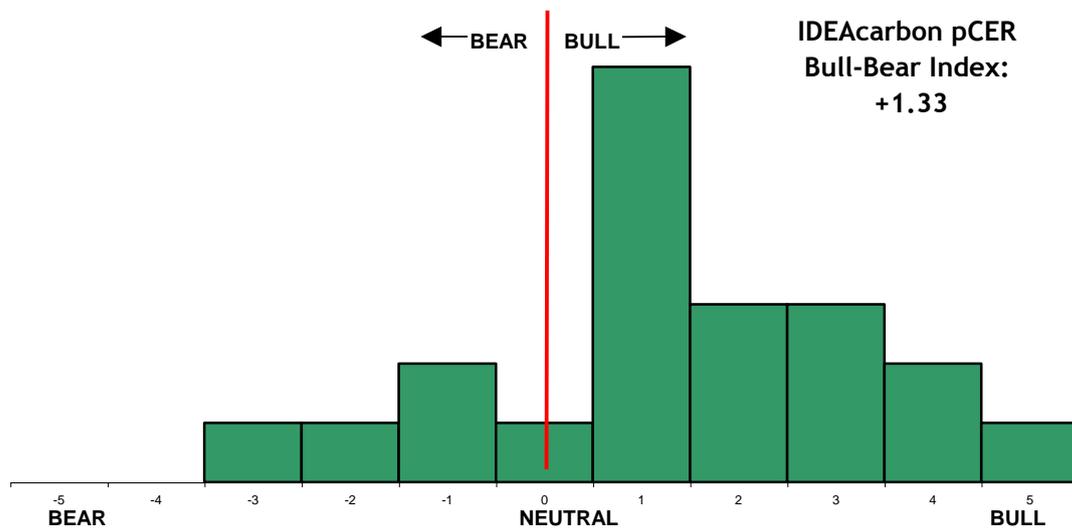
Market Perception: IDEACarbon Survey Programme

The IDEACarbon Bull- Bear Index™ is a survey of 60 market professionals in global carbon markets, performed on a monthly basis. In November IDEACarbon asks leading carbon market professionals to rate the market outlook and price expectations on a scale from -5 (strong bear) to +5 (strong bull). The following charts show the distribution of responses. *The November 2007 Bull-Bear Index indicates mildly bullish sentiment over the next month, in anticipation of the event in Bali as well as reduction estimates in the CER pipeline.*

EU Emissions Trading Scheme (2008 EUAs)



Clean Development Mechanism (primary CERs)



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