



The Carbon Market

The concept of carbon credits and carbon trading originated from the Kyoto Protocol of 1997. This mandates that countries who have ratified the Kyoto Protocol must meet set emission reductions, while other countries and companies are voluntarily reducing their emissions through voluntary carbon markets. The generation and trading of carbon credits is a key component to achieving these emission reductions.

Carbon credits are measured in tons of carbon dioxide (CO₂). Each credit is equivalent to one ton of CO₂, with a monetary value on the cost of polluting the air. Placing a value on carbon aims to prevent it from being emitted in the first instance and to make its removal from the atmosphere financially viable.

ECO2 can significantly assist in the removal of CO₂ from the atmosphere through their International Forestry Plan and the unique properties of its proprietary Kiri Tree, which sequesters huge amounts of CO₂ from the atmosphere. This sequestration generates carbon credits, which ECO2 then sells to a third party or through a carbon market.

Carbon credits require authentication with a regulatory body to be traded. A number of carbon credit variants exist, each meeting different sets of regulations and criteria. Depending on the type of credit, they can be traded through the Kyoto Protocol mechanisms to assist countries in meeting their targets, through carbon trading exchanges such as the European Carbon Exchange, voluntary cap and trade systems such as the Chicago Climate Exchange or voluntary carbon markets.

The monetary value of carbon credits varies significantly based on the credit type, carbon exchange platform, market maturity, buyer knowledge/education, and supply and demand.

Whether or not a country has ratified the Kyoto Protocol, any legal entity (companies, individuals, NGOs, etc.) is able to trade carbon. However, the type of carbon credits will determine which markets they can trade on. All countries and legal entities must meet any legal emission reduction targets set by the Kyoto Protocol or government caps but are free to trade additional carbon credits in the fast-growing carbon market.

A recent New York Times article described carbon trading as one of the “fastest-growing specialties in financial services” ...and companies are scrambling to get “a slice of a market now worth about \$30 billion and that could grow to \$1 trillion within a decade.” The article, entitled, “In London's Financial World, Carbon Trading Is the New Big Thing,” continues: “Carbon will be the world's biggest commodity market, and it could become the world's biggest market overall.”¹

The overall carbon market continued to grow in 2008 as outlined in the Table 1, reaching a total value transacted of

about \$118 billion USD (€86 billion) at the end of the year, double its 2007 value. Approximately \$92 billion USD (€63 billion) of this overall value is accounted for by transactions of allowances and derivatives under the EU Emissions Trading Scheme (EUAs) for compliance, risk management, arbitrage, raising cash and profit-taking purposes. The second largest segment of the carbon market was the secondary market for Certified Emission Reductions (CERs), which is a financial market with spot, futures and options transactions more than \$26 billion USD (€18 billion) representing a five-fold increase in both value and volume over 2007.

Table 1: Global Carbon Market	
Year	Est Market Size (USD)
2005	\$10 Billion
2006	\$30 Billion
2007	\$60 Billion
2008	\$118 Billion
2009	\$150 Billion estimated
Stats supplied by World Bank Finance Unit	

Carbon Markets are in use today and will continue to grow and number. Demand will continue to increase as more countries move to legislate their Emission Trading Schemes; and as more companies - just as we're seeing in the US - start to voluntarily limit their emissions, and the world moves towards global agreement on managing the environment, the price of carbon and the market size will climb as the demand rises.