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Voluntary carbon markets double in size and value in 2008

Report by Ecosystem Marketplace and New Carbon Finance confirms that 123 million tonnes of carbon credits valued at US\$705 million were transacted in the voluntary carbon markets in 2008.

NEW YORK—May 20, 2009: The voluntary carbon markets doubled in both transaction volume and value in 2008 according to Ecosystem Marketplace and New Carbon Finance's report, *Fortifying the Foundation: State of the Voluntary Carbon Markets 2009*, released Wednesday. Consistent with the trend in 2007, this represents more than twice the 2008 growth rate of the aggregate global regulated carbon markets.

The voluntary carbon markets transacted an estimated 123 million tonnes of carbon credits valued at US\$705 million in 2008, up from 65 million tonnes of credits valued at \$331 million in 2007. The average price for voluntary offset credits increased 20% to \$7.34/tCO₂e. Data for the report was provided by over 190 voluntary carbon credit retailers, brokers, accounting registries, and exchanges—the greatest stakeholder input the annual study has received to date.

“With cap-and-trade expanding globally, the voluntary markets are starting to play a crucial role in project development and capacity building as companies start to prepare for emission caps. At the same time, the continued prominence of European demand ensures that the voluntary markets also have a unique role to play alongside compliance markets,” said Milo Sjardin, Head of North America for New Carbon Finance and co-author of the report.

The report is subtitled “Fortifying the Foundation” because of the infrastructure developments that characterized the voluntary markets in 2008. These developments include: market consolidation around a few third-party standards; transparency-focused solutions, such as public project portfolios and credit-tracking registries; the proliferation of trading and auction platforms for voluntary carbon credits; and the formation of partnerships between each of these infrastructure providers.

“Over the past three years, we have witnessed this market grow rapidly in volume and maturity. The 2008 markets saw further establishment of offset standards and the initial integration of registries, while continuing to serve as an incubation space for project types not currently accepted in the Kyoto markets,” said Katherine Hamilton, Managing Director of Ecosystem Marketplace and co-author of the report.

In a clear break from the previous three years, the Chicago Climate Exchange (CCX)—a voluntary but legally binding market for greenhouse gas credits—overtook the voluntary over-the-counter (OTC) market for carbon credits in 2008, both in terms of volume traded and annual market growth. However, OTC credits sell at a 66% premium over CCX credits and the financial value of the OTC market was therefore still more than the CCX market in 2008.

Among the many trends reported by Ecosystem Marketplace and New Carbon Finance in this year's report are:

- The average price paid to offset one tonne of CO₂ equivalent (tCO₂e) in the OTC market was \$7.34, up 20% from \$6.10 in 2007 and up 79% from \$4.10 in 2006. The average price paid to offset one tCO₂e on the CCX was \$4.43/t, meaning the price premium earned by OTC credits over CCX credits in 2008 was 66%.
- Volume in the CCX market tripled to 69.2 million tonnes of carbon credits, whereas volume in the OTC market only increased by 26% to 54 million tonnes in 2008. CCX market value quadrupled in 2008, from \$72 million in 2007 to \$307 million in 2008, while OTC market value grew an estimated 52%, from \$262 million in 2007 to \$397 million in 2008.
- Corporate social responsibility and public relations benefits remained the most popular customer motivations for buying voluntary offsets, according to credit sellers. However, suppliers also mentioned that purchasing for investment and resale has grown in importance on the back of possible future compliance markets and/or increased voluntary offsetting.
- Asia continued to be the region generating the most offsets for the voluntary markets, sourcing 45% of all carbon credits bought on the OTC market in 2008, while credits originating from projects in the E.U. &

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Eastern Europe declined sharply from 13% in 2007 to 1% in 2008. The U.S., however, remained the largest source of voluntary carbon credits of any country, supplying 28% of the OTC market, as well as the largest source of demand, at 39%.

- The most popular sources of carbon offsets were renewable energy projects, supplying more than 50% of the total volume of credits transacted in 2008. Landfill gas (methane) projects were the second most popular type, responsible for 16% of the market as a result of strong pre-compliance activity in the U.S.
- More than 96% of offset credits were verified to a third-party standard in 2008. The top four verification standards responsible for 79% of the OTC market were: Voluntary Carbon Standard, Gold Standard, Climate Action Reserve, and the American Carbon Registry.

"This is an incredibly helpful report," said Caroline Angoorly, head of Environmental Markets for North America at J.P. Morgan. "In nascent and rapidly evolving markets like Voluntary Carbon, the timely availability of data and analysis highlighting the macro drivers is critical to executives forming and implementing strategies around the environmental impact of their businesses."

According to Grattan MacGiffin, head of Voluntary Carbon Markets at MF Global Limited, "The *State of the Voluntary Carbon Markets* report is a simply incomparable resource, providing essential information on trends and directions in this rapidly developing market."

Sponsors of the 2009 report include Evolution Markets, TZ1, J.P. Morgan, TÜV SÜD, Greenhouse Gas Services LLC, Baker & McKenzie, Essent Trading, MF Global, and Karbone.

About Ecosystem Marketplace:

Ecosystem Marketplace, a project of the non-profit Forest Trends, is the leading source of free information on environmental markets and payment schemes for ecosystem services. In particular, we are interested in market-based approaches to the conservation of water-related ecosystem services, carbon sequestration, and the myriad benefits of biodiversity. Our publicly available information sources include annual reports, quantitative market tracking, weekly articles, daily news, and newsletters designed for different payments for environmental services stakeholders.

About New Carbon Finance:

New Carbon Finance is the leading provider of information, analysis and insights into the North American, European and global carbon markets. New Carbon Finance constantly strives to provide the most accurate projections of future carbon market prices using proprietary fundamental analysis and models. The research underlying this report provides a crucial quantitative platform that will substantially enhance the understanding of the fast moving voluntary carbon markets.

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