carbon-expert

HOW TO MAKE THE RIGHT INVESTMENT

What is Carbon Trading?

Carbon trading is now a major global concern that unites governments, large corporations and private individuals in a way that benefits our planet for the long term.

In short, we have come to accept that the way that we live in today's world produces carbon emissions (damaging pollutants). Therefore, international active projects that have a proven ability to reduce carbon emissions are recognized and rewarded with carbon "credits". The exchange of these negative emissions for positive credits and the subsequent venture trading that takes place has now become one of the world's biggest markets. In fact, it is said that the Carbon Credit market is actually set to eclipse all previous markets as it continues to demonstrate high appreciation in value. Whilst it primarily serves to aid the environment in which we live, it has the added advantage of providing a strong profit stream for investors.

The Carbon Credit market is now reported to be worth approximately US$188 billion – it was one of the only markets that continued to increase during the recent years of worldwide recession. Projections for 2013 state that the total transacted value in the carbon markets will reach US$669 billion, making it one of the biggest growth investment stories of all time

(*source: Carbon Emissions Trading Markets Worldwide, 2010*)

How is Carbon Trading regulated?

The Kyoto Protocol has generally been viewed as one of the most significant steps in turning Carbon Credits into serious business. It was devised by the United Nations and became official in 2005, with 188 signatory countries now adopting the rules of ifs framework. The shared contributions of these countries are set to reduce greenhouse emissions by 5.2% by 2012 (from 1990 levels). On a more specific basis, this means that the European Union has a reduction target of 8% and Japan 6%. Emerging countries that have a proven ability to reduce greenhouse gases are eligible to receive carbon credits that can be exchanged for funding. As the Kyoto Protocol has now entered its second phase, more stringent targets are being rolled out.

Spain recently announced that in order to comply with the Kyoto Protocol they will be purchasing 6 million tonnes of carbon credits which equate to a spend of €1.2 billion. This amount is similar to the requirement of most other member countries.

In addition, the European Union's Emissions Trading Scheme (EU ETS) was formed in 2005 and includes some 11,000 power stations and industrial plants in 30 countries. It is now the largest multi-national trading scheme in the world. It functions by setting a "cap" on overall carbon emissions but these allowances can be bought and sold depending upon use. Therefore, the allowance is given a high value as if a company is found lacking in emissions allowances in relation to their usage they will be penalized with heavy fines. The scheme is referred to as "cap and trade" and it is now being linked to compatible systems worldwide such as the Chicago Climate Exchange that trades credits voluntarily between 400 members including Ford, DuPont and Motorola.

Who buys Carbon Credits?

The Carbon Credit market is split into two sectors; compliance and voluntary.

The compliance market is led by political initiatives that have made it compulsory for businesses to make a suitable amount of purchases to cover damaging emissions produced by their activity. Therefore, it generally refers to large corporations and government institutes. Businesses trading carbon include Barclays, BO, Newedge, E.ON UK, Fortis, Goldman Sachs, Morgan Stanley and Shell.

This type of Carbon trading is referred to as Certified Emission Reduction (CER) and is currently the largest market. The credits are provided by Clean Development Mechanisms (CDM) which, broadly speaking, are clustered in South America, Asia and Africa. One CER is equivalent to one tonne of Carbon dioxide.

"Carbon will be the world's biggest commodity market, and it could become the worlds biggest market overall"

Louis Redshaw - Barclays Capital

However, the voluntary market is also growing rapidly and it is set to increase 3 times more in 2011 then it did in 2010. This market includes those who wish to reduce their Carbon footprint in order for there to be a cleaner future. For example, individuals wishing to "offset" the Carbon emissions produced by an aeroplane flight may purchase a relevant amount of credits to become "Carbon Neutral"

Demand in the voluntary market is further intensified by those who can see the high potential returns provided by this relatively new commodity. Independent investors are now beginning to build vast portfolios of carbon credits in order to speculate on the projected future growth. In a similar manner, corporations have also been investing heavily in carbon credits outside of compliance directives as they foresee the expansion of these regimes and wish to assert a competitive advantage.

How does the Voluntary Carbon Credit Market operate?

Carbon trading outside of the political regimes is operated via VERs (Voluntary Emission Reduction). The variety of projects that VERs invest into is much broader and it is generally a simpler process due to marginally less rigourous standards and therefore lower costs. As a minimum requirement all VERs must be of a Verified Carbon Standard (VCS) that is validated by a third-party and ensures that all credits meet or surpass the levels of the compliance process. In addition, VERs are typically supplemented by internal criteria that is designed by the individual buyer who will have their own preferences of focus, technology and/or country.

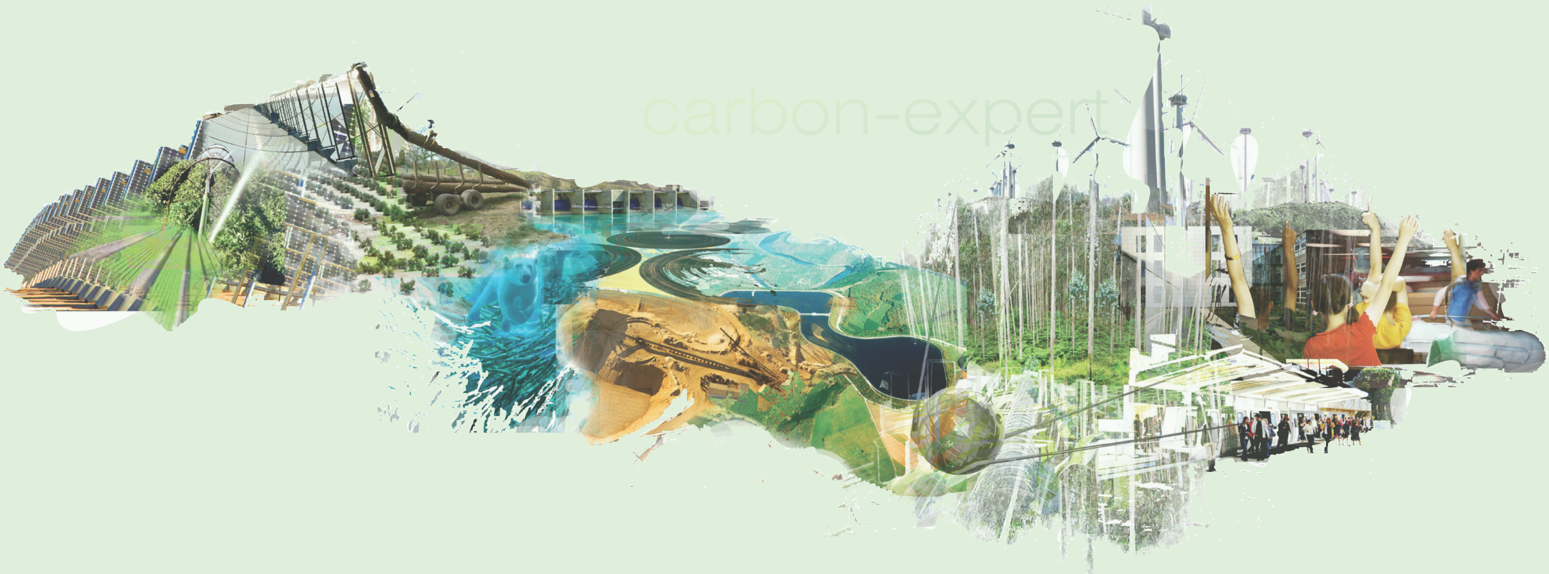
The VER market is growing rapidly. In 2008, transactions nearly doubled from 2007 to 123.4 million metric tones of CO2. VER prices then increased by 20% in 2009 with a value of US$705 million. Last year, it was estimated that 94 million tonnes of CO2 were traded. Top analysts have now predicted that the voluntary sector alone will be worth $2.2 trillion by 2020.

Many large corporations are also actively encouraging the purchase of VERs:

- British Airways offer customers the chance to buy carbon credits to offset the emissions produced during their flight.
- The Best Westin Resort & Spa offer guests the chance to off-set their stay and have now reportedly achieved reductions of 800 tonnes.

As the voluntary market is more driven by buyer preferences it has a higher tendency towards projects that aid sustainability. Whilst the sector is split into two broad types of VER, the community/ environment projects tend to demand nearly double the rate of the more industrial.

Amongst other key aspects, it is the ability to tailor voluntary investments that is propelling the market with a projected share for 2011 of 60%. Some key examples of significant VER investments include:



- AVIVA who became Carbon neutral in 2010 with the purchase of 109,568 offsets at a total cost of GBP 620,000 meaning they paid an average of GBP 5.66 per offset
- Jaguar Land Rover (who are already carbon neutral) expect to offset 300 million tonnes of CO_2 in 2012
- The Co-operative Group has committed to becoming carbon neutral in 2012 and has already agreed the purchase of 1,000,000 VER offsets through JP Morgan Climate Care.

What is the future of the Voluntary Carbon Credit Market?

The UK government is required to introduce a system on Mandatory Carbon Reporting and so, in March 2011 (under the terms of The Climate Change Act 2008) The Environment Department (DEFRA) published a proposal of 3 options:

- All companies quoted on the London stock exchange are to report on Carbon emission. This would total an estimated 1,100 companies.
- All companies with one or more half-hourly electricity meters settled on the half-hourly market, and which use more than 6,000 megawatt-hours per year would have to report their greenhouse gas emissions. This would affect roughly 4,000 firms.
- All "large" companies voluntarily report their Carbon emissions. DEFRA estimates an impact of 31,000 companies.

The most likely outcome of Mandatory Carbon Reporting is the voluntary backing by all "large" companies. Therefore, prevailing investment opportunities are being bolstered by government initiatives that are set to increase the demand for limited Carbon Credits – subsequently raising commodity value.

Voluntary Carbon Credit investments should be assessed for the short, medium and longterm:

Short Term

All VER carbon investments are liquid and can be sold at any time. This can be done immediately via a Carbon Broker at the best available price in the market at that time. Alternatively, subject to the number of credits held and the project(s) invested into, project managers may be able to negotiate a 'corporate exit' at a premium price. However, this process may take 4-6 weeks to complete.

2) Medium Term

Based on historical data since 2007, VER carbon investments typically show returns of 40% - 50% within 18 – 24 Months. Forecasts from Barclays and Point Carbon (Thomson Reuters) at the beginning of 2011 confidently predicted prices to rise by 47% - 50% over the next 24 months. However, recent events including the disaster in Japan and the review of nuclear power programmes in Japan, Russia, China and Germany have given the market additional impetus and Analysts are now even more bullish about growth prospects.

3) Long Term

Carbon prices are widely expected to treble by 2015 and many investors are now taking a longterm view with their carbon investments. The introduction of some Carbon indexed pension products have recently been seen and in February 2011 Mercer Investment Analysts produced a report urging all investors (private and institutional) to hold up to 40% of their portfolios in Carbon.

How do I buy Carbon Credits?

Carbon Credits can be bought online from companies such as JP Morgan or Citola where you will pay between 7.5 and 14.00 GBP per credit.

Alternatively, Carbon Credits can be purchased directly from Carbon-expert at 4,7 and 5.33 GBP per credit. Our analysts monitor the market minute by minute and will advise on an exit aimed at maximizing your profits. However, as all carbon investments are liquid you are free to sell at any time at the prevailing market rate.

Carbon-expert provides all the safety nets the modern investor requires, from dealing with UK Lawyers, Banks and Accountants to being the only UK company to have all carbon credit projects approved for SIPP Pensions. We remove the middleman (Banks) and provide you with quality voluntary carbon standard certificates at wholesale prices as well as advising on to exit strategies to help you maximize your profits.

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Carbon trading – a simple guide to the investment process

1) Carbon-expert identifies a suitable VCS verified project with strong 'brochure appeal' and available at the right price to ensure it has premium resale value.

2) Client decides on appropriate level of investment. Minimum purchase 1000 credits which at current prices (July 2011) is around 5000 GBP or Euro equivalent.

3) Client opens Trading Account with Carbon-expert. This is completed online.
(IFA may open this on behalf of client if they have clients written consent)

4) Client receives compliance call from Carbonex (the broker) to confirm personal and transaction details (including their understanding of the process and risks).

5) Contracts are drawn up by Colemans CTTS, a UK Law 100 Firm, regulated by the UK Law Society and registered with the FSA to handle client funds. Contracts are sent to the Client by email and hard copy by post.

6) The Client signs and dates the contracts and returns to Colemans by email or fax. (IFA can forward this on their clients behalf if necessary)

7) If the Client is a non-UK resident they will also be required to comply with international money laundering laws and supply certified copies of ID and proof of address to Colemans Solicitors.

8) The Client arranges to settle the transaction and transfers funds to Colemans Client Account (Barclays) via bank transfer by the date agreed at time of contracting.

9) Colemans hold the funds in escrow until such time as the transaction is completed and the Credits are transferred into the Client's name.

10) Once completed, Colemans release the funds to Carbonex and the Client receives details of the Carbon Credit certificates and Electronic Registry login details.

11) Thereafter, Carbon-expert keeps in regular contact with the Client providing market updates and advising on the most profitable exit strategy.

Please remember that all investments carry risk. Whilst we undertake all due diligence and research to present accurate scenarios and investment opportunities, the information presented is based on today's market value and predicted growth rates and as such cannot be guaranteed.

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