
Market Facts

- In addition to the existing compliance carbon markets¹, a voluntary carbon market has emerged, which includes sectors and geographies not covered by mandatory cap-and-trade schemes or other regulation of greenhouse gas (GHG) emissions.
- Entities (companies, governments, NGOs, individuals) choose to engage in this parallel voluntary carbon market for a number of reasons including:
 - To prepare for impending carbon regulation or future carbon costs;
 - To support investment into projects which will reduce GHG emissions;
 - To gain strategic experience before developing carbon related products and services; and
 - To demonstrate corporate social responsibility.
- According to State of the Voluntary Carbon Markets 2010², 2009 was a challenging year for the voluntary markets due largely to the impacts of the global economic recession and the fact that the large number of 'speculators' active in the market in 2008, were not so prevalent through 2009. This bucks an otherwise positive trend of steady growth, for example with transacted volume increasing by more than 800% since 2002.
- The same report conservatively estimates that in 2009, 94 million tonnes of carbon dioxide equivalent (MtCO₂e) were transacted in the voluntary carbon markets. Of this, 41 MtCO₂e were transacted on the Chicago Climate Exchange (CCX), and that some 51 MtCO₂e were transacted in the over the counter (OTC) market. Some market participants predict that transactions in the voluntary carbon markets will bounce back to achieve around 400 MtCO₂e per annum by 2012 and over 1 billion tonnes per annum by 2020.
- Pending climate change legislation in the US is expected to massively boost demand for qualifying voluntary carbon credits. In the interim, demand from 'pure voluntary' buyers is expected to resume its growth trend, following the global economic recession.
- Prices in the voluntary market vary widely and typically range from less than \$1 up to \$15 and are determined by a range of factors. These include the project type; the standard used for validation and verification; the volume and vintage of credits purchased, and the disparity between supply and demand in the market. Over time, as the market becomes larger and more liquid, it is anticipated that voluntary market prices will converge to a level slightly lower than those of the predominant compliance instruments, with projects with higher sustainability aspects earning premium prices over those from other projects.

Market Benefits

- Due to their potentially lower transaction costs, the voluntary markets can lead to greater reductions in global greenhouse gas emissions by encouraging the development of credits from sectors and geographies that have not obtained significant support from the CDM. This is particularly true for sectors such as forestry, land-use, and small-scale energy efficiency, in geographies such as the least developed countries in Africa.
- In non-compliance markets such as the US, the voluntary market is providing organisations with price signals as to the current and future cost of reducing GHG emissions, promoting the use of clean technologies, and accelerating the development of low carbon infrastructure.
- The retail segment of the market plays a positive role by generating awareness of the issue of climate change through marketing and communications, and encouraging entities to take action to reduce their GHG emissions along with buying carbon credit offsets.

¹ The EU Emissions Trading Scheme (EU-ETS); the Greenhouse Gas Abatement Scheme (GGAS) in New South Wales; the Regional Greenhouse Gas Initiative (RGGI) in the northeastern United States and the Specified Gas Emitters Regulation (SGER) in Alberta.

² Published by Ecosystem Marketplace and Bloomberg New Energy Finance

Market Challenges

- Though voluntary markets are growing rapidly, and project standards are becoming increasingly robust, proliferation of products prevents buyers from easily identifying standards, which ensure credibility, fungibility and transparency.
- In regions where there are significant and growing compliance carbon markets, such as Europe, the voluntary markets are being forced to become more robust as individuals develop a greater understanding of climate change and carbon. This is manifesting itself through the development of a number of carbon credit registries and local and international standards.
- In regions where significant compliance markets are not yet established, voluntary markets will continue to grow, and demand for credits will be strong. These regions include the US, Canada and Australia which are unlikely to have wide reaching compliance regimes before 2012.
- Voluntary carbon management and reduction programmes, especially those that use carbon credits to achieve specific targets ahead of or beyond regulation need to be designed, implemented, managed and reported to established standards to protect and enhance the integrity of voluntary action.
- CMIA supports the development of robust international standards for the voluntary carbon market to ensure that all emission reductions generated and sold are *Real, Measurable, Permanent, Additional, Independently verified, and Unique*. As well, these standards where possible should seek to reduce transaction costs for small-scale projects, and enable innovation in the carbon markets.
- Several standards have been developed by a range of organisations to meet these objectives. CMIA works constructively with these standards, governing bodies and other organisations to further enhance the integrity of the voluntary market.
- The broad adoption of a small number of international standards to be used in conjunction with other infrastructure, such as interlinked international carbon registries, will increase the credibility of credits sold in the voluntary carbon market. A robust and transparent market will prevent double selling³ of emission reductions and provide the template for a successful industry.

CMIA is an international trade association representing close to 50 companies that finance, invest in, and provide enabling support to activities that reduce emissions. CMIA's membership accounts for an estimated 75 per cent of the global carbon market, valued at USD 130 billion in 2009. Solely representing organizations that provide services to and invest in the environmental sector, membership does not include any entities with compliance obligations under cap-and-trade schemes. This results in a unique advocacy platform with emphasis on the environmental integrity of market mechanisms and climate change policies.

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³ Double selling is when the same emissions reduction is sold to two or more buyers