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News Release

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“STATE OF THE CARBON MARKET 2006”

Carbon market shows dramatic growth amid concerns for future stability

Cologne, GERMANY, May 10, 2006 – The sixth annual World Bank carbon market intelligence study, released today at CARBON EXPO, 2006 shows a dramatic growth in the global carbon market, led by strong activity in the European Union’s pilot Emissions Trading Scheme (EU ETS). The report which covers the period from January 1, 2005 to March 31, 2006 records a booming global market worth over US \$10 billion in 2005, ten times the value of the previous year.

“To put that figure in perspective, the entire U.S wheat crop in 2005 was valued at about US\$7.1 billion,” says **Karan Capoor from the World Bank** and main author of the report. The expert added *“The data makes it clear that carbon is now a financial commodity. Carbon is now priced and business managers take the carbon price into consideration along with other factors in making business decisions. But like other financial commodities, the events of the last two weeks in the EU ETS shows that markets can be volatile.”*

Capoor was referring to the fact that the price of carbon credits in the European Union dropped to a 12-month low last week, after several European countries reported that their 2005 emissions were below quota, dampening demand for pollution-permitting carbon credits.

The 2006 *State of the Carbon Market Report* shows explosive growth in allowance markets, making them for the second year the main driver of growth of the market. European Union trades dominated the carbon market in terms of value—75 percent in 2005, but *almost half of the total volume* of greenhouse gas (GHG) emission reductions came from the developing world, making developing countries meaningful participants in the drive to reduce climate altering greenhouse gases on the Earth.

Volumes transacted and corresponding values –Allowance Markets- (*)

	2004		2005		1 st Q06	
	Volume (MtCO ₂)	Volume (MtCO ₂)	Value (MUS\$)	Volume (MtCO ₂)	Value (MUS\$)	Value (MUS\$)
EU-ETS ¹	8.49	322.01	8,220.16	202.51	6,552.24	
NSW	5.02	6.11	57.16	5.51	86.55	
CCX	2.24	1.45	2.83	1.25	2.71	
UK-ETS	0.53	0.30	1.31	na	na	
TOTAL	16.28	329.87	8,281.46	209.26	6,641.50	

According to the report “price signals in the carbon market have stimulated innovation especially in developing countries.” The market analysis shows that

transactions from projects in developing countries and economies in transition totaled 364 million tons of greenhouse gas emission reductions and in the EU ETS, some 322 million tons of allowances were transacted.

“This report shows that this young market works well, that it responds to market signals and that it is changing the way business is done in Europe and around the world, ” said **Andrei Marcu, president of the International Emissions Trading Association (IETA) which co-sponsored the carbon market report.**

The State and Trends of the Carbon Market 2006 reviews the trends of the carbon market based on material provided by emissions and renewable energy asset manager, Natsource LLC and carbon market analysts and broker Evolution Markets LLC, and on interviews with a large number of market participants. The report is based on data from the trading of EUAs under the European Union’s Trading Scheme (EU ETS) and from transactions completed under the Kyoto Protocol’s flexible mechanisms—the Clean Development Mechanism (CDM) and Joint Implementation (JI)—that allow industrialized countries to purchase greenhouse gas emission reductions in developing countries and in countries with economies in transition and also includes data from voluntary markets.

The carbon market encompasses both *project-based transactions* (CDM and JI) where a buyer purchases certified emission reductions from a project that reduces greenhouse gas emissions compared with what would have happened otherwise, and *trading of greenhouse gas emissions allowances* allocated under existing cap-and-trade regimes such as the EU ETS, as well as the voluntary carbon market, for example in the United States and Australia.

The report documents growth on those voluntary markets as well. In Australia, the New South Wales Greenhouse Gas Abatement Scheme had 159 projects accredited as of 6 March 2006. The scheme also diversified by allowing credits from carbon sequestration projects. For example a deal was closed in April 2005 to provide some 3.2 million tons of carbon dioxide equivalent offset from 30,000 hectares of eucalyptus plantings in rural New South Wales. And The U.S.-based Chicago Climate Exchange has already seen some 1.25 million tons of carbon dioxide equivalent exchanged in the first three months of 2006, compared with 1.45 million over the whole of 2005.

(*)A cap-and-trade allowance market reduces greenhouse gas emissions in the most cost effective way by imposing caps on emitters and allowing those which reduce emissions by more than their target to sell their “right to pollute” in the form of allowances to those firms that overshoot. Provided the caps are set at a level which is both environmentally effective and economically fair and viable, an allowance market gives a financial incentive to cut greenhouse gas emissions.

Project Based Transactions						
	2004		2005		1stQ06	
	Volume (MtCO₂e)	Value (MUS\$)	Volume (MtCO₂e)	Value (MUS\$)	Volume (MtCO₂e)	Value (MUS\$)
Compliance	107.07	543.59	368.30	2,665.31	79.12	906.14
<i>of which</i>						
CDM	97.00	485.01	346.15	2,544.30	75.61	886.85
JI	9.10	54.19	17.78	82.41	3.29	19.29
other	0.96	4.39	4.37	38.59	-	-
Voluntary and retail markets	2.92	5.57	6.05	43.03	0.08	0.55
TOTAL	109.99	549.16	374.34	2,708.34	79.19	906.69

M = million

“We are encouraged by the growth of carbon markets in the United States and in Australia” said Jack Cogen, **President of Natsource**. *“Markets respond to long-term market signals,”* he continued, *“and this market needs a strong signal about post-2012 commitments.”*

The report emphasizes that a clear market signal from the United Nations Framework Convention on Climate Change (UNFCCC) and/or the Kyoto Protocol Parties about a post-2012 commitment will help scale this market even more.

“In the past year the carbon market has grown faster and broader than nearly any other emerging market,” said **Andrew Ertel, President of Evolution Markets LLC**. *“The increase in volume and considerable price volatility are a sign of a healthy market. They indicate emission reductions are being made, and real investments are being made in both compliance nations and developing countries”*

Looking at future trends, the report emphasizes that “the market correction in the EUA markets in the last few days of April 2006 wiped out over the half of the market value”. However, it adds “the prospects for the project-based market are quite solid, provided the EU does not erect any barriers limiting entry for CDM and JI imports for phase II (2008-2012). Markets now price carbon and this has created the opportunity for the private sector to efficiently support investments to reduce emissions. The long term success of the carbon market, however, will be judged by its ability to achieve its environmental goals and preventing climate change.

The report was released to more than 2000 participants including greenhouse gas emission reductions buyers and sellers, intermediaries and service providers from companies and countries around the world, participating in CARBON EXPO 2006.

For more information, please visit the websites:

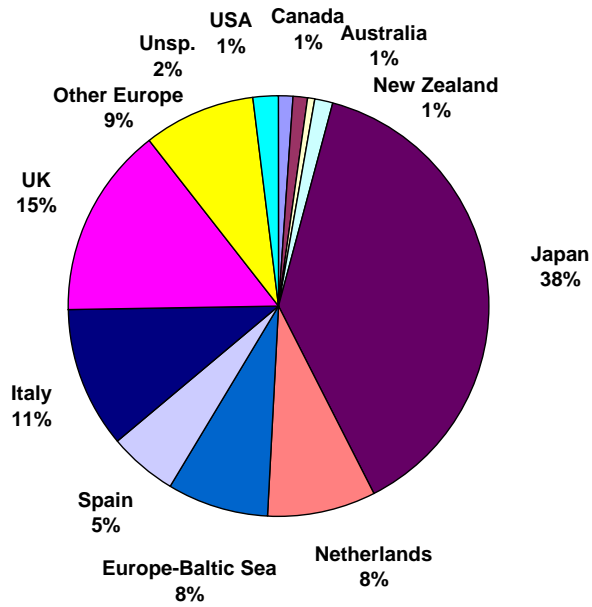
www.carbonfinance.org

www.ieta.org

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ANNEX I

The Carbon Market: Who is Buying?



Overall volume: 453.5 MtCO₂e January 2005 to March 2006

ANNEX II

Who is selling?

