GREEN INVESTMENT
SERVICES

The Voluntary Market For Carbon Offsets
Profit & Help

An Overview by Green Investment Services

www.greeninvestmentservices.com

INTRODUCTION

Carbon Trading Is One Of The Fastest Growing Specialities In Financial Services

Although carbon offset providers have been operating since the 1990's, the market for voluntary offsets has experienced rapid growth during the last two years. This is expected to continue and to expand over the medium to long term. This is due to several factors; the establishment of a voluntary market and registry by the Bank Of New York to name but a few. These are proving to be the main market drivers.

Governments and individuals, corporations and investors all participate in the voluntary market nowadays , either to trade for profit, or to reduce their carbon footprint. Today, the voluntary market, albeit smaller than the compliance regime, is growing and attracting significant interest worldwide.

Investors and project developers with an eye on cost effectiveness, and finally wholesalers and retailers, are all active in the voluntary market providing a robust trading environment and liquidity.

Besides the formation of a recognised registry and trading exchange, such issues as an increase in environmental reporting, corporate social responsibility and consumer demand for action on climate change, are pushing the development of the voluntary market into new un-chartered territory. Indeed, the voluntary market, with its less stringent regulations and rules, is providing a viable cost effective alternative to the more expensive compliance regimes.

WHAT ARE CARBON OFFSETS?

Carbon Will Be The World's Biggest Commodity Market And It Could Become The World's Biggest Market Overall

A carbon offset neutralises a ton of CO_2e emitted in one place by avoiding the release of a ton of CO_2e elsewhere or sequestering a ton of CO_2e that would have otherwise remained in the atmosphere. Carbon offsets are created through various types of projects. These include renewable energy, energy efficiency, destruction of various industrial gases and carbon sequestration underground. Or in soils and forests. A project does not necessarily have to offset CO_2 , but can also offset a variety of other greenhouse gases (GHG), such as methane and hydrofluorocarbons. These greenhouse gas offset projects in turn generate carbon / GHG credits or emission reductions, which can be purchased by investors or organisations.

QUALITY AVAILABLE FOR VERs

Carbon Trading Provides A New Way To Turn The Pollution Cycle Into Profit

The general market requirement as a minimum standard is the Voluntary Carbon Standard (VCS). This standard uses as a basis, several of the additionality tests as required in the compliance regime. This is typically supplemented by internal criteria designed by buyers and will vary based on their individual focus on community involvement, technology transfer and host country impact.

The Voluntary Gold Standard is a premium quality label which ensures the successful integration of stakeholder feedback and integrity of environmental impact assessments. The Gold Standard represents the highest in sustainability attributes for projects it may be applied to. This however, does not include forestry, which is often evaluated using the Climate Change and Biodiversity Standards (CCBS) .The CCBS is a stringent standard customised for forestry projects, and focuses on the contribution to local economies and integration within local communities. A new quality label the VER + has recently been launched by TUVSUD.

KEY PRINCIPLES OF VERs?

Carbon Trading May Dwarf That Of Crude Oil Within Five Years -Worth A Staggering $2 Trillion

Additionality - VERs must represent real emissions reductions in addition to the business-as-usual scenario. While tests are generally not as strict as for certified emission reductions (CERs), the principle remains the same.

Sustainability - The compliance regime mandates that projects have a twin mandate – to reduce emissions, and contribute to local sustainability. The voluntary market, driven by buyer preferences, is far more sensitive to sustainability and its concerns, due to the impact on pricing and relative value. In fact, there are currently two broad types of VERs – those with high community and environmental sustainability, such as renewable energy, and those from large scale industrial projects.

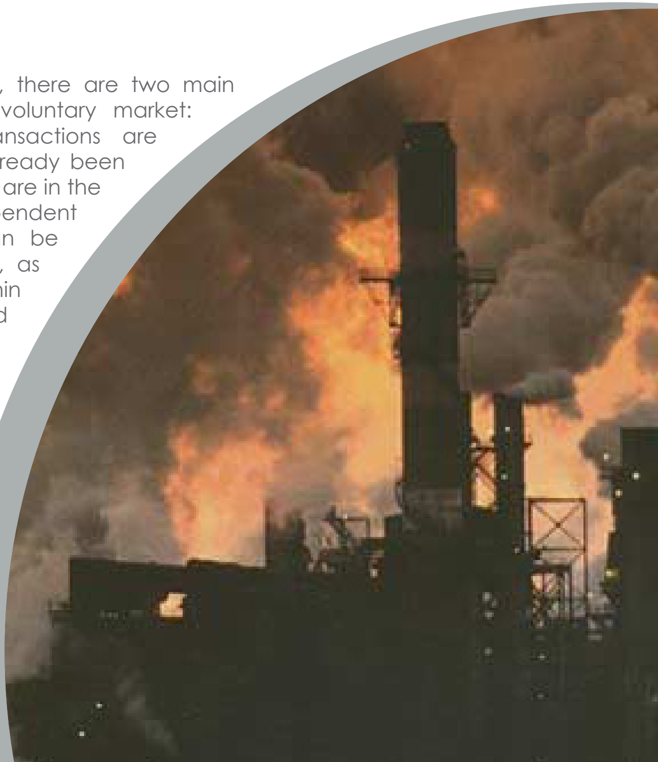
Verifiability - An independent third party is required to verify the emissions reductions. This may be carried out by entities accredited to the UNFCCC to conduct similar activities for CER projects, or by professional environmental consultancies.

Reliability - Linked to the issue of verification, buyers are wary of purchasing VERs which may already have been sold to another party. Without a central registry, as maintained by the UNFCCC for compliance of CERs, there is always the danger of double selling. To counter this, the Bank Of New York opened a VER registry where buyers may set up accounts to track VER transactions.

TYPES OF VERs?

Investors And Policy Makers Are Now Facing A Historical Choice, Now Is The Time To Make The Decision

As with the compliance regime, there are two main types of transactions in the voluntary market: "Spot" and "Forward". Spot transactions are carried out for VERs which have already been generated and have completed, or are in the process of verification by an independent third-party. A spot transaction can be arranged based on current prices, as long as VER delivery is expected within approximately three months. Forward transactions are carried out for VERs with a generation schedule over several years, typically up to 2012.



RETIREMENT: A VERs ULTIMATE OBJECTIVE?

Carbon Offset Projects Represent A Potential For Explosive Profits

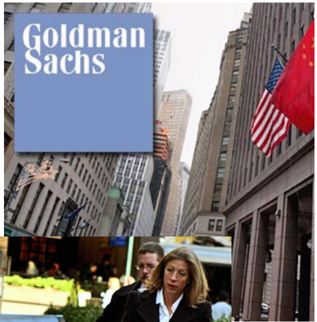
A carbon credit in the voluntary market does not fulfil its ultimate objective of offsetting another GHG emission, until it is retired by a supplier or final buyer. When an entity purchases carbon credits to offset GHG emissions, the carbon credit is then retired and cannot be sold again. More and more, these retired offsets are being stored in retirement registries. The tracking of retired credits is important, because it represents the impact of the market from an environmental perspective, and the fundamental demand behind the market.

THE VOLUNTARY MARKET: WHO BUYS, WHO SELLS?

J P Morgan And Goldman Sachs Have Shown A Massive Interest In Carbon Offsetting

Buyers include companies that buy offsets for their own operations, and companies who also buy offsets on behalf of their own customers. For example; airlines and travel agents, automobile and petroleum companies. More recently, there has been a significant increase in private investor participation. These participants essentially buy into the market with a view to acquiring medium to long term above average profits. Finally, and from an investment perspective, major participants such as Goldman Sachs and J P Morgan are leading the way so far as financial institutions are concerned.

Sellers include retailers and wholesalers who buy and resell offsets. Project developers who develop GHG abating activities also sell into the market. Market intermediaries include, brokers who connect project developers and resellers with institutional buyers, and finally carbon consultants who help private investors select offsets for their investment portfolio.



PROJECT ACTIVITIES IN THE VOLUNTARY MARKET

Early Stage Investment Into Carbon Financial Instruments May Well Reap Huge Rewards For Investors

ACTIVITY CATEGORY	PROJECT TYPE
Renewable Energy	
Grid Connected	Small Hydro
Off Grid	PV Home Lighting Systems
Energy Efficiency	
Grid Connected	Compact Flourescent Lamps
Non-Electric	Fuel Efficient Wood Stoves
Methane Capture	
Landfill	Land fill Gas To Energy
Agricultural	Pig Manure To Energy
Forestry	
Tree Planting	Watershed Reforestation
Conservation	Forest Protection

Conclusion

For those investors wishing to enter the carbon markets, the voluntary market today is an ideal starting point. Not only does it allow a cost effective entry point, but more importantly with the expansion of market participants and the formation of a recognized trading exchange, the market is therefore both robust and liquid.

Like all commodity markets, timing and price entry levels are important factors. With prices for voluntary emissions reductions currently hovering in the mid to low range, now is the time to seriously consider this new and exciting market as a potential profitable addition to your investment portfolio.

It is however, important you only invest in projects which fulfil the Additionality, Reliability, Sustainability and Verifiability tests and criteria. This way you can relax in the knowledge that you have bought a quality and potentially profitable carbon trading instrument.

Finally, it is imperative you deal with a reputable carbon advisory company whose knowledge of the market drivers, price progression factors and trends are second to none. Green Investment Services fulfill this important criteria.