

Verdantix: Entrepreneurial Phase Of The Carbon Credit Market Is Over

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The entrepreneurial phase of the carbon credit development market is now over according to a detailed analysis of the capabilities and performance of 23 leading carbon developers conducted by Verdantix (<http://www.verdantix.com>). The report applies 26 evaluation criteria to assess firms generating Clean Development Mechanism (CDM) credits like AES Corporation, Camco International, Climate Change Capital, EcoSecurities, First Climate, MGM International, orbeo, Sindicatum Carbon Capital and Tricorona.

“Carbon credit buyers want certainty that their CDM developer counterparties will deliver the right volume of credits, at the right time, at an appetizing price” said David Metcalfe, author of the report. “Even though Certified Emission Reductions (CERs) are a commodity, the process of generating CERs is far from commoditized. Compliance buyers and financial investors undertake due diligence on the ability of CDM developers to deliver primary CERs. They focus on CDM experience, financial strength, proven delivery capability, forecasted CER volumes and revenues.”

To clarify credit buyers’ alternatives in a confused and opaque market Verdantix (<http://www.verdantix.com>) analysed 23 leading CDM project developers using its proprietary Green Quadrant™ methodology. The analysis segmented the market and found that:

- Four firms lead the CDM project developer pack. EcoSecurities, Camco International, MGM International and orbeo are clear leaders in the CDM development market due to their superior in-house technical expertise, broader and deeper management teams, proven commercialization skills, massive pipelines of registered projects and revenues from CER sales.
- Seven firms are poised to challenge the leaders. AES Corporation, Agrinergy, Carbon Resource Management, Econergy, Energy Systems International, First Climate and Tricorona challenge the market leaders with solid CDM management experience, proven CER issuance success, strong financial capabilities, good awareness with credit buyers and significant forecasts of CERs from registered projects.
- Financial backing differentiates the entrepreneurs. Climate Change Capital, Sindicatum Carbon Capital, Balderrie, Southpole Carbon and ecolutions are well-positioned to exploit their financial capabilities and diversify or acquire for growth.

“The value of primary CER transactions has grown from nothing in 2004 to an estimated \$10 billion in 2008” said Verdantix Director, David Metcalfe. “The high potential returns from originating carbon reduction projects in developing economies and selling them to compliance buyers in developed countries exerted a magnetic force on carbon entrepreneurs. But in today’s uncertain market the independent carbon developer business model is no longer sustainable – diversification or acquisition are the only viable strategies.”

The Verdantix analysis of the CDM market is based on in-depth interviews with CEOs and directors of carbon developers complemented by interviews with an independent panel of fifteen carbon credit buyers in

banks, funds and utilities. The report concludes that independent CDM developers must evolve into:

- Environmental finance groups. Environmental finance groups combine investment funds with project finance expertise to develop the carbon market as well as other markets linked to resource scarcity — such as water. We expect firms that have already raised funds, like Sindicatum Carbon Capital and private equity groups like Altira, will develop this model. Climate Change Capital has already repositioned the business in sectors outside carbon.

- Vertically integrated carbon solutions firms. Independent CDM project developers face too many risks to become stable standalone businesses. But the Verdantix analysis suggests there is a bright future for integrated carbon groups such as First Climate that combine project origination, carbon credit brokerage, trading, investment advisory and, in some cases, fund management. The core expertise of these financial intermediaries is carbon markets domain knowledge.

- Cleantech divisions in energy/industrial groups. Compliance buyers subjected to carbon cap-and-trade schemes and opportunity-seeking energy/industrial groups will establish industrial scale GHG emission reduction business models. Today's examples include AES Corporation following its acquisition of AgCert. Also French energy firm Suez GDF with the CDM capabilities it picked up in the Econergy acquisition.

“The global carbon market is under severe pressure. Risk aversion in the investment community, falling oil and carbon prices, a logjam in CDM project registration and uncertainty over the global negotiations on a new climate regime have all taken their toll” said Rodolphe d’Arjuzon, Verdantix Director.

“Policy makers at the UNFCCC COP-14 Pozna? negotiations should take note: the 2,000 individuals who work for CDM developers will not save a planet in peril. Carbon markets urgently need policies that support growth and scalability.”

The report “Verdantix Green Quadrant: CDM Project Developers”

([http://www.verdantix.com/index.cfm/papers/Products.Details/product_id/19/green-quadrant-cdm-project-developers/-](http://www.verdantix.com/index.cfm/papers/Products.Details/product_id/19/green-quadrant-cdm-project-developers/)) can be purchased online and is available to Verdantix clients at www.verdantix.com

About Verdantix

Verdantix is an independent business research firm focused on climate change, carbon markets and business sustainability. For more information visit www.verdantix.com

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