

The emerging carbon market

A new means of financing climate-friendly technology transfer

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Under the Kyoto Protocol, projects have started quantifying their reductions of greenhouse gas emissions. This has resulted in a new form of business called "emissions trading", which allows companies polluting below their legal allowance to sell their remaining allocation to a company exceeding its permitted level. The allowance, which entitles the holder to emit a limited quantity of greenhouse gases, is denominated in tonnes of carbon dioxide. Such "carbon credits", as they are called, have become, in effect, a new commodity in an international emissions trading scheme. They have a financial value that can add to the viability of a business. This new "carbon market" is encouraging investment in the transfer and adoption of climate-friendly technologies.



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Introduction

Several industries, such as energy-intensive or forestry-related industries, in emerging economies around the world can begin to benefit from a new economic mechanism which provides an additional source of financing for climate-friendly technologies and projects. Those providing this additional source of finance are a range of international companies, banks, private equity funds, governments and other institutions with an interest in obtaining carbon credits.

The term "carbon credits" is used loosely to describe quantified greenhouse gas (GHG) emission reductions that have gone through the necessary process of eligibility for transfer and use in a pluri-lateral or international emissions trading scheme in accordance

with rules set out by the international negotiations to the Kyoto Protocol. Following a long environmental struggle to stall global climate change, this international agreement, supported by most countries, with the important exception of the USA, last June, allows OECD countries to commit to reductions in their GHG emissions and trade emissions as long as they ratify and comply with the agreement. The Kyoto Protocol has set out three main emissions trading mechanisms that are expected to allow for a viable international carbon market.

Carbon investment

With regard to funds and banks involved in energy-related or forestry sector investments, carbon credits ob