



Canadian Forest Service Plantation Investment Forum

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Natsource LLC**

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Toronto

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More growth. Less pollution.



Natsource at a Glance

Natsource's Global Offices

- Europe
 - London
 - Oslo
- Asia
 - Tokyo
- North America
 - Calgary
 - New York
 - Ottawa
 - Washington, D.C

Corporate Focus

- Emissions Markets
- Renewable Energy Markets

Three Business Units

- Asset Management Services
- Transactional Services
- Advisory & Research Services

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GHG Emissions Experience

GHG Asset Management:

- Development of the Greenhouse Gas-Credit Aggregation Pool (GG-CAP)
- Representation of World Bank Carbon funds and Dexia-FondElec funds in Asia
- Manage account for Fortune 100 Company in North American and UK Markets

Emissions Brokerage and Project Structuring Experience:

- In 2004, brokered over 10 million tonnes of candidate CERs to European & Japanese buyers
- Early pioneer in GHG transactions
 - Brokered the first transactions of U.K., Danish national allowances and first swap
 - In 2000, brokered early transatlantic and transpacific transactions
- In 2002 – 2004, largest broker in UK ETS & ROCs markets
- A leading broker of US SO₂ allowances, NO_x allowances and credits, renewable energy certificates (RECs) and renewable obligation certificates (ROCs)

Strategic Services:

- Provide market intelligence, policy expertise and assess risk to assist asset managers, Fortune 500 multi-national energy and manufacturing firms and governments
- Advisors to developers on project structure
- GHG project screening and portfolio modeling
- Advisors to governments on emissions trading system design
- Staff developed the first project-based mechanism designed to reduce GHG emissions and participated in the negotiations to develop the rules governing the project-based mechanisms in the Kyoto Protocol

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Greenhouse Gas Credit Aggregation Pool (GG-CAP)

- The world's first private-sector mechanism to assist entities manage their compliance with the EU ETS and Kyoto Protocol
- Strategy and benefits
 - Pool large-scale demand to allow for purchase of high-quality, cost-effective compliance units
 - Use proprietary model to screen and score projects
 - Utilize risk management techniques to guard against under delivery
 - Acquire a diverse portfolio to achieve a more favorable risk profile
- Currently €98.6 million (approximately US\$130 million)
 - Six Japanese, European and Canadian firms have committed
 - Electricity Supply Board (Ireland), The Chugoku Electric Power Company., Inc., Hokkaido Electric Power, Company, Inc, Cosmo Oil Japan





Greenhouse Gas Market Overview

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Market Development Through 2004

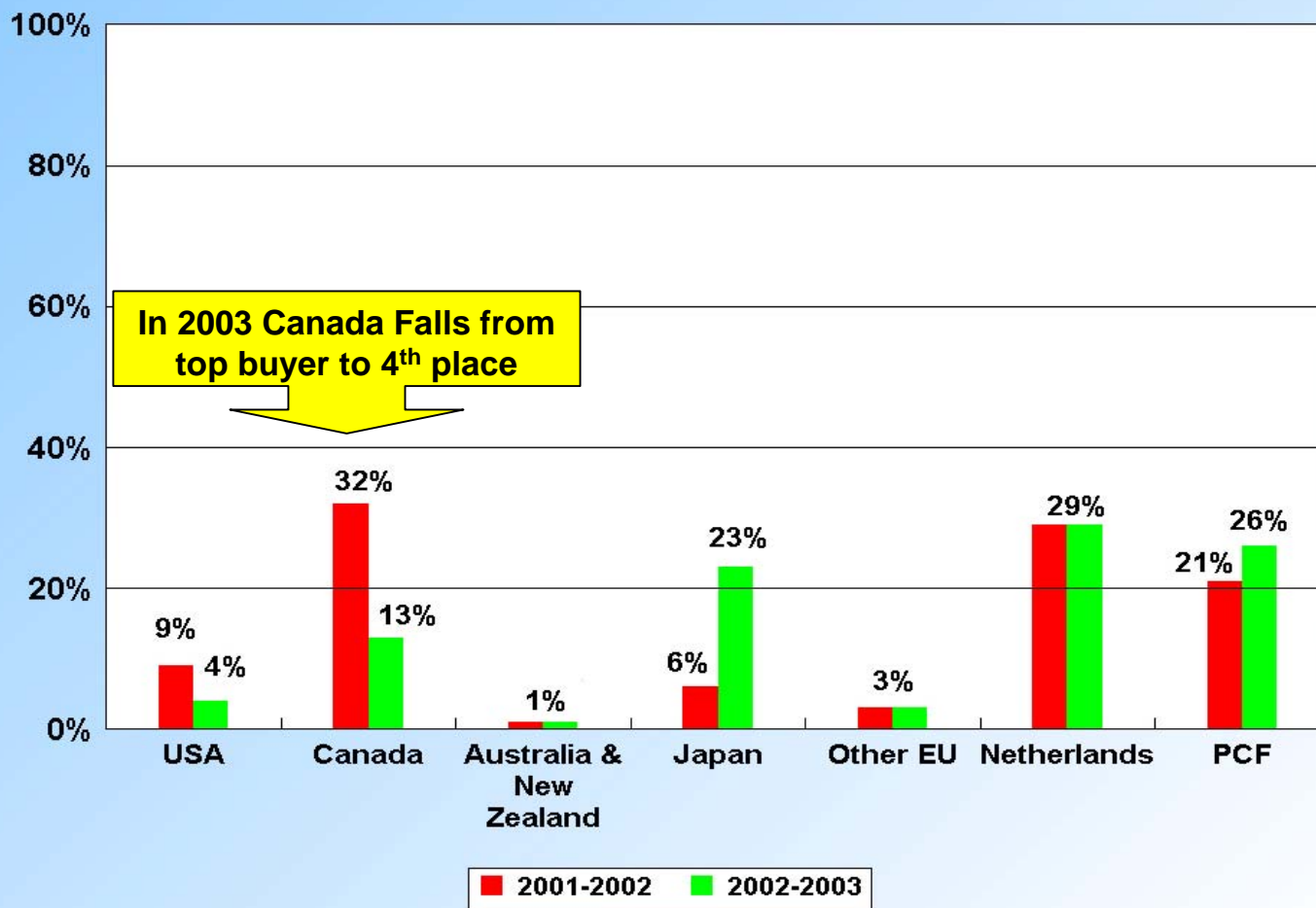
- Traded volume more than doubled from 02-03 to 78 million tonnes and doubled again to well over 150 million tonnes traded in 2004
- Buyers purchasing high quality, potential compliance instruments
 - Pre-compliance instruments trading for \$3.00-\$6.50 per tonne
- HFC destruction projects created 31% of traded reductions
- Reductions created by power sector projects account for 50% of traded volume
- 30% of traded ERs are created by renewable projects
- Over 75% of traded ERs created by projects in Latin America and Asia
- Japanese private sector has become most prominent market participant

* Lecocq, F. (2004) "State and trends of the carbon market 2004,"
Washington, DC: World Bank, based upon data and analysis provided by Natsource



2003 Market Buyer's Delta Region

Canada Falls From 1st to 4th

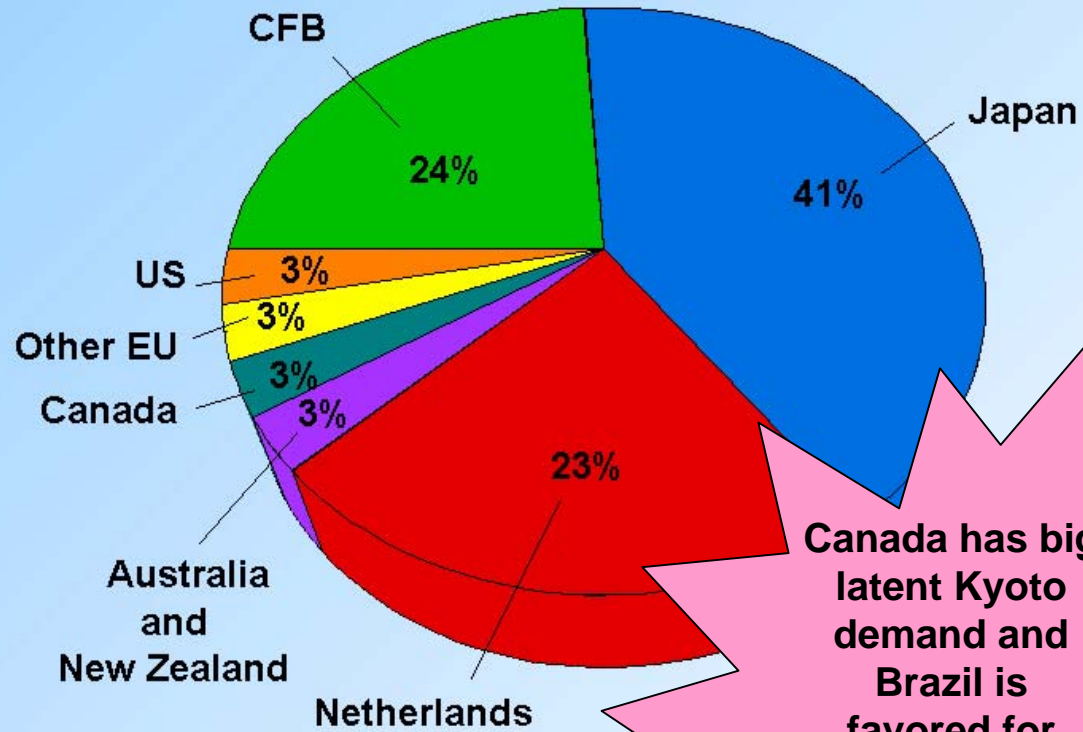


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2004 Japan Doubles Participation

Canada's Share Falls Again



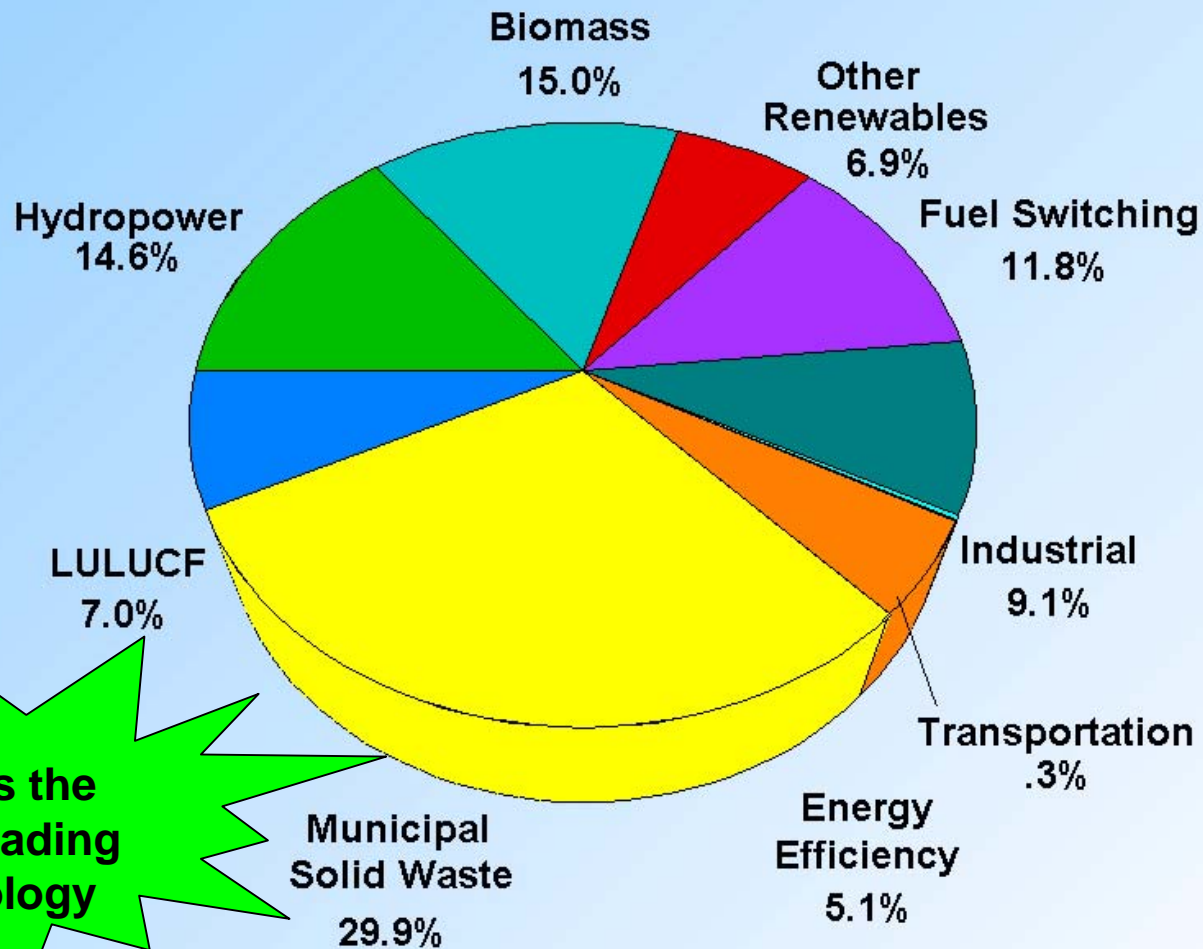
Canada has big latent Kyoto demand and Brazil is favored for proximity

CFB =World Bank Carbon Finance

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2003 Volume by Technology Type

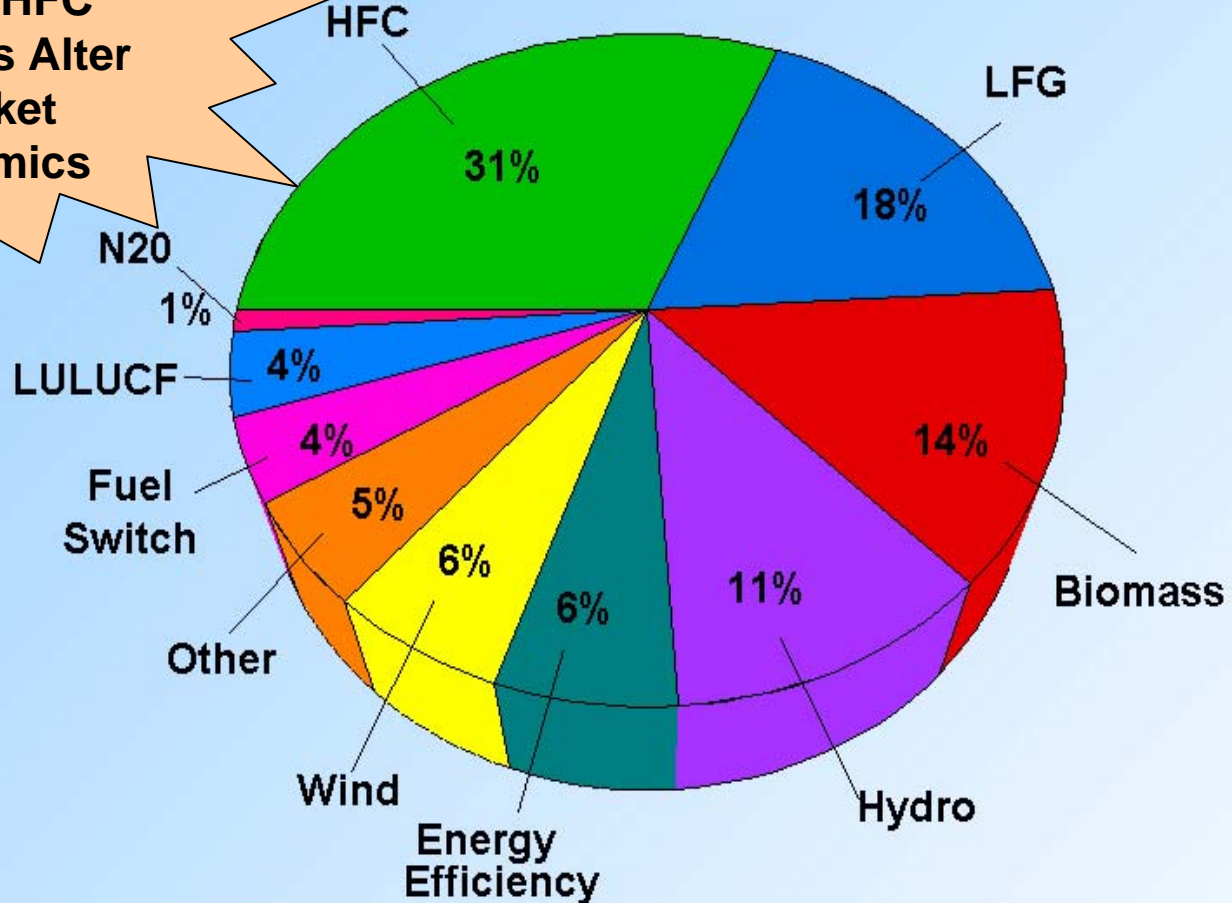


MSW is the initial leading technology



2004 Volume by Technology Type

Huge HFC
Projects Alter
Market
Dynamics



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Current Compliance Market Pricing

Commodity Type	Vintage Year	Price range (Offer) per tonne CO2e
Kyoto Compliance Tools		
CDM - CERs	2000 - 2012	EUR 4.00 - 6.50
JI - ERUs	2008 - 2012	EUR 4.00 - 7.00
Commodity Type	Vintage Year	Bid / Offer per allowance
National Compliance Tools		
UK Allowances - Bid / Offer	2002 - 2003	GBP 3.00 / 3.50
EU Allowances - Bid / Offer	1st period (2005-2007)	EUR 14.50 / 16.25

Source: Natsource, March 22, 2005

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Estimates of GHG Market Demand

- Market driven by Kyoto Protocol entry into force
- Approximately 3.5 billion tons emissions shortfall in 2008-12 under BAU emissions estimates
 - Japan is estimated to be short by approximately 0.8 billion tons during the five year commitment period *
 - Canada is estimated to be short by over 1.2 billion tons during the five year commitment period **
 - Europe is estimated to be short by approximately 1.6 billion tons during the five year commitment period ***
- Modest demand in Europe from 2005-07

* Japan's Second National Communication to the UNFCCC (based on existing measures)

** Climate Change Plan for Canada, 2002

*** European Environmental Agency, GHG Emissions Trends and Projections 2003 (based on existing measures)



**WE DON'T NEED NO
SEQUESTRATION?**

**PINK FLOYD
Offsets their
GHG Emissions!**

Besides aging rockers... Voluntary markets are very limited



Carbon Trading Issues Relating to Sinks



Issues that Standout

- Need for final rules now
 - Limited window to plant trees in time to repay investment without further assurances beyond Kyoto
 - Coefficient of C per acre?
 - Addressing issue of non-permanence to create tradeable instrument with value.
- Plantation?
 - Monoculture Plantations vs. Indigenous Forest species



Domestic Offsets System Issue of Non-Permanence

- Who should be responsible for project reversal and release of CO₂?
 - The Project Proponent or the Buyer of the credits?
 - Should the liability be shared among various actors, including the government?
 - How can the risks be minimized (insurance, hedging, etc.)?
- How will temporary sequestration be integrated with the emissions trading scheme for LFEs?



Gov Can Manage Sink's “Permanent” Offset Risk

- Buyer can not take risk of offset reversal
- Gov can aggregate and manage risk of natural reversal
 - Aggregation of a diverse portfolio with reserve margins
 - options
 - Insurance tools
- Gov has the ability to take legal action if seller causes the reversal



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