Agenda

Preparation to ensure your success:

- Establishing a **Carbon Project Team**
- The need to develop a **Market Participation Strategy**
- **Purchasing preparation & considerations** : *Primary & Secondary*
Establishing A Carbon Project Team

LOCAL ENTITY MANAGED

- Policy, Advocacy & External Affairs
- Compliance Reporting
- Strategy
- Trading & Offsets
- Finance & Tax
- Purchasing
- Sales
- Legal
- Communications
- Systems & Processes

Governance Board

Project Manager

GLOBAL SUPPORT

- Carbon Solutions
  - Identifying mitigation options
- Emerging Business & Ventures
  - Early leanings in emerging markets
- Global Emissions Trading Desk
  - Outsourcing & managing risk
- Safety & Operational Risk
  - GHG reporting & risk quantification
BP model is to **centralise market facing activity into a single trading entity**. Benefits of this approach include:

1. **Single Face To market**
   - Prevents individual installations competing against each other in market
   - Allows netting of within group long or short positions

2. **Centre of Excellence**
   - Developing of trading specialist team and infrastructure support (not cost efficient in each individual installation)
   - Creates competitive advantage for Sinopec in trading market

3. **Installations are Market Neutral**
   - Trading division buys/sells from individual installation at annual average price which is market neutral price
   - Trading/speculative profits within trading division but stay within Group

- **Individual installations are then able to focus time and resource on their core activities** e.g. refining or petchems, where they can be competitively advantaged.
The Need to Develop a Market Participation Strategy
In September 1998 BP announced it would operate an internal emissions trading system to reduce its greenhouse gas (GHG) emissions 10% below 1990 levels by 2010.

In 2001 we met our target – Nearly 10 years ahead of schedule & learnt valuable lessons along the way...

The price fluctuated with the reported emissions forecast.

The forecast varied dramatically through the year reasons for this are:

- **Improvements in forecast**, particularly acquired assets and
- **Acceptance of changing economic outlook**
- **Lack of early market participation**
EU ETS

Improvements in forecast

Changing Economic Outlook

Limited early market participation

Source: Point Carbon, 2008
Chinese Pilots

BEIJING ETS Trading Data

SHANGHAI ETS Trading Data

SHENZEN ETS Trading Data

Source: Adapted from Sinocarbon, 2014
Purchasing preparation & considerations: Primary & Secondary Trading
Allowances – Be ready to act

Ensure you are able to act on time:

• Identify potential counterparties early

• Pre agree trading documentation (STA, Master Agreement, ISDA, Custom)

• Pre approve market entry & exit points with management

Shenzhen ETS Trading data (CYN/t)

Source: Adapted from Sinocarbon, 2014
**Primary Offset**

Refers to the initial transaction between the project developer and the investor. Contract terms vary between projects. Typically, the price agreed is a function of the inherent risk apportionment within the contract.

**Secondary Offset**

Refers to the onward purchase of an already developed offset or one whose delivery is guaranteed. Typically, the buyer in the secondary market carries much less risk and as a result a higher price.
Offset Diversification – A lesson from the CDM

- UNEP RISOE CDM pipeline provides valuable insight into issuance risk.

CCER Volumes

- Transport (66%)
- Methane (79%)
- Landfill Methane Recovery (58%)
- Natural gas (59%)
- Hydro (81%)
- Biomass (96%)

Mean (μ) = recommended volume

Aggregation into large scale portfolio minimises binary risk of failure

Variance (σ²) = risk associated with primary portfolio
Conclusion