The Carbon Rating Agency
an IDEAcarbon company

IDEAcarbon launches world’s first carbon credit ratings service

Ratings bring efficiency and transparency to the rapidly growing carbon market

For attendance and media requests please use media contacts at base of release

The Carbon Ratings Agency will launch the world’s first independent carbon credit ratings service at the London Stock Exchange, 9.30am Wednesday June 25th. The Carbon Ratings Agency is the dedicated ratings subsidiary of IDEAcarbon, which has spent two years investing in the development of the carbon ratings process.

The service will provide detailed credit ratings for carbon offset assets in the CDM, JI and voluntary markets. Each asset studied will be given a rating based on a detailed analysis of the underlying project, leading to an assessment of the likelihood of it delivering its stated emissions reductions in the stated time period. The Carbon Ratings Agency also considers the economic and social development benefits that the project does, or does not bring.

The Carbon Ratings Agency will provide ratings to market participants both on a mandated basis (where project owners or investors commission the agency to rate their carbon assets) and through the Agency’s Market Initiated Ratings Service, which will give subscribers access to a representative range of carbon asset ratings on an ongoing basis.

Independent credit ratings are well established instruments for enhancing the transparency and efficiency of financial markets. Like standard credit ratings, the new service will award scores ranging from AAA for the highest quality, lowest risk offset assets, through to C and D for the highest risk assets which are least likely to meet their stated goals.

As trading deepens and the carbon market grows, a growing number of companies will enter the project based market. They will look for quality projects, which do not expose them to undue performance risk. Like financial investors in other markets, they will expect a clear, transparent and unbiased declaration of those risks.

The **Carbon Ratings Agency** aims to provide this service. It has already produced market-initiated ratings for a representative sample of 25 CDM projects across a range of technologies and geographies.

Summaries of this initial set of ratings have been compiled in a report that will be made available at the launch. The report reveals that the carbon markets face a complicated set of risks, with very few of the projects achieving AA ratings and a significant proportion liable to under-perform compared to volumes projected at the project design stage. Each rating provides a detailed analysis of a wide range of risks to project performance.

Projects that have already started to issue UN certified credits are delivering 96 per cent of the credits expected at project design stage. However, these figures are dominated by a small number of large projects dealing with industrial gases: to date 20 large projects together account for more than 100 million credits, 75% of all credits issued. The rest of the portfolio of projects currently issuing credits – more than 300 projects – has an average issuance success of just above 70%.

Renewable energy and energy efficiency projects have been found to be the best performers, while coal mine methane projects have the highest standard deviation in delivery performance, although performance can vary widely within and between countries.

The new ratings service is designed to enable market participants to manage their risk by differentiating between projects that are more or less likely to deliver the number of credits projected by the project developer.

The carbon market has faced several well documented regulatory risks such as constraints in the CDM registration process and long term uncertainty about the international policy framework after 2012. However, CDM projects are, at their core, development projects and face many of the same issues including weak counterparts, low administrative capacity, local funding shortfalls and a complex business environment. The Carbon Ratings Agency is the first company to provide an independent, in-depth and comparable assessment of both regulatory risk and these less well understood market-internal risks. The Agency's management team and ratings committee includes ratings experts, financial market professionals, UN climate change negotiators and former senior managers from development agencies such as the World Bank, a combination which ensures that the broad range of risks facing carbon projects are taken into account by the ratings process.

Improved transparency and better risk management – including ratings – are an integral part of the process that will turn carbon into a new asset class. At present, each emission reduction project is unique and has its own idiosyncratic risk profile that market players currently struggle to assess. Carbon ratings will help to standardise carbon as a commodity and create a new asset class. Rated assets will no longer be unique but comparable to other offset assets with the same rating.

Welcoming the launch of the service, Lord Stern, Vice Chairman of IDEAglobal Group, said: "The carbon markets are showing their potential to reduce global emissions and should form a key plank for any future global climate agreement. If we are to attract the levels of finance necessary to make this a mainstream market and have a strong impact on emissions reduction, risks must be clearly understood, articulated and managed. A detailed ratings system is a vital tool to bring greater clarity, transparency and certainty to the market."

Ian Johnson, Chair of IDEAcarbon and former Vice President for Sustainable Development at the World Bank, also speaking at the launch, said: "Our analysis shows that the concern of many investors is justified – carbon projects are risky and until recently these risks have been underestimated. But, the analysis also highlights the enormous potential in this market. Well designed projects are delivering genuine emissions reductions at an increasing scale.

Project based mechanisms are likely to remain a key tool in combating climate change and have an important contribution to make. However, it is essential that funds are channelled into real and productive assets. We believe that our ratings are an essential step towards ensuring that every tonne of carbon traded is a genuine tonne of carbon mitigated, worldwide”

Note to Editors

Copies of the ratings report can be downloaded from www.carbonratingsagency.com from Wednesday June 25th

To attend the launch event on Wednesday June 25th at the London Stock exchange please contact Lucy Evans or David Hopkins at Carbon International on 020 7483 3343

About IDEAcarbon: www.ideacarbon.com

IDEAcarbon is an independent and professional provider of ratings, research and strategic advice on carbon finance. Its services are designed to provide leading financial institutions, corporations, governments, traders and developers with intelligence and analysis of the factors that affect the pricing of carbon market assets.

The IDEAcarbon team are leading experts in the carbon and energy markets. They combine policy and financial intelligence with proprietary tools for the analysis of credit risk. Their techniques assist their clients to manage and mitigate risk in today's uncertain global carbon markets.

About the Carbon Ratings Agency :

The Carbon Ratings Agency is a wholly owned subsidiary of IDEAcarbon. Its mission is to improve the functioning and efficiency of the carbon markets. The Carbon Ratings Agency’s ratings and opinions are unencumbered and independent - it does not trade, buy, sell or originate carbon credits.

Further details of the Carbon Ratings Agency’s ratings approach are available at www.carbonratingsagency.com

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