G-20 Workshop on Climate Change

Global carbon markets and institutional Frameworks

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Morgan Stanley makes $3bn green pledge

By Kevin Morrison in London

Morgan Stanley plans to invest about $3bn (€2.4bn) in carbon credits and energy projects to reduce greenhouse gas emissions, in the largest commitment so far by a financial intermediary to the carbon emissions market that sprang from the Kyoto Protocol.

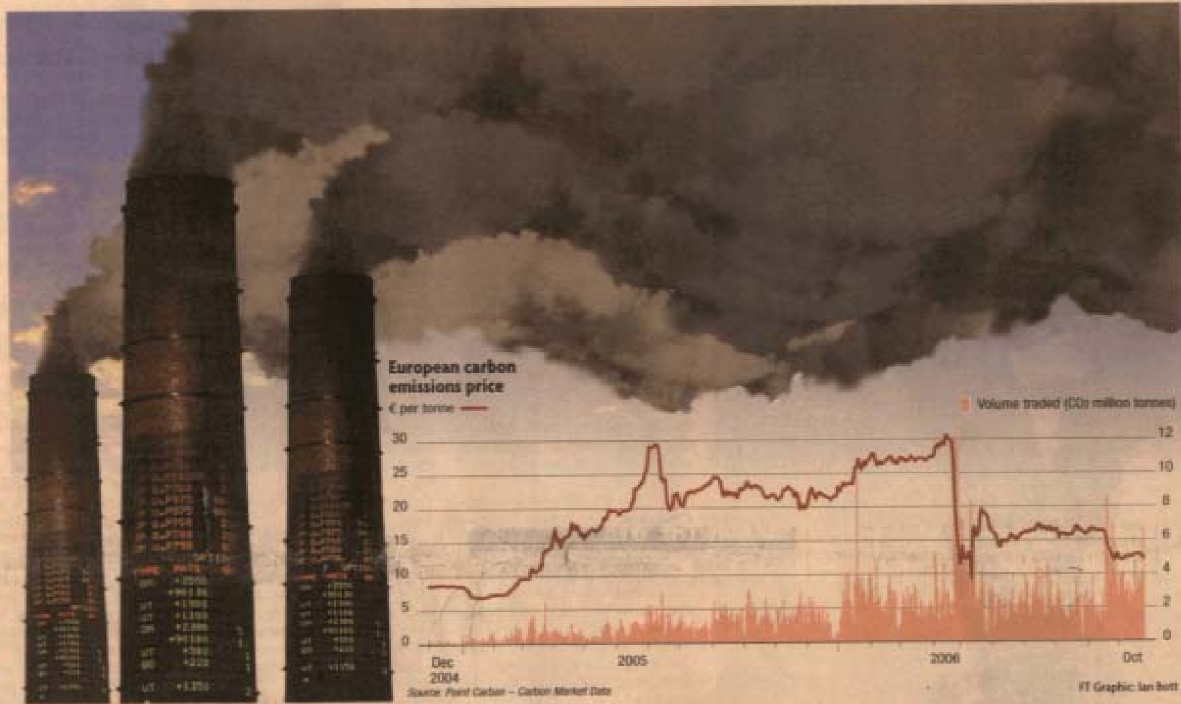
The US investment bank's five-year plan contrasts with the position of the US government, which pulled out of Kyoto in 2001.

"We strongly support the use of market-based solutions to meet environmental policies and objectives," said Simon Greenshields, global head of power and carbon emissions trading at Morgan Stanley.

About 90 per cent of the bank's investment will be used to buy carbon credits in various emissions trading schemes around the world.

The European Union has the most advanced carbon emissions trading market but a global informal carbon emissions market may be developing with schemes in the US, Japan and Australia.

Morgan Stanley will put the remainder in low-emission energy projects, which earn credits that can in turn be sold in one of the emission schemes.



John Walmsley, executive chairman at Consilience Energy Advisory Group, said Morgan Stanley's investment signalled that Americans were taking global warming more seriously, coming after Arnold Schwarzenegger, the California governor, announced plans to work with eastern US states to create a market that would cut emissions.

"I think Morgan Stanley are a bit ahead of the pack, because this represents the beginning of a larger wave of money coming from the US into the emissions market," Mr Walmsley said.

Emissions trading schemes give large polluters permits to emit a set amount of carbon dioxide. If they exceed these limits they have to pay for more permits, while if they fall short of the target they are rewarded by being able to sell their permits.

Citigroup last month said a "cap and trade" system was likely to be introduced into the US by 2012 through state and federal regulation.

Investment banks, including Goldman Sachs, Barclays Capital and JPMorgan, have expanded into the carbon emissions trading market in recent years using their energy and commodity trading desks.

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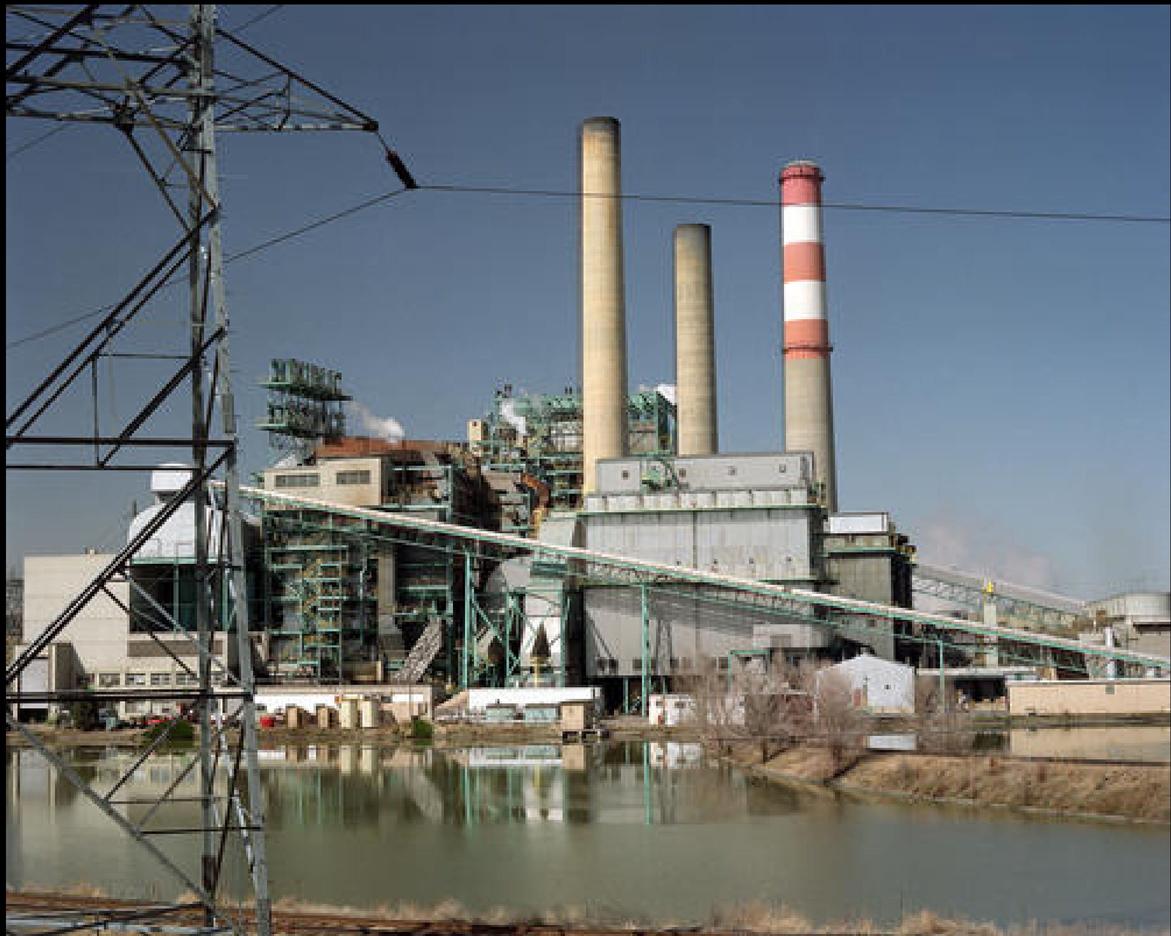
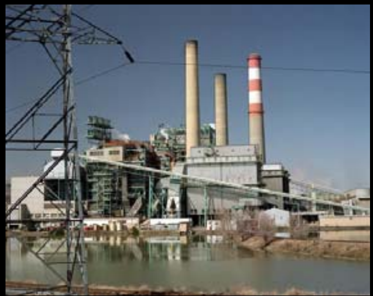


US$1 Billion

Seller
• Chinese Plant



Buyer
• (Private Fund, World Bank)
• Resell through IM process
•World Bank raised U$1.2 billion in 23 mins

CER re-purchase on EU market
• compliance buyers
• traders

CERs
(ERPA/ SERPA)

• Revenue to plant
• Potential technology funding unless paid for upfront or netted off
•65% tax to NDRC

Euro payments