

The Value of expiring credits based on arbitrage theory

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The valuation of expiring credits issued for carbon sequestration projects within the Kyoto frame was neglected in the past years. After the decision at the UNFCCC-Conference in 2006 to issue only expiring certificates for sequestration the discussion ceased. Up to now the whole mechanism constructed for expiring credits after issuance wasn't tested in practice because there weren't projects on the horizon. With the upcoming decision for a Post-Kyoto treaty in December this year the future of the concept of expiring credits is at stake. But up to now already three projects are registered, two are requesting registration and many more are at the stage of validation. The first expiring credits will be issued in the following years and therefore it would be interesting to have a closer look on a fair price for this type of credits.

For valuation an approach based on the arbitrage theory is developed. If the value of the current approach delivers a different price than the arbitrage-free price, then arbitrage possibilities will exist in the market.

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