



## **DETERMINATION OF MERGER NOTIFICATION M/09/019 – CAC / ECOSECURITIES GROUP**

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### **Section 21 of the Competition Act 2002**

#### **Acquisition of the EcoSecurities Group plc by Carbon Acquisition Company**

**14 October 2009**

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### **Introduction**

1. On 24 September 2009, in accordance with section 18(1) of the Competition Act 2002 (“the Act”), the Competition Authority (“the Authority”) received a notification by J. P. Morgan Ventures Energy Corporation (“JPMVEC”), through its newly-created and wholly-owned subsidiary Carbon Acquisition Company (“CAC”), of the proposed acquisition of the entire issued and to be issued share capital of EcoSecurities Group plc (“EcoSecurities”).
2. Both JPMVEC and EcoSecurities are active internationally in the business of sourcing, developing and trading carbon credits from greenhouse gas emission reduction projects<sup>1</sup>.

### **The Undertakings Involved**

#### **CAC**

3. CAC has been incorporated in Jersey as a private company incorporated for the purposes of the proposed acquisition. It is a wholly-owned direct subsidiary of JPMVEC, which in turn is indirectly wholly-owned by JPMorgan Chase & Co (“JPMorgan”) <sup>2</sup>.
4. JPMorgan provides commodity risk management solutions in both physical and financial markets to clients across all commodity classes (agricultural products, metals and energy) and trades and holds physical commodities. JPMorgan, through JPMVEC and its sister company J. P. Morgan Securities Ltd. (“JPMSL”), is also active in the business of sourcing, developing and trading carbon credits from greenhouse gas emission reduction projects. In particular, it is involved in:

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<sup>1</sup> Countries with commitments under the Kyoto Protocol have accepted targets for limiting or reducing emissions of greenhouse gases (GHGs). Carbon dioxide (CO<sub>2</sub>) is now tracked and traded like any other commodity. Emissions trading, or a carbon market, is one of the three market-based implementation mechanisms of the Kyoto Protocol. Emissions trading allows countries to sell unused emissions permits to countries that have exceeded their targets. The European Union has set up its own emissions trading scheme (EU ETS) under which EU Member States set limits on CO<sub>2</sub> emissions from energy-intensive companies by issuing allowances as to how much CO<sub>2</sub> companies are allowed to emit.

<sup>2</sup> JPMorgan Chase & Co. is a global financial services firm with assets of €2.1 trillion and operations in more than 60 countries. It is active in investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management and private equity.

- sourcing and developing carbon emission reduction projects in developing countries within the framework of the Kyoto Protocol's Clean Development Mechanism ("CDM projects") which generate the so-called Certified Emission Reduction credits ("CERs")<sup>3</sup>;
  - sourcing and developing voluntary carbon emission reduction projects ("VER projects") which generate the so-called Verified Emission Reduction credits ("VERs")<sup>4</sup>; and,
  - trading carbon credits, specifically the CERs and VERs.
5. In the State, JPMorgan is only active in the business of trading carbon credits, both CERs and VERs, to customers. None of its CDM and VER projects are located in the State.

*EcoSecurities Group plc*

6. EcoSecurities is a listed company incorporated in the State. It has a number of subsidiaries across the world (e.g., Brazil, Chile, China, India, Indonesia, Malaysia, Philippines and Thailand) involved in emission reduction projects such as CDM projects and Joint Implementation projects (or "JI projects")<sup>5</sup> within the framework of the Kyoto Protocol. EcoSecurities also sources and develops projects outside the framework of the Kyoto Protocol. It has a small portfolio of VER projects. EcoSecurities also provide consulting services in this sector, advising clients (e.g., large multinationals, governments, NGOs) on climate policies, mitigation and adaptation strategies and their greenhouse gases management needs.
7. In the State, EcoSecurities is active through its subsidiaries EcoSecurities Capital Limited, EcoSecurities Group Holdings Limited, EcoSecurities International Limited and Eco Securities Carbon I Limited. In the State, EcoSecurities is only active in the business of trading carbon credits, both CERs and VERs, to customers<sup>6</sup>.

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<sup>3</sup> Under the Kyoto Protocol, the Clean Development Mechanism (CDM) allows industrialised countries to achieve part of their emission reduction commitments by conducting emission-reducing projects in developing countries and counting the reductions achieved toward their own commitments. A condition for the issue of credits in respect of the reductions achieved is that the projects result in real, measurable and long-term climate change benefits. CDM projects can earn saleable CERs, each credit equivalent to one tonne of CO<sub>2</sub>, which can be counted towards meeting Kyoto targets: CERs can be traded in the so called "compliance markets". CDM projects must qualify through a rigorous and public registration and issuance process. The system for issuing the CERs is overseen by an international body, the CDM Executive Board, set up by the United Nations Framework Convention on Climate Change (UNFCCC). A CDM project activity might involve, for example, a rural electrification project using solar panels or the installation of more energy-efficient boilers.

<sup>4</sup> Projects undertaken outside the CDM framework can earn "Verified Emission Reduction" credits (VERs) which are not "certified" and are not required under the Kyoto Protocol commitments but which can be traded in the so called "voluntary markets".

<sup>5</sup> JI projects differ from CDM projects in that they are located not in the developing countries but in the developed countries. JI projects can earn "Emission Reduction Units" (ERUs) from an emission-reduction or emission removal project in another developed country and, like the CDM projects, a system to issue and monitor JI projects has been set up.

<sup>6</sup> The EU emissions trading system set up in 2003 has created links to the credits earned from JI and CDM projects. European companies covered by the EU ETS, EU emissions trading system, will be allowed to convert credits from JI and CDM projects for use towards meeting their commitments under the EU ETS.

## **The Rationale of the Proposed Transaction**

8. According to CAC, the acquisition of EcoSecurities represents an indirect principal investment for its parent company JPMorgan Chase & Co. CAC has noted EcoSecurities' development and success to date in realizing value from sourcing, developing and trading emission reduction credits.

## **Third Party Submissions**

9. No submissions were received.

## **Analysis**

10. Both JPMorgan and EcoSecurities are active internationally in all the phases of the carbon industry, i.e., sourcing, developing and trading carbon credits. They are, therefore, vertically integrated.
11. In the State, however, JPMorgan and EcoSecurities are only active in the business of trading carbon credits earned from their own projects or bought from other suppliers and intermediaries. They have not undertaken any carbon reduction projects such as CER or VER projects in the State.
12. The World Bank's report on *State and Trends of the Carbon Market 2008*<sup>7</sup> contains a useful snapshot of the players and institutions involved in the worldwide trade in carbon credits. Figure 1 below shows that three key players are involved:
  - The suppliers: these are the players involved in project developments. These players include local authorities, local or international project developers (e.g., EcoSecurities), financiers or companies which have received permission to cause pollution similar to the permission granted to companies under the EU ETS<sup>8</sup>. All these players sell carbon reduction credits to both end-users and intermediaries.

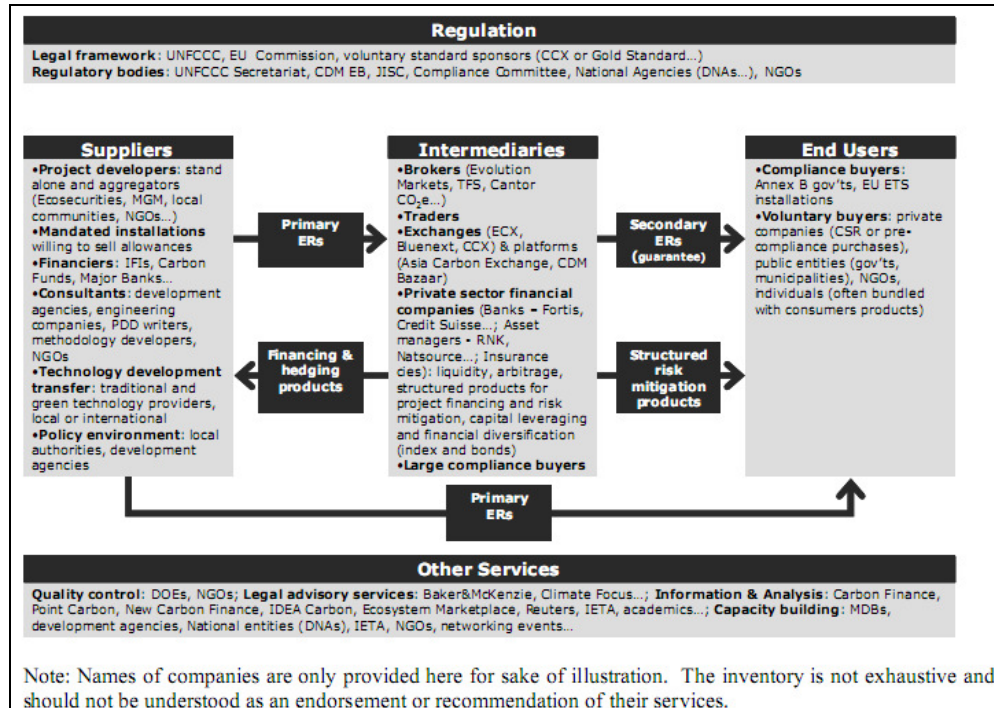
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<sup>7</sup> The Report is available at the following link to the World Bank website:

<http://siteresources.worldbank.org/NEWS/Resources/State&Trendsformatted06May10pm.pdf>

<sup>8</sup> As of 1 October 2009, EcoSecurities ranks at the top of the list of companies involved in CDM projects with 293 projects. JPMVEC, with around 30 projects has less than 2% of the market in terms of projects even on the basis of the top 20's figures. The full list is available at UNFCCC website: <http://cdmpipeline.org/cers.htm>

**Figure 1 - Players and Institutions in the Carbon Market**



Source: State and Trends of the Carbon Market 2008, The World Bank

- Intermediaries: all credits earned by developing carbon emission reduction projects are then traded by intermediaries including brokers, traders, “carbon exchanges” such as ECX, financial companies such as banks and asset management companies. Financial hedging products such as derivatives and risk mitigation products have been developed by these intermediaries who then sell on to end-users.
  - End-users: these are users of emission credits and are typically companies operating under compliance markets, like the EU ETS, or voluntary buyers such as public entities or municipalities.
13. JPMorgan submitted that the business of trading of carbon credits can be considered a global market given that carbon credits are sourced internationally from project developers and re-sold by intermediaries with a global presence to the end-users. JPMorgan submitted that it is difficult to provide a reliable estimate of the shares of the parties and their competitors in the global market for trading in carbon credits<sup>9</sup>. However, JPMorgan’s best estimates of the market shares of the main market players are as follows: Barclays ([10-15]%), Morgan Stanley ([0-5]%), RWE ([0-5]%), E.on ([0-5]%) and Vattenfall ([0-5]%).

<sup>9</sup> According to the World Bank’s State and Trends of the Carbon Market 2009, the overall carbon market continued to grow in 2008, reaching a total value transacted of about US\$126 billion (€86 billion) at the end of the year. Approximately US\$92 billion (€63 billion) of this overall value is accounted for by transactions of allowances and derivatives under the EU Emissions Trading Scheme (EU ETS). The second largest segment of the carbon market was the market for CERS, which is a financial market with spot, futures and options transactions in excess of US\$26 billion, or €18 billion.

JPMVEC (together with its sister company JPMSL) has around [0-5]% and EcoSecurities has under [0-5]% of the market<sup>10</sup>.

14. Based on the information provided by the parties and the analysis of the World Bank's worldwide trade in carbon credits, the Authority considers that the geographic scope of the carbon credits market or sub-markets is likely to be wider than the State.
15. As to whether the relevant product market is segmented by type of carbon credits, the Authority considers that for purposes of assessing the proposed transaction, it not necessary to come to a final conclusion on this point since the proposed transaction is unlikely to raise any competitive concerns with respect to the business of trading carbon credits in the State. The Authority considers that:
  - Carbon credits including CERs can be purchased from a wide range of international project developers and international intermediaries such as brokers and traders, exchange platforms (e.g., ECX, Bluenext), financial institutions (e.g., banks, asset management companies and insurance companies), and companies trading under compulsory emission trading schemes such as the EU ETS.
  - Since January 2008, EcoSecurities has made only one sale of VERs, with a value of less than €[...]m, to a single client in the State. This represents less than [0-5]% of the VER global business.

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<sup>10</sup> Market shares are based on the overall amount of carbon credits including CERs, EU allowances and emission reduction amounts exchanged and traded in 2008 which was worth US\$ 118 billion according to Point Carbon, a provider of news, analysis and consulting services for European and global power, gas and carbon markets.

**Determination**

The Competition Authority, in accordance with section 21(2)(a) of the Competition Act 2002, has determined that, in its opinion, the result of the acquisition by J. P. Morgan Ventures Energy Corporation, through its newly-created and wholly-owned subsidiary Carbon Acquisition Company, of the entire issued and to be issued share capital of EcoSecurities Group plc will not be to substantially lessen competition in any market for goods or services in the State and, accordingly, the acquisition may be put into effect.

**For the Competition Authority**

Dr Stanley Wong  
Member of the Competition Authority