

Editorial

(By: Immanuel Edward J. A.)
Products and Services

The ever-growing carbon market is one of the few markets in the environmental sector that is operating with a wide reach, globally. The global carbon market offers a platform to generate global efficiency gains for achieving economical green house gas abatement. It links economies in transition (EITs) and developing countries to the developed world, not only by supplying cost effective GHG abatement solutions (CERs, ERUs and AAUs) to the latter, but also contributing to sustainable development, clean energy investments and technology transfers.

In 2007, the size of the Carbon Market was estimated to be around USD \$64 billion, a visible growth rate as high as 50% as compared to that achieved in 2006. The annual average growth is about 58% since 2005 and is expected to reach USD 100 billion by 2009. The "Carbon Market" not only encompasses a wide range of disparate transactions involving various underlying assets, contracts and emerging regulations, but also the services currently offered linking to "pre and post" activities of the transactions.

Such transactions related services include Market Intelligence & Analysis, Project Rating, Clearing & Settlements, Project Monitoring, Registry, etc.

Project performance monitoring and tracking of the carbon credits are emerging as critical areas to demonstrate success of transactions executed in the Global Carbon Market. Thus the carbon service levels have truly become cross-sectorial.

Project performance monitoring is critical as it directly affects the volume of carbon credits generated. The overall performance of the Project Developers and Carbon Aggregators is greatly reflected from the potential generation of carbon credits. Currently, monitoring services are offered only by few service providers in the market. The project promoters deploy the CDM EB approved procedures for monitoring and archiving the parameters determining the quantity of carbon credits generated from their projects. Few consultants offer these monitoring services along with their "Carbon Advisory". As the modalities, verification procedures and issuance of carbon credits are becoming stringent; 'Monitoring' is now a new kid on the block.

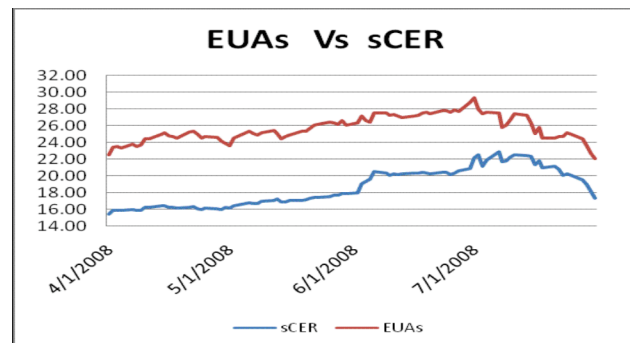
Besides monitoring, Registry plays a vital role in tracking the compliance of countries and industries under various commitments. Registry will ultimately evaluate the overall performance of a country or the Industry sector in terms of their compliance. It is important to note that the Registry service is not limited to compliance market but also to the voluntary carbon market to enhance the value of the verified emission reductions.

Recently Carbon Market "Services" has successfully expanded to the corporate world and under the Corporate Social Responsibility, it offers options to address and mitigate the Climate Change._

Market Price Updates

Over the past two weeks the carbon market has experienced high volatility and falling prices, in contrast with recent bullish forecasts on the price of carbon.

Mid July saw the prices of secondary CER at € 22.38 on Monday 14th of July, €0.13 down from the closing price of the previous week. This downward trend was the direction that we saw for the rest of the month. This movement was at the back of falling prices of EUAs, which until recently had sharply gained ground on the back of rising oil, gas and coal prices; however, the market is not sure about short-term prices. A drop in oil prices and industrial slow down in the EU, could have an effect in the prices of carbon in the near future, having said that, other fundamentals like a cold winter in Europe could compensate some possible lost ground. In the long term, some analysts see EUAs still reaching the €40 mark, going beyond a possible slowdown in the economy in the next two years or so. The price of secondary CER closed the week of the 14-18 July at €20.95, losing €1.43 in just one week. The EUAs-sCER spread in that week went from €4.87 to €3.55.



Sources: EUAs-ECX; sCER-Reuters

For the week starting on the 21st of July, trading in EUAs has increased due to spread trading (buying credits from one year and selling credits of the year after), increasing the volume traded but not the liquidity in the market.

Secondary CER prices recovered some lost ground on Monday the 21st of July, closing at € 21.07, but this gain was quickly wiped down by a sharp decline in the CER price, closing the month of July at € 17.31, losing €4.80 in from the 1st of July.

The EUAs-secCER spread reached € 3.42 on the 21st of July, and closed the month of July at € 4.75; narrowing €2.46 in one month.

On the other hand, CCX prices on the voluntary market, have been much more stable after a previous downward trend, closing at USD \$ 3.95; just USD \$ 0.05 down in one month._

Carbon Market Updates

- France issues its allowances for the phase II of ETS which is in the tune of 132.8 million.
- Mark Kenber, Chairman of The Voluntary Carbon Association declared that four companies were chosen to manage its registries of carbon credits created voluntarily by companies worldwide. US-based Bank of New York, Mellon, France-based Caisse des Depots, and New Zealand-based TZ1 will operate a registry each, and APX a US-based environmental and energy markets infrastructure provider will manage the central database for the other three registries. This would help for authentication of all the VCU's created, the chairman suggested.
- The Czech Republic, which had announced the sale of surplus AAUs in May, it is in bilateral talks with Japan to transfer its AAUs. According to a Czech official, Japan might buy out 10 or 20% or even all the surplus of AAUs which are in the tune of 100 Million at a price exceeding Euro 10.
- The US aviation federation has warned EU to drop the regulation it has just passed on including aviation industry under ETS. This shows that a growing concern and international pressure is being exerted on EU with regards to non ETS sectors to be brought under ETS.
- Japan has announced a Yen 2 trillion insurance to fight climate change. According to a senior official in the Japanese government, the insurance money will be used in projects which would reduce greenhouse gases in foreign countries.
- The Japanese Government would go ahead with a trial version of ETS by October.
- Japan to spend around 25 billion yen to cut emission by 30% in the steel industry within the next 10 years.
- A report says that by producing oil from non-conventional sources like the Canadian sands, would drive up the CO2 emission by 15%.
- The UK government has decided to go ahead and auction around 7% of EUA's over the ETS second phase which would bring in around Euro 2.2 billion for the government.
- A polish chemical company has launched the country's largest JI project by making an investment of \$2.5 million in a fertilizer factory.
- All new Coal based power plants in South Africa will have the capability of capturing and storing CO2 in the future, said the Minister for Environmental Affairs, South Africa. _

CDM Market Updates

- The Netherlands government has issued a report on CDM's contribution to sustainable development in the host countries where it is buying credits from. The report can be freely downloaded at <http://www.minbuza.nl/binaries/kamerbrieven-bijlagen/2008/mei/115dmwbijlage-iob.pdf>
- There is a problem in the interconnection of CITL with the ITL and this has led to the fluctuations in the prices of CER's. All the member states of EU have to comply with the Kyoto mechanism of trading of AAU's so that there is smooth interconnection of CITL with ITL. Not all the member states have complied yet, like Greece, hence there is a delay in this interconnection taking place.
- Turkey's ruling party AK, faces a ban for carrying out Islamit activities and thus, the country's ratification to the Kyoto Protocol may be delayed by a year.
- Indian companies lag on climate action says a report by KPMG. Indian companies are not under any pressure from its stakeholders unlike the European and other countries, to act responsibly towards the climate change and this is the main problem, the report suggests.
- The Indonesian DNA has approved 12 more CDM project emerging from its country taking up the total to 63 projects.
- The UK governments' Quality Assurance Code on voluntary offsets is going to restrict offsets possible only through regulated carbon market's emission reductions like the CER's.
- Mexican DNA approves the first programmatic CDM project which would be able to produce around 8.1 million CER's.
- A CDM project in Bahrain supposed to produce 100,000 CER's is to be supported by MASDAR, a renewable energy and clean energy technology initiative in the gulf region.
- Uruguay looks at CDM financing opportunities to fund renewable energy projects
- The developers of hydro projects have to wait longer for registering their projects under the CDM, point carbons database show. _

CDM FACTS:

- *Registered Projects: 1133*
- *Issued CERs: 176,434,284*
- *Expected CERs: 1,290,000,000 (From registered projects until the end of 2012). _*

Source: UNFCCC

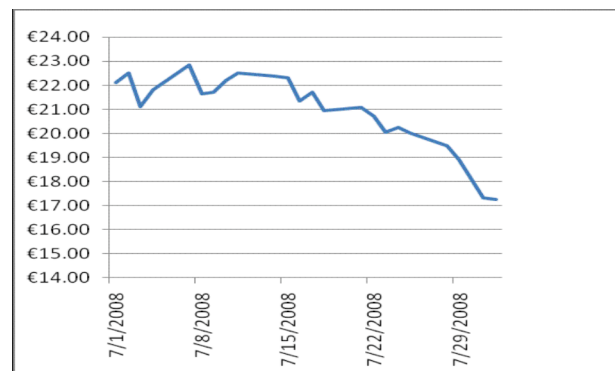
ASIA CARBON'S ACTIVITIES IN THE MARKET.

- **PT Asia Carbon Indonesia.** The DNA of the Republic of Indonesia has approved the "Fuel Switch for Power Generation from Heavy Fuel Oil (HFO) Based Engine to Natural Gas (NG) Based Engines at Batamindo Industrial Park (BIP)".
- **Asia Carbon Global.** An ERPA between Long Hoi and Kansai Electric Power Co. (KEPCO) was signed on the 22nd of July.
- **Asia Carbon Global.** A 9 MW Renewable Energy Grid Connected Biomass Power project has been approved by the Japanese Government.
- **Asia Carbon Emissions Management India.** A 40 MW Wind Project by BP has gone for Request for Review. The same can be viewed at the following link:
<http://cdm.unfccc.int/Projects/DB/SGS-UKL1201725472.8/view>
- **Asia Carbon Global's First Singapore CDM Project.** A Singaporean project obtained the Letter of Approval for a 10MW Food Waste Grid Connected Power Project. Singapore signed the Kyoto Protocol in April 2006, and by granting this letter of approval, this project is considered to contribute to the sustainable development of Singapore.
- **Asia Carbon Emissions Management India** has recently uploaded one of its projects developed in the United Arab Emirates (UAE) for global stakeholder comments until the 10th of July 2008. The project title is: "Energy Efficient Natural Gas Fired Thermal Fluid Heating System at JBF RAK FZLLC, Ras Al Khaimah, UAE." The web link is the following:
<http://cdm.unfccc.int/Projects/Validation/DB/XWYWXJ5TYKNSRPH1R15ZR4FUWQBC7F/view.html>.

Price Index Table

| Source | Reuters | Platts | LEBA | ECX | CCX (USD \$) |
|--------|---------|--------|-----------|--------|--------------|
| Date | CERs | CERs | CER Index | EUAs | |
| 14-Jul | €22.38 | €22.35 | €22.50 | €27.26 | |
| 15-Jul | €22.32 | €22.30 | €22.54 | €26.32 | |
| 16-Jul | €21.34 | €21.35 | €21.86 | €25.03 | |
| 17-Jul | €21.72 | €21.75 | €21.55 | €25.76 | |
| 18-Jul | €20.95 | €21.00 | €21.14 | €24.50 | \$4.00 |
| 21-Jul | €21.07 | €21.10 | €21.24 | €24.49 | |
| 22-Jul | €20.73 | €20.73 | €21.19 | €24.67 | |
| 23-Jul | €20.03 | €20.00 | €20.41 | €24.74 | |
| 24-Jul | €20.24 | €20.30 | €20.28 | €25.14 | |
| 25-Jul | €20.03 | €20.00 | €20.31 | €24.94 | \$3.95 |
| 28-Jul | €19.49 | €19.50 | €19.61 | €24.41 | |
| 29-Jul | €18.90 | €18.87 | €19.39 | €23.63 | |
| 30-Jul | €18.09 | €18.03 | €18.33 | €22.70 | |
| 31-Jul | €17.31 | €17.30 | €18.23 | €22.06 | |
| 1-Aug | €17.25 | €17.20 | n/a | | \$3.95 |

Reuters' CER Price Index: 1st July – 1st August /08



For more information please contact:

ashish@asiacarbon.com
luis@asiacarbon.com

Asia Carbon Exchange International B.V.
Kingsfordweg 151 #12-08
1043 GR Amsterdam
The Netherlands

DISCLAIMER: Although, information has been obtained from sources believed reliable, Asia Carbon Exchange or any company of Asia Carbon Global do not guaranteed the accuracy, adequacy or completeness of any information published in this newsletter and are not responsible for any errors or omissions or results from the use of such information.