

Editorial

(By: N Yuvaraj Dinesh Babu, Group Director, Asia Carbon Global, Singapore)

Climate change related activities have peaked as ever before in 2008, thanks to the positive signals emerging out of Bali COP negotiations in December 2007 ! Australia is busy in designing and implementing the NETS (by 2010-11), U.S Senate is debating the new CAT bill and UNFCCC initiated the year's second negotiation on climate change in Bonn. Europe and Japan still remain the major buyer's market and Australia is expected to join the race soon as early players begin to consolidate their position. U.S and Canada buying spree is neither dormant nor hyperactive and the former is believed to gearing up for a massive entry into the global carbon market very soon.

On the CDM side, China and India continue to approve new projects amidst the stringent outlook ever by CDM EB in approving projects for registration and even for issuance of CERs from registered projects. The recent earthquake in China has reportedly reduced CERs potential by 5 % .

The bullish EU Carbon Market given the spiraling oil prices is witnessing pre-2006 EUA prices and market players are trading carefully. On the other hand given the major concerns on CERs supply constraints, the secondary market is becoming increasingly independent of EUA price and the primary CERs prices (issued and forwards) are also witnessing record high bids. It is testing time for the experience market players to go through this bullish phase and emerge successfully._

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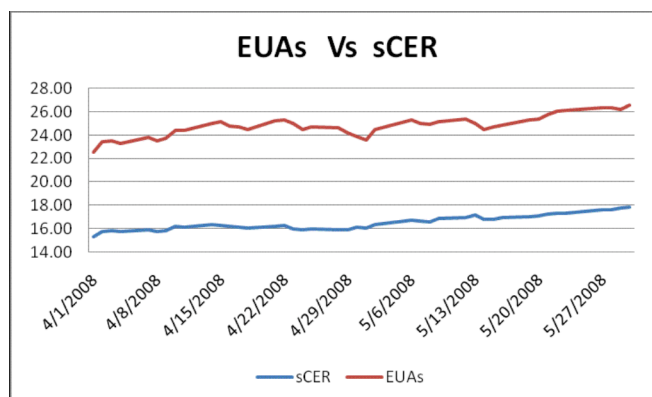
Market Price Updates

Bullish Carbon Market

In the last two weeks, the market has seen an increase in the prices of the EUAs, reaching record highs from the last two years.

EUAs has seen an increment due to the high prices of oil which have been on the \$130/barrel mark, this high prices were reflected in the prices of gas, which are used for utilities companies in Europe to switch to coal to produce P&H, triggering the demand for Carbon as their emissions increases.

A few questions arisen on how inflated this oil prices are, as some investment banks are forecasting oil prices to reach the US\$ 200 / barrel, whereas other analyst insist that the oil is overvalued, as the fundamentals of oil are the same, hence, this oil price rally is due to the markets' sentiments rather than fundamentals.



Sources: EUAs-ECX; sCER-Reuters

At the beginning of last week, the EUAs price dropped as the oil prices fell, closing the week at €26.59/EUAs.

However, the price of CERs didn't seem to be affected, keeping its upwards trend, as market analysts' concerns on the supply of CERs increases, due to the stringent criterions by the CDM EB.

The revised version of the Lieberman-Warner Bill to the Senate, which allows the import of UN recognized credits (5%) into the Bill also attributed to the bullish sentiment.

sCERs opened two weeks ago at €17.03/CERs and continued the upwards trend for the past two weeks, closing at €17.87/CERs._

Carbon Market Updates

- UNFCCC Executive Secretary Yvo de Boer, last week called on key players in the transport sector to help the UN climate change deal to be held in Copenhagen in 2009. Though not concretely being prescriptive, he touched upon topics of higher CO2 standards for cars, integrated transport strategies and emissions trading as potential routes to tackle the problem. "Linking the transport sector to an existing emissions trading scheme would allow for cost-effective reductions of GHG emissions across sectorial borders," said Yvo de Boer speaking at the International Transport Forum in Leipzig, Germany
- The US sees itself linked to the international carbon trading market through a proposed change to the Lieberman-Warner climate bill. It is scheduled for a Senate vote on 2 June 2008. This bill if passed would change the future global carbon market. The Boxer amendment in the bill would keep the US carbon prices remain way below \$25/tCO2e until 2020. The present US climate bill will discontinue including the regional carbon cap-and-trade regimes sparing those allowances traded earlier.
- World Bank President Robert Zoellick has said that he expected major industrialised countries to form a multibillion-dollar fund(to the tune of \$5.5 billion) later this year to help developing countries cut greenhouse gas emissions,.
- The debate continued even at the G8 meet where ministers fail to agree on mid-term emissions targets. Japan's environment minister suggested advanced nations should go first in reducing midterm greenhouse gas
- European carbon hit a two-year high of 26.55 euros a tonne last week, as EUA's were pulled higher by a surge in the energy complex, traders said. The correlation between EUAs, and oil and gas prices has strengthened this year, with carbon tracking crude oil closely since Jan 1. Higher oil prices prompt higher natural gas prices, which in turn encourages power generators to burn higher carbon-emitting cheaper coal instead which in turn decides on how many EUA's the utilities have to buy and hence the higher increase in EUA price.
- According to EC, the CO2 emissions amongst 24 member states of the EU were higher by 0.68% compared to 2006 levels which translates to 2.050 billion metric tons higher in 2007, when adjusted for installations covered. The EC published a summary of the data it received from member states on CO2 emissions for last year in the first phase of the EU Emissions Trading Scheme._

CDM Market Updates

- CDM reforms hits centre stage at Bangkok CC talks as well as according to an article in The Guardian which talks about a Stanford study concluding CDM as a useless mechanism.
- The Norwegian CER acquisition programme "Carbon Neutral Norway" is hunting for CDM projects, with the aim to finalize ERPAs within next two months. The programmes focus is on early stage projects in countries having no or only few registered projects. The conditions are on delivery payments and that even CER's post 2012 will be bought with funding for PIN and PDD development is available. (see www.carbonneutralnorway.no)
- Japan plans to buy CERs, ERUs and AAUs to the tune of 100 million during the commitment period. NEDO, a Government agency announced that it bought CERs worth 16.7 million in 2007/8 and 6.4 million in 2006/7.
- UNFCCC has denied eligibility for Greece to participate in international emissions trading due to an insufficient registry system.
- The Australian Garnaut review paper on emissions trading in Australia recommends that direct links with the CDM should be limited to only those countries with no prospects of taking up targets in the future and notes "legitimate reservations about the CDM".
- Ukraine reversing an earlier decision has decided not to set a floor price for ERUs.
- The China Methane Recovery Fund, operated by MAN Hedge Fund which is a fund investing in coal mine methane in China has been closed with a capital of 400 million Euro
- 35 million Euro has been invested by the Nordic Environmental Finance Corporation (NEFCO) Carbon Fund for projects in China and countries in transition.
- "A Realistic Policy on International Carbon Offsets", a paper by Stanford University researchers Michael Wara and David Victor criticizes the CDM. It can be downloaded at: http://iis-db.stanford.edu/pubs/22157/WP74_final_final.pdf
- The World Bank has come under criticism by Washington's Institute for Policy Studies which has published a paper criticizing the banks role in international carbon markets, It can be downloaded at : Janet Redman: World Bank: Climate Profiteer. Download at <http://www.ips-dc.org/getfile.php?id=181>
- An easy-to-understand overview of carbon markets can be obtained on the chapter "Improving Carbon Markets" in a book by World Watch Institute's Zoë Chafe and Hilary French. It can be downloaded at http://www.worldwatch.org/files/pdf/SOW08_chapter_7.pdf

ASIA CARBON'S ACTIVITIES IN THE MARKET.

Asia Carbon Global was present at the recent CARBON EXPO 2008 held in Cologne, Germany. In this fair, different milestones achieved by the group were announced. Please visit <http://www.asiacarbon.com/news.htm> for detailed press releases :

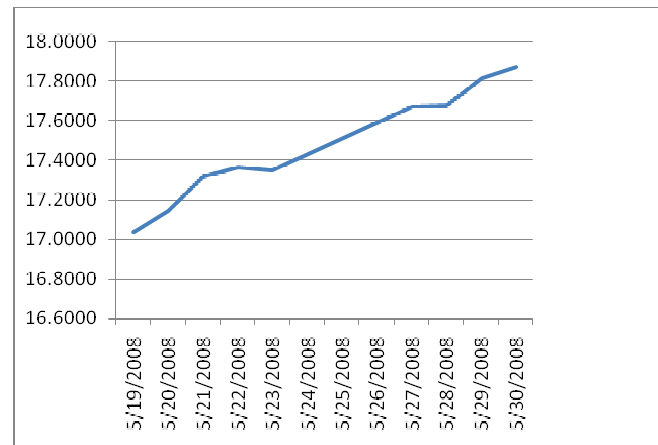
- ACX transacted 754,783 CERs on behalf of a European Energy Company on April. The credits transacted were on Secondary Forward Non-Guaranteed basis, first of its kind in the market.
- ACX executed an ERPA between Kansai Electric Power Company and TCP Ltd – India; for a total of 200.000 CERs up to 2012; from a project that has been transacted previously on the exchange.
- After the launch of ACG-Australia earlier in March, ACG together with its strategic partner Evans & Peck were selected to be one of the members of the Australian Government's Panel of Experts, giving advisory support on the establishment of the Registry to the local AU-ETS.
- A Biomass Power Plant in India has received issuance of CERs earlier this year, the first project developed by ACG to achieve this milestone. This project was transacted during April 2006 on ACX-Change.
- ACG secured the single largest CDM contract from the Indian Public Sector. With a total of 38 projects from the steel industry aiming to produce 5 millions of credits per annum.
- Jacob's Café became the first participant of ACG's Carbon Nil Programme, which allows individuals, retail and small & medium enterprises to become carbon neutral.
- Asia Carbon India and an energy engineering company have identified Programmatic CDM (pCDM) including for the following equipments: Biomass-Fired Boiler, Incidental Power Turbines for biomass-based and waste heated power plants, Absorption-based chillers and Biomass-fired thermal oil heaters.

Price Index Table

Source	Reuters	Platts	LEBA	ECX	CCX
Date	CERs	CERs	CER Index	EUAs	
19-May	€ 17.03	€ 17.05	€ 17.10	€ 25.31	
20-May	€ 17.14	€ 17.15	€ 17.08	€ 25.36	
21-May	€ 17.32	€ 17.35	€ 17.34	€ 25.73	
22-May	€ 17.36	€ 17.35	€ 17.52	€ 26.06	
23-May	€ 17.35	€ 17.35	€ 17.44	€ 26.11	
26-May	Hol	Hol	Hol	€ 26.38	
27-May	€ 17.67	€ 17.67	€ 17.78	€ 26.34	
28-May	€ 17.68	€ 17.67	€ 17.60	€ 26.19	
29-May	€ 17.81	€ 17.75	€ 17.77	€ 26.59	
30-May	€ 17.87	€ 17.85	€ 17.79		\$7.30

For 2008 Vintages

Reuters' CER Price Index: 19 – 30 May/08



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