CX-Change Newsletter

October 1st 2008

Editorial

Our path to integrated CDM marketing in Africa.

(*By Pieter Arkesteijn. Director, Asia Carbon Global, African Affairs Desk*)

Amid rising oil prices and the adverse effects of global climate change, Sub-Sahara Africa has an unprecedented opportunity to develop CDM projects and at the same time to meet current suppressed energy demand and future energy demand more efficiently and affordable.
While opportunities for CDM solutions are considerable in theory, up until now, the Sub-Sahara Africa region has missed out.

This was already the reason in September 2007, for IETA's Trade Mission Tour to East Africa, with around 15 representatives from European Carbon Trading and Consultancy companies, among others, Asia Carbon International. Our mission was to meet with the local environmental specialists, utility managers, government officials and managers of related companies during one day workshops in Nairobi/Kenya, Dar es Salaam/Tanzania and in Addis Ababa/Ethiopia.

It became Asia Carbon International's strategy to look for local CDM partners and to share with them our CDM experiences and competences that we already had in Asia, represented by a portfolio of around 100 CDM projects. Based on the experience that Africa has been traditionally closer to Europe than to Asia, an African desk was started in Amsterdam, where we have been working on building bridges between Africa and Asia. The recent visit of our Asia Carbon Manager from India to Africa in June this year, in particularly to Addis Ababa, Nairobi and Dar es Salaam, represents these efforts and commitments to our strategy. Further visits to South Africa and Zambia are expected in the Future, where the company has been developing business relations with local partners.

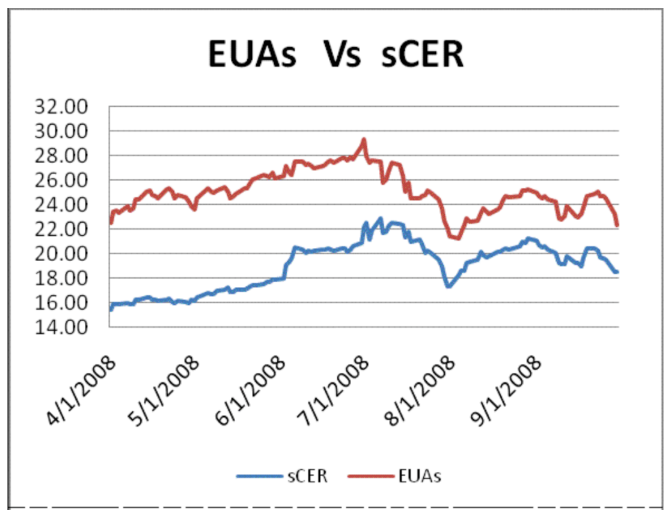
This visit and our building bridge efforts, have allow us to identify potential CDM opportunities and key local partners to develop them, including biogas from wastewater, hydropower, bio-fuels and energy efficiency projects. This integrated approach makes the transfer of new innovative technologies to Africa feasible with the support of the CERs' revenues, as a new additional income for the project.

On the buying side, CERs buyers are expected to bear more risks, paying for extra costs such as the completion of the CDM cycle and provide project financing. Also BOOT (Build-Own-Operate-Transfer) project financing will be offered by the technology providers.

So far, we have been concentrating our efforts in East Africa, and with our local partners we are focussing in certain industries to explore CDM business opportunities and develop their local integrated marketing program, which is being supported by our technology partners and Asia Carbon's team. This Sub-Sahara African experience reflects the efforts of Asia Carbon Global to share CDM knowledge and transfer technology between Asia, Africa, Americas, Australasia, Europe and Japan. _

Market Price Updates

Mid September was characterized by a bearish sentiment in the energy and emissions market as news of Lehman Brothers' carbon desk closure, as the investment bank filed for bankruptcy protection under Chapter 11 due to €431bn in bad debt, Merrill Lynch's take over by Bank of America stopped traders dealing with the bank and the weakening of the energy markets, with gas, coal, German power and oil prices declining. The oil price headed to the low 90s, at USD $92.05 per barrel on Monday the 15th of September, a few days after crossing the USD $100 barrier, and far from its summer high prices. The secCERs closed the week at to € 20.37, gaining € 1.16 in the week, in spite of the earlier bearish sentiment, and mainly on the back of strong energy prices at the end of the week and a downward revision of the forecast supply for the UN-based carbon credits. The EUAs-secCERS spread increased to € 4.31, an increase of € 0.48 in the week.



Sources: EUAs-ECX; sCER-Reuters

On Monday the 22nd, the price of EUAs went up, as strong oil prices and a bullish sentiment in the market, after the announcement by the US government to buy illiquid assets from American investment banks. German power prices and coal prices also went up. There was a lot of activity in swaps of EUAs for CERs. However, the CERs decreased slightly (€-0.0147) compared with the EUAs gained of €0.17. Later in the week, CERs were sold heavily, which caused the EUAs-secCERs spreads to increase, however, some market participants expect this spread to narrow once EUAs are issued, expectations of a possible shortage of issued CERs up to 2012 and the link of EU and UN registries. The EUAs-secCERs spread reached €5.08 in mid-week, with some indications that some market participants are hedging their portfolios as delivery dates for contracts approach. However, despite the downward trend to secCERs, the EUAs-secCERs spread narrowed at the end of the week to € 3.92 as EUAs declined at a faster pace at the end of the week. One of the big sellers of CERs in recent weeks was believed to be Fortis Bank, as news came for the partial nationalization of the bank. The secCERs closed at € 18.42, down €2.78 from the closing price at the end of August, and with the EUAs-secCERs spread at

Carbon Markets Updates

- In October 7th, the EU Parliament's Environmental Committee will vote on CCS-funding measures, as currently large CCS-projects are perceive as too risky by private investors. This funding could potentially create around 10-15 pilot demonstration projects, which could give confidence to the market on CCS' technology. Some experts have indicated that current carbon prices (EUAs) are too low to attract investors, with optimal carbon prices suggested to be between €30 and €100.

- Senior officials of both US presidential candidates have said that the candidates support cap-and-trade, and it is important for the US to lead on climate change by having its own carbon cap. However, Joseph Biden –*the Democratic Vice presidential candidate*- is a strong believer of acting on climate change, whereas Sarah Palin –*the Republican Vice presidential candidate*- earlier this month, has said that climate change was not man-made.

- As the EU Parliament's Energy Committee backed full auctioning of EUAs for power companies from 2013 and to other industrial installations from 2020 on the 11th September, German's energy users said that this will prove costly to the economy, as power companies a most likely to pass this costs to the consumers.

- Until the 7th of November, Australia will receive public comments on how to bring down GHGs from its road transport sector. These emissions represent 13.6% of Australia's emissions in 2006; and in the past five years, Australia has seen an average growth in car of 2.9%, with over a million new cars sold last year.

- The UN-ITL and the EU-CITL will be connected sometime between the 6th and 17th of October, allowing EU-ETS participants to import CERs to satisfy delivery obligations this December. The ITL tracks carbon credits whereas the CITL tracks the ownership of EUAs.

- Japan unveiled their trial of a "Voluntary"-ETS. Companies will set their own emissions targets in terms of energy efficiency based on the *Voluntary Action Plan* of their respective industry. The ETS will use emission allowances, UN- CDM credits, national offsets credits and credits under the Japanese voluntary ETS.

- The Australian Government commissioned "*The Garnaut Climate Change Review"* to examine the impacts, challenges and opportunities of climate change in the country. A draft report was released on the 5th of September and The market has welcomed the general principles of the Australian's proposal for their ETS, with a broad based of industries, including transport and forestry, however, the major opposition was on the notion to fixed an initial price cap of carbon allowances at AUD $20 (around €11.50) for a period of two years, restricting the price discovery of the market and the use of UN-based carbon credits. This feature is more stringent than the *"supplementarity"* principle under the Kyoto Protocol for importing offset credits into a domestic trading scheme. Additionally, the report's cap recommendation of 10% of 2000 levels by 2020, it does

(Continuation of the Carbon Markets Updates …)

not contribute the Kyoto Protocol targets of reduction of emissions in Annex I countries between 25% to 40% reductions below 1990 levels by 2020. The Final Report was due by the 30th of the September.

- According to the Global Carbon Project's "Carbon Budget 2007" report, the CO2 concentration in the atmosphere reached 383 parts per million, 37% higher than in 1750; the highest in the last 650,000 years.

- EU ETS and RGGI have increased the carbon awareness in major corporations, according with two reports published recently by Carbon Disclosure Project (CDP), The Global 500 & The S&P 500 reports, looked at the ability, willingness and work to measure and report their emissions. Around 75% of the 2,400

The Japan's CO_2 trading scheme set to begin in October is likely to hold the original voluntary targets planned. It will join a voluntary CO2 emission reduction scheme — begun by Keidanren business lobby-almost ten years ago and the 30-odd small company Japan Voluntary ETS. Major corporations surveyed, said that they have developed emission reduction targets since 2005, and increased their awareness of the financial risks created by their emissions, however, to manage these risks, governments have to move forward in the regulatory frameworks proposed by the Ministry of the Environment in 2005. _

CDM Market Updates

- Seven projects have been approved by the Indonesian Government with a capacity to reduce 387,000 tCO2e. in total Indonesia has approved 70 projects expected to generate around 6,6 mn CERs in the 2008-2012 period.

- Romania became the latest country eligible to trade UN-approved carbon credits, after meeting UN's requirements on emissions accounting systems and registry. Romania is considered to be a source of ERUs. Bulgaria is expected to be the next country to become eligible for carbon trading by late November.

- A Point Carbon's study yielded a downgrade revision of their forecast of supply of UN-backed credits by 20% lower than previously forecasted, representing around 535 million credits less than a month ago. This decrease in supply is in response of the increased backlog in the CDM registration process of projects and the tighten approach by the EB to issuing credits, as well as fewer than expected ERUs due to political uncertainties.

- The EU Parliament's Industry Committee accepted the proposal to allow EU countries to buy 120 millions offset per year (4% of 2005 emissions), helping them to meet their targets of cutting emissions 20% by 2020. The credits can only be used by companies not covered under the current EU ETS, including transport and agriculture, accounting for around 60% of the overall EU's GHGs emissions. On the 7th of October, the final proposal will be voted by the MEPs' environmental committee.

(Continuation of the CDM Markets Updates …)

- According with the BBC, the UK has joined Germany's calls for an increased in the amount of UN-backed credits to be imported into the EU ETS from 2013 to 2020. The UK wants companies to be allowed to import up to 50% of their emissions targets during that period. Currently, companies are allowed to import on average up to 22% of credits to meet with their targets. EU Commission's Proposal seeks to severely limit the use of CERs, by reducing the total of imports allowed from 2008 to 2020 to around 1.4bn CERs, which is equivalent to an average of 6% of the cap. This follows the EU Parliament's Industry Committee to allow up to 35% of imports into the ETS from such credits.
- Japanese power firms increased their CO_2 emissions by 14.3% from last year, mainly attributed to the low operating rate of nuclear power plants, due to recent earthquakes. This rise will make even more difficult to Japan to meet its Kyoto Protocol's target of 6% reduction of emissions of 1990 levels by 2012. In 2006, Japanese emissions were 6.2% higher than 1990, putting more pressure on Japanese firms to purchase emissions credits from abroad. This means that the power industry will by around 190 million UN-backed credits by 2012; up 70 million, from previous estimates.

CDM FACTS:

- *Registered Projects: 1170*
- *Issued CERs: 194,680,872*
- *Expected CERs: 1,310,000,000 (From registered projects until the end of 2012).*

Source: UNFCCC

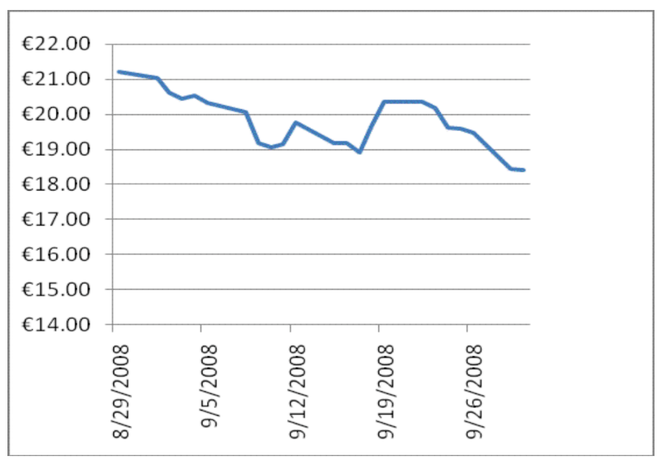
During the last month, 19 projects were registered at the UNFCC and the number of expected CERs raised by 10 million. Additionally, the UFCCC issued 11'366,549 CERs during the month of September. _

€3.92, €0.057 narrower than at the end of last month. _

Price Index Table (For 2008 Vintages)

Source / *Date*	**Reuters** *CERs*	**Platts** *CERs*	**LEBA** *CER Index*	**ECX** *EUAs*	**CCX (USD $)**
15-Sep	€19.20	€19.15	€19.19	€23.03	$2.50
16-Sep	€19.18	€19.15	€18.94	€22.91	$2.40
17-Sep	€18.93	€18.75	€19.35	€23.25	$2.20
18-Sep	€19.66	€19.50	€19.14	€23.78	$1.75
19-Sep	€20.37	€20.40	€20.11	€24.68	$1.80
22-Sep	€20.35	€20.40	€20.40	€24.85	$1.80
23-Sep	€20.19	€20.20	€20.28	€25.06	$1.70
24-Sep	€19.62	€19.65	€19.89	€24.65	$1.70
25-Sep	€19.59	€19.60	€19.59	€24.67	$1.70
26-Sep	€19.48	€19.45	n/a	€24.45	$1.75
29-Sep	€18.46	€18.40	n/a	€23.19	$1.75
30-Sep	€18.43	€18.40	€18.22	€22.35	$1.75

Reuters' CER Price Index: 29th August – 30th September /08



For more information please contact:
luis@asiacarbon.com

ACX-Change International B.V.
Kingsfordweg 151 #12-08
1043 GR Amsterdam; The Netherlands