

Editorial

By **Irfan Pawennei**

Corporate on Voluntary Carbon Market

About 25% of Fortune's 500 companies now have a Board Committee overseeing the environment, compared with fewer than 10% five years ago, according to Ceres. In the private sector, voluntarily offsetting GHGs' emissions has largely been the domain of consumer-oriented companies in the financial, telecommunications, airlines, retail and the fast moving consumers goods' sectors. Offsetting through voluntary markets is an increasingly important element of industry's corporate social responsibility (CSR) programs. Moreover, corporations have also been effectively handling conservation efforts, establishing new environmentally friendly ventures like wind power, compliance with environmental regulations and related business risks.

What kind of Carbon Offset Projects?

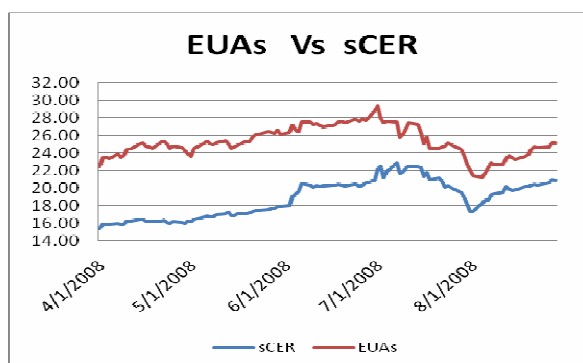
Renewable Energy Projects are among the different type of projects which have been transacted during 2007 with the highest percentage of 31%¹. Meanwhile, 18% of the 65 million tonnes of CO₂e traded in the voluntary market during 2007¹ were sourced from forestry land-based projects. One of the key factors for corporations to choose the type of project is the "Understanding of the Project", not only in the technical or additionality components, but also in the ability to communicate the projects to the communities or consumers. Forestry land-based projects, although still have a difficult time in the Kyoto regime, are highly acceptable in the Voluntary Carbon Market. REDD¹, for instance, are forestry-based projects which are gradually obtaining internationally acceptance in the market, even more since it was discussed in the last COP/MOP in Bali at end of last year. Meanwhile, Renewable Energy projects have been highly used in the voluntary market mainly from wind, biomass and hydro projects.

What Offset Standard?

In the past two years, there have been a lot of concerns in the media on how effective was the impact of voluntary carbon offset projects in reducing GHGs emissions and on the sustainable development. Issues like double counting, additionality and the impact to the local communities have been raised by NGOs, media, researchers and environmental activists especially in Europe. To cope with these issues, some organizations have been actively developing carbon offset standards in the market to ensure the quality of carbon offset projects, which it is reflected in the demand and the need of the Corporate/ Buyers in the voluntary market. Last year, VCS took the lead by transacting 29% of the total market share, while CDM/JI and the Gold Standard accounted for

Market Price Updates

During the past weeks, the price of the secondary CERs (sCERs) kept the upward trend showed earlier in the month, with an initial price of €20.14 on Monday the 18th, €0.41 higher than the closing price of the previous week; whereas the price of the secondary CERs in Japan showed a downward trend, according with the weekly Nikkei-JBIC Price Index. Amid to thin volumes, the price of the secondary CERs in Europe felt the following day, but at the end of the week of the 18th -22nd of August, it closed at €20.27. EUAs also showed a strong performance during the week, with a gain of €1.01 at the back of firm gas prices as reports suggested some gas field closures and leakages. The EUAs-sCERs spread increased by €0.85, closing at €4.30.



Sources: EUAs-ECX; sCER-Reuters

The last week of August was characterized by a steady increase of the sCERs' price, with thin volumes of trade on Monday, due to the bank holiday and the summer holidays. The EUAs closed the week at € 25.17, gaining €3.79 in the month of August and reaching record high since the 17th of July of this year. This increase was on the back of rising oil prices which lead the increase in the energy market as a whole. There has been an increase in the use of coal in electricity production in the UK, as oil and gas prices are in records high, especially as worries increased by the possible effects of tropical storm Gustav in the Gulf of Mexico. These high prices represent a bullish sentiment for the carbon market, as coal for electricity generation is a more carbon intensive technology, hence driving carbon prices up. The EUAs-sCERs spread increased at €4.29 by Thursday the 28th, €1.24 higher than the record lowest this year at €3.04 on the first Monday of August. However, some market participants expect the spread to keep the narrowing trend as trading volumes increases and with the expected date by the end of October of the ITL being up and running.♦

Continuation of the editorial

16% and 9%¹ of the market respectively. In addition, CCBS¹ was developed for forestry land-based projects, incorporating multiple benefits, such as biodiversity and community issues as well as carbon emission mitigation.

Based on the available products/ standards in the voluntary market, Corporate-Buyers have their own preference to procure projects, for instance, some Corporate-Buyers prefer projects under the Kyoto standard, which has been internationally accepted under the UN. Examples of different preferences in the Airline industry are: Air France – Good Planet Association; Virgin – Gold Standard (both voluntary & CERs); British Airways – Morgan Stanley CERs; EasyJet – CERs only; KLM – Gold Standard only; Cathay Pacific – VCS credits.

What price?

Growing environmental awareness at corporate and individual levels will spur demand. And increasingly, companies are expected to launch offset schemes as a component of their CSR programs. Several factors should positively affect the development of the voluntary carbon market and determine pricing of voluntary carbon credits. Those factors are, for instance, standard, type of project, country, local benefit, environmental impact, physical status of the project and history/background of the project.

What's next?

Despite of the growing market, we could find some temporary supply-side bottlenecks in the near future, with the organizations responsible for processing voluntary standards unable to cope with increasing numbers of applications from developers of new projects. On the other hand, we could also discover that a few Offset providers are supplying 'thin air' to new corporate players in the market with relatively limited knowledge in carbon offset projects.

Challenge for Supplier/ Project Developer: To deliver projects with additionality and genuine sustainability impact to the local communities; to deliver understandable projects/ products with quality based on certain standard.

Challenge for Voluntary standard: To provide efficient and effective Monitoring, Verification and Certification process for Project Developers, to develop a robust and enforcement registration system with transparency.

Challenge for Buyer/ Corporate: To establish a Carbon Neutral Strategy which fits with their corporate culture and strategies; to actively participate in the Climate Change issue through procuring carbon offset projects. ♦

¹ Source: Ecosystem Marketplace and New Carbon Finance

² Source: Ecosystem Marketplace and New Carbon Finance

³ Reducing Emissions from Deforestation and Degradation

⁴ Source: Ecosystem Marketplace and New Carbon Finance

⁵ Climate, Community and Biodiversity Standard

CDM Market Updates

- From the 21st to the 27th of August, The Climate Change Talks were held in Accra, Ghana, as part as the negotiating process to be concluded in Copenhagen at the end of next year. According to Yvo de Boer, the achievement of the Accra meeting had been in providing the basis for real negotiations to begin in Poznan. Countries have expressed their desire to include deforestation and forest conservation as part of the Copenhagen agreement which account for around 20% of the global GHGs, and constructive debates were held on the sectorial approaches, clarifying that it is not about imposing targets in developing countries.
- As Japan is set to exceed its Kyoto target, the government has been actively looking for credits in Easter Europe, where there are a large number of assigned amount units (AAUs) available. Japan is due to sign next month an agreement with the Czech Republic and it is expected to finalize an agreement with Poland. The government has signed agreement already with countries like Hungary and Ukraine.
- 15 new CDM projects were approved by the Indian National Clean Development Mechanism Authority (NCDMA), raising to 1013 the number of projects approved by the country, with a potential to generate around 506 million CERs.
- Japan will provide a loan to the government of the Philippines, through its development bank, to finance prospective CDM projects in which Japanese companies show an interest to purchase credits, giving a preferred negotiating status for the emission credits.
- The EB has approved China's largest project by PetroChina Liaoyang Petrochemical, with an average of 10 million tCO₂e /year. The Buyers of this project are Goldman Sachs and Natsource Asset Management.
- Brazil's DNA has adopted a single emission factor for the whole country, instead of its regional emission factors. As a result, a number of new projects have been approved by the local DNA, especially small hydroelectric projects.

CDM FACTS:

- *Registered Projects: 1151*
- *Issued CERs: 183,314,323*
- *Expected CERs: 1,300,000,000 (From registered projects until the end of 2012).♦*

Source: UNFCCC

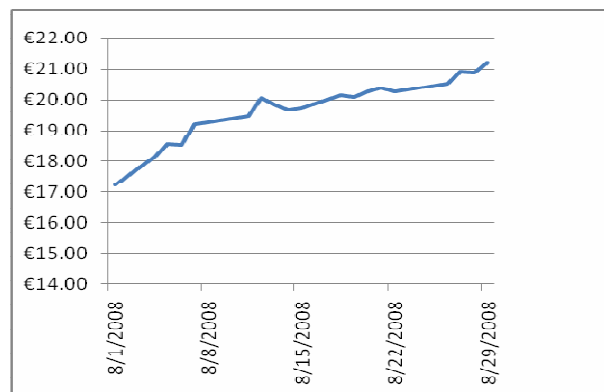
Carbon Market Updates

- Carbon emissions volumes from the Air Industry sector may have stabilized this year compare with the last one, according to Morgan Stanley's Analysts, as European airlines look to cut expensive routes and ground aircrafts as the industry faces the challenges of high oil prices. This stabilization of emissions will have an impact in the levels of carbon emissions when the sector joins the EU-ETS in 2012.
- Australian PM, Kevin Rudd, has proposed Asia-Pacific nations to form a new regional group by 2020 to address together key issues such as climate change, energy security and defense.
- The National Climate Change Council from Indonesia will distribute funds of around USD \$217 million in 2009 for climate change mitigation and adaptation. Indonesia expects to reduce its emissions from deforestation and forest fires estimated in 3 billion tCO₂e/year.
- During his speech at the National Clean Energy Summit, former US President Bill Clinton expressed the need for a cap-and-trade system for GHG to be in the top 10 US's priorities, considering it a better way to price emissions reductions than a tax on carbon, which himself failed to implement in his administration. He also expressed the need to increase research in Carbon Capture Sequestration, Hybrid Cars and modernized railways systems.
- The "Climate Change Land Use" bill looks to cut GHGs emissions from the transport sector, which accounts for 40% of California's emissions. Encouraging projects that will make their citizens drive less.
- Foodwatch claims that not enough attention has been paid to agriculture emissions in Europe. Sources of these emissions are fuel, chemicals, fertilizers and methane from livestock; being land the biggest constrain that Europe faces to tackle these emissions.
- The nomination of Joe Biden as the Democrat vice presidential candidate was well received by US carbon market participants and environmentalists in general, as he publicly supports cap-and-trade and international climate negotiations, but only with the involvement of countries like China and India.♦

Price Index Table

Source	Reuters	Platts	LEBA	ECX	CCX (USD \$)
Date	CERs	CERs	CER Index	EUAs	
18-Aug	€20.15	€20.15	n/a	€23.59	\$3.80
19-Aug	€20.10	€20.10	€20.12	€23.73	\$3.75
20-Aug	€20.27	€20.30	€20.31	€24.42	\$3.75
21-Aug	€20.38	€20.35	€20.50	€24.72	\$3.70
22-Aug	€20.27	€20.25	€20.22	€24.58	\$3.70
25-Aug	n/a	n/a	n/a	€24.37	\$3.70
26-Aug	€20.53	€20.55	€20.31	€24.72	\$3.65
27-Aug	€20.90	€20.90	€20.97	€25.14	\$3.65
28-Aug	€20.88	€20.80	€21.08	€25.17	\$3.60
29-Aug	€21.21	€21.20	€21.03		\$3.60

Reuters' CER Price Index: 1st August – 29th August /08



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