

CDM Market Updates

- As part of the first ever Africa Carbon Forum, the UNFCCC released a report on CDM potential in Africa. It showed that only 22 projects from 2002 have produced CERs. As part of the report's conclusions, a CDM-related institutional framework was required to raise awareness of the CDM, and to provide the local DNAs with clear responsibilities to increase investors' confidence. Increasing CDM awareness and local CDM expertise are essential factors to reduce financial barriers in the region. There are around 2,750 clean energy projects in the Sub-Saharan Region under construction or operational that could be potentially registered under the CDM program. The World's Bank - *Climate Investment Fund*, could provide developers with USD \$10 bn to back projects in the region.
- A Group of firms from Thailand and the Danish Energy Agency have an agreement to develop a 200 MW Windmill Park in Thailand. The project is expected to be operational in 2011, with the potential to generate 220,000 CERs.
- The UNEP (*UN Environment Programme*) estimated a declined of expected emissions reduction credits to be issued from projects under the CDM, from 1.51bn to 1.48bn, as a steady decline in supply has been observed in the last two years. There is a bottleneck in the UN's pipeline of CDM, with an increase time from registration to issuance of the credits, taking up to 18 months to complete this process.
- With the aim to have GHGs emissions levels in 2008, in the 2006 -2020 period, the government of Taiwan is planning to invest USD \$4.2 bn to meet their new energy and emissions targets. The government will invest in 312 projects in energy conservation and emission reduction projects.
- An UNFCCC official has indicated that the main reason for the bottleneck in the UN-CDM Registration Process is due to the unprecedented number of projects submitted to registration. This, as result of two important methodologies were expiring last months, so project developers submitted around 300 projects for completeness checks, a step for the registration of the project. Under UN rules, once a methodology is being updated, project developers have eight (8) months to start the registration process. These two methodologies are for Large and Small Scale Renewable Energy Projects (ACM 002 v6 and AMS 1d v12), core methodologies for the CDM.

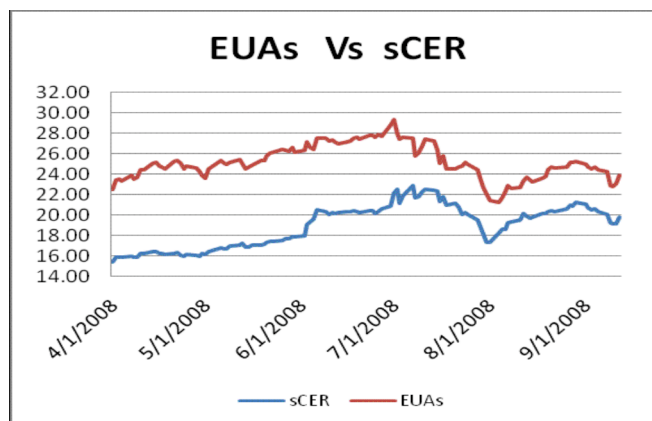
CDM FACTS:

- Registered Projects: 1162
- Issued CERs: 186,286,259
- Expected CERs: 1,310,000,000 (From registered projects until the end of 2012)._

Source: UNFCCC

Market Price Updates

In the last two weeks, the price of the secondary CERs (sCERs) has showed a downward trend, losing some ground gained at the end of August, which closed at €21,20/CER on the 29th of August. On Monday the 1st of September, sCERs closed at €21,03 /CERs; on the back of weaker EUAs price, as low oil prices (*USD \$110 per barrel*) and a general softening of the energy complex, with German Baseload Power and Coal Prices also losing some ground. The EUAs-sCERs spread was almost unchanged in the week of from the 1st to the 5th September, increasing by €0.08 at the end of the week, closing at €4.07. Some market participants expected this spread to narrow in the next coming months, once the ITL is up and running, as participants are able to execute these swaps, and complete the transaction within days. Currently, these swaps are being done on futures on the underlying assets, so today's transaction can only be settled on the maturity of the future contract.



Sources: EUAs-ECX; sCER-Reuters

The beginning of the second week of September saw a further decrease in the sCERs price, closing at €20.06, a decrease of €0.27 from last weeks' closing price. This downwards movement, was on the back of the decrease on EUAs, as expectations in the demand of EUAs this winter it is set to be lower than anticipated, due to high energy prices and the slowdown in the EU economy. On Tuesday 9th, the EUAs-sCERs spread narrowed by €0.45 in one day, closing at €3.67. However, by the end of the week, this spread was just €0.0025 lower than Monday's levels. Friday saw larger volumes being traded, as some market participant don't expect the sCERs to fall considerable much from current levels, some market participants were closing their short positions and as the ITL connection date approaches and some national registries might be closed during this process, more participants were actively buying in the market. Oil prices closed at USD \$97.64 per barrel, after falling further away from the USD \$100 barrier earlier during the week. The sCERs prices closed at €19.77, €0.29 lower from the beginning of the week,

Carbon Market Updates

- Australian and New Zealand's ETS will likely not be link up in the near future. This despite of both trading schemes considered to be "broadly compatible". With different economies, their countries' emissions profiles differ. The inclusion of agricultural emissions, no assistance to coal-fire power plants and the probable inclusion of other carbon credits by the NZ ETS, and the limit interaction of AU ETS with international carbon markets, assistance to coal-fired power plants, are some of the issues for the unlikely linkage in the short term of both trading schemes.

- The EU Parliament Industry, Research and Energy Committee is drafting a proposal to create a new set of rules for the Phase III of the EU ETS, allowing industry sectors to offset up to 25% of their emissions post-2012 by using project based emissions reductions credits, lifting the restriction of using only remaining CERs from Phase II. The Environmental Committee will revise the proposal in October 7th of this year, to later be discussed by the EU Parliament if recommended late in December.

- The process to introduce the "Basic Act on Climate Change" is the first step by the South Korean Government to establish an ETS next year. Aiming to submit the final bill by the end of the year, and if approved, it could take three (3) months to be implemented. The ETS is expected to cover around 500 companies, mainly from energy-intensive sectors.

- On the 10th of September, The VCS Association announced its latest policy update addressing project proponents concerns on the deadline for validation under VCS 2007 and the definition of "Project Start Date". The deadline for validation was extended for 12 months to the 19th of November 2009. The exact requirement is: "VCS 2007 validations shall be completed within two years of the project start date, or shall be completed or contracted before 19 November 2008. In relation to contracts entered into before 19 November 2008, validation shall be completed by 19 November 2009 and proof of contracting prior to 19 November 2008 shall be provided." Also, the definition of the "Project Start Date" is now: "the date the project activity began reducing or removing GHG emissions"; from the previous definition: "the date on which the project reached financial closure".

- It has been announced that the Gold Standard Registry currently includes more than 200 projects at different approval stages in 30 different countries, with a potential volume of 15 mtCO₂e annually. Around 50% of these projects are in advanced development to be posted in the registry_

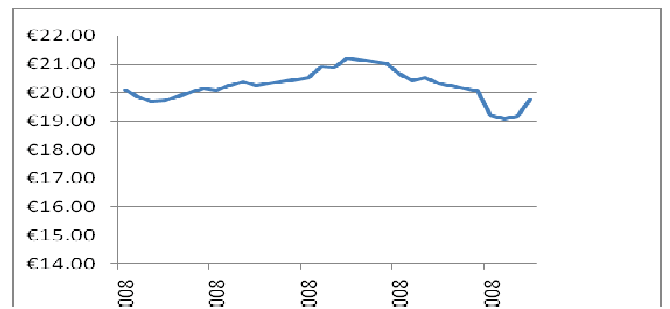
but €0.69 higher than the lower closing price during the week of the 8th-12th of September. Prices in the CCX saw further decrease, closing on

Friday 12th at USD \$2.50, from its all time high of USD \$7.40 on 2nd June this year. Market participants argue that as a federal cap-and-trade system will allow other regional trading schemes, allowing the exchange of allowances from RGGI and California into the federal system, it doesn't mention CCX. Some energy companies that are in both, CCX and RGGI schemes are said to be selling credits in CCX to fund trading in RGGI, which will eventually allow them to use the allowances in a federal scheme._

Price Index Table

Source	Reuters	Platts	LEBA	ECX	CCX (USD \$)
Date	CERs	CERs	CER Index	EUAs	
1-Sep	€21.04	€21.00	€20.96	€24.96	n/a
2-Sep	€20.63	€20.50	€20.62	€24.72	\$3.40
3-Sep	€20.45	€20.45	€20.51	€24.45	\$3.40
4-Sep	€20.53	€20.55	€20.70	€24.65	\$3.25
5-Sep	€20.33	€20.30	€20.37	€24.40	\$2.70
8-Sep	€20.06	€20.03	€20.12	€24.19	\$2.45
9-Sep	€19.18	€19.25	€19.63	€22.86	\$2.65
10-Sep	€19.08	€18.95	€19.15	€22.77	\$2.50
11-Sep	€19.15	€19.10	€19.13	€23.07	\$2.50
12-Sep	€19.77	€19.75	€19.52	€23.90	\$2.50

Reuters' CER Price Index: 12th August – 12th September /08



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