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**Interview: Wulf Killmann, Director Forest Products & Industries, Food and Agriculture Organization of the United Nations**

*Question: You attended the United Nations Climate Change Conference in Bali in December 2007 as part of the FAO delegation. What are the main outcomes of it?*

W. Killmann: First, there was a general agreement upon a road map, that is to say an action plan to start negotiations for the post-Kyoto regime in 2009 at the 15<sup>th</sup> Conference of the Parties (COP) planned in Copenhagen. All the Parties are committed to move forward like Australia who ratified the Kyoto during the Bali Conference. Even the USA agreed on the road map!

Second, the Parties decided to get along with the implementation of a Climate Change Adaptation Fund, to assist developing countries to adapt to the consequences of climate change. Until now, all the policies in place included in the Kyoto Protocol used to focus on mitigation. But some countries are already facing the impacts of climate change. It was hence urgent to set up a mechanism for adaptation. This fund will be managed by the Global Environmental Facility, and supervised by a members' country committee. It will be financed through a share of proceeds coming from the Clean Development Mechanism (CDM).

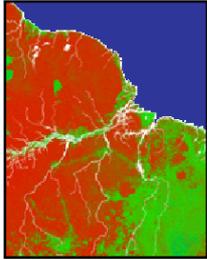


The third outcome is the inclusion in the negotiations of deforestation and forest degradation and the ways to reduce both. Before the Bali Conference, the main forestry issue had been on carbon sequestration, that is to say afforestation and reforestation. Now, preventing carbon from being emitted is also on the agenda.

Finally, there were also agreements on the necessity to work on know-how and technology transfer, and on the necessity of simplifying CDM rules for small scale projects, especially for small scale forestation projects. There is only one afforestation/reforestation project registered (in China). Simplifying the methodology is something required, with important positive impacts especially for Africa.

*Question: Deforestation is an important new topic. Why this?*

W. Killmann: The international community is becoming aware of the consequences of deforestation, especially in tropical forests. The FAO's Forest Resources Assessment report, issued in 2006, showed that there are still 13 million hectares of forest lost annually. Deforestation represents 17.4% of GHG emissions. This is mainly occurring in South America, Africa and South-East Asia. In contrast, there is evidence that forest cover is increasing in North America, some parts of Russia, Europe, and in some Asian countries as Vietnam and China.



In order to picture the importance of deforestation, we can compare it to the GHG emissions from the transport sector that is about 18% of the total emissions. Thus, slowing deforestation is now part of the negotiations for the post-2012 regime. 33 countries led by Brazil and Indonesia have been pushing for this. At the national level, there has already been progress. Indonesia for example plans to put into practice a REDD program (Reduction emissions from deforestation and forest degradation). And, there is the idea of establishing a Forest Carbon Partnership Facility to finance capacity building in developing countries.

*Question: Where do we stand regarding afforestation/reforestation and deforestation? What is the potential in terms of CDM projects and have we solved the methodological issues?*

W. Killmann: The potential for the carbon market is significant and the process is just beginning. Regarding the methodological problems, the main concern is the lack of data and information on deforestation and forest degradation. All the emission reduction measures come from biomass data. Nevertheless, by using such tools as remote sensing, in addition to ground truthing, it is possible to improve our knowledge. It is hoped that more afforestation and reforestation projects will be registered and CERs coming from these projects issued.

*Question: Another category of projects is on biofuels. But there are still some discussions if not controversies about the real added value of biofuels. What is your position on that?*

W. Killmann: Let me first make a clarification of the concept of biofuels. Biofuels are fuels of biological origin. They include wood (accounting for 80% of biofuel production and use), municipal waste, agricultural waste as well as liquid

biofuels such as bioethanol and biodiesel. Bioenergy accounts for about 11% of the world energy production, most of it generated from wood. On the contrary, liquid biofuels represent presently only 1% of the fuel being used for transportation purposes.

The potential for liquid biofuels is limited. It is essential to make a difference between the different biofuels and look at what is happening at the national level. In Brazil, the production of bioethanol from sugarcane has been a very successful and profitable production. Sugarcane production in Brazil does not lead to the conversion of tropical forests. For palm oil entering in the production of biodiesel, the main cultivation areas are located in South-East Asia, Central and South America.

Liquid biofuels require large land areas for cultivation. Countries have a decision to make on land use. They face certain trade-offs, whether to use land for forestry, food production or biofuel production. In fact, there is great potential in the long term for the second generation of biofuels using cellulosic biomass (e.g. wood) transformation into liquid fuels. Finally, another possibility is to grow jatropha. The benefit of this plant is that it can be grown on marginal soils, meaning land not exploitable for food production. This fits well in a number of countries in Africa, and for India.



*Question: Most investors are still reluctant to buy credits or invest in afforestation/reforestation projects, especially because most of them are in Africa. What should be done to attract investors into these types of projects?*

W. Killmann: The main problem is that there is little awareness about the opportunities. Therefore, one should start with capacity building to enhance the attractiveness of these projects in Africa. This has already been done in other places, such as in Latin America.

*Question: On the political side, what can we expect from the US?*

W. Killmann: This is a difficult question. Who can predict what is going to happen? Most probably, the Federal Government won't change its position during the year 2008, while some States are further ahead on the issue, such as California. This has helped a lot to open the debate on climate change in the country.

*Wulf Killmann is Director of the Forest Products and Industries Division at the Food and Agriculture Organization of the United Nations (FAO).*

## Carbon prices instability

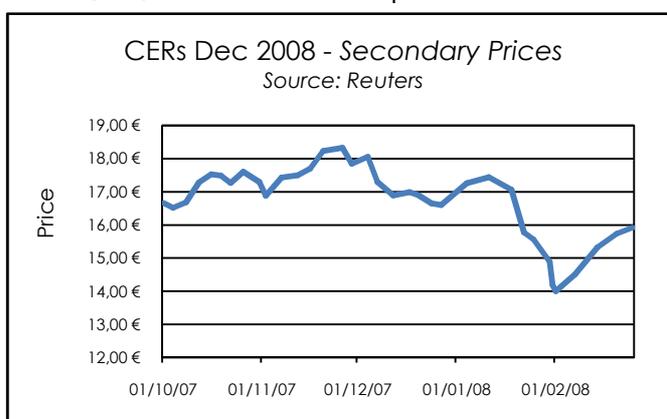
With a lowest at 14.00 € end of January, CER Dec 08 prices have again increased up to 15.90 € on 25 February 2008. This confirms the great instability that has been experienced in the market. This volatility on CER forward and spot prices during the last weeks can be explained by several factors.

The first explanation is due to the uncertainty as regards to an oversupply of allowances and a mild winter affecting gas and coal prices.

Usually the price of carbon is closely related to coal and gas prices since companies with more coal intensive production have to buy more carbon credits. But, the combination of relatively high temperatures during this winter together with high coal prices has led to fewer emissions and therefore a less tight demand for EUAs, ERUs and CERs. Coal is at record highs and thus the spread from coal-to-gas has allowed cheaper abatement costs.

The threat of oversupply is also linked to the fact that Russia has adopted in the last weeks the necessary procedures for the approval of the first Russian Joint Implementation projects. It could entail a massive arrival of ERUs in the market, pushing prices down.

Second, on 23 January 2008, the European Commission released its "Proposal for a Directive amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading system of the Community". In this draft plan for phase III, even if the use of CERs and ERUs will still be allowed, it will not be extended from current levels, unless the international community reaches a comprehensive agreement for the post-Kyoto period. This means that the European Commission



might be putting more emphasis in the buying and selling of EUAs to meet targets. However, this should be nuanced by the fact that if an international agreement is found, the European Commission plans to increase its emission target from 20 to 30% below 1990 levels, the amount of CERs and ERUs would then rise in order to help meeting the higher burden.

Third, the general instability of global financial markets should be emphasized, affecting economic confidence and energy prices due to the fear of a global recession.

While these uncertainties remain high, we believe that the upward trend observed during the last days will slowdown with a CER Dec 2008 price stabilizing around 16.00 €.

## CDM projects opportunities: Focus on Argentina

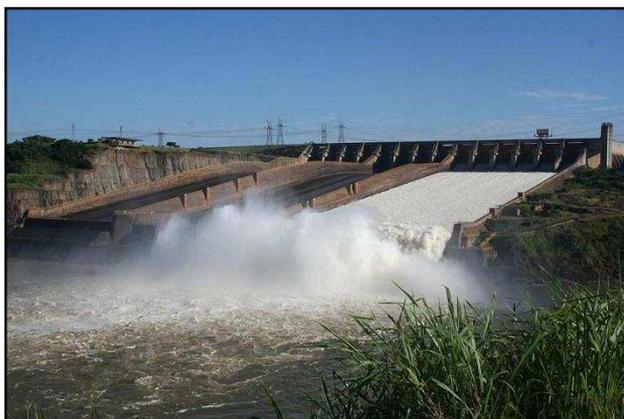


On 28 September 2001, Argentina ratified the Kyoto Protocol, establishing as Designated National Authority the Secretary of Environment and Sustainable Development. In addition, the OAMD, the *Argentinean Office of the Clean Development Mechanism*, was created. Its objective is to implement actions related to the UNFCCC, and to support the activities of the Kyoto Protocol mechanisms.

The main functions of the OAMD are to i) establish methodologies and procedures to facilitate the identification, formulation, and evaluation of CDM projects, ii) assess and approve the projects, and iii) identify possible financing sources and facilitate the linkage with them.

The institutional structure of the OAMD consists of an Executive Committee, an Advisory Committee, and a Permanent Secretary. They all participate at the national level in the project development cycle.

Another example of the country's commitment to promote the Clean Development Mechanism is the creation of the Argentinean Carbon Fund in 2005. This Facility is managed by the Secretary of Environment and Sustainable Development. Its objective is to promote and facilitate the development of CDM projects in the country, in particular small scale projects, as well as to contribute to the issuance of a certain volume of certified emission reductions to ease the transactions and increase the competitiveness of Argentinean projects, by identifying potential financial sources and assisting project owners in the commercialization of the CERs.

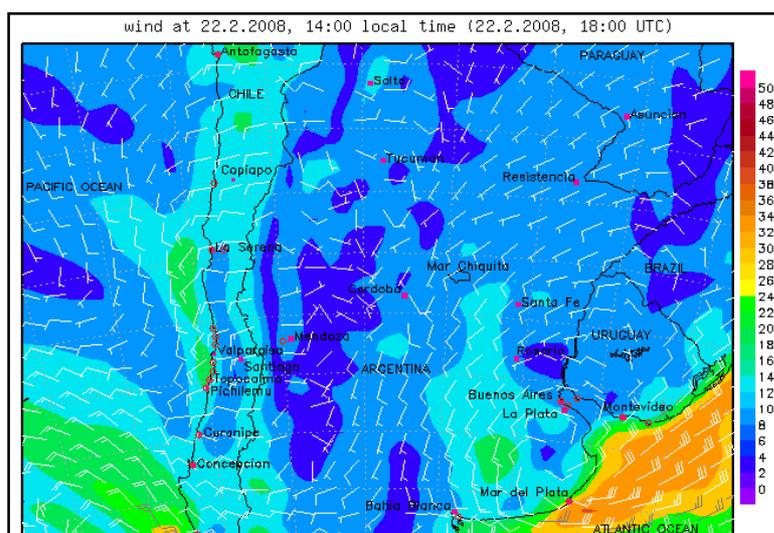


The Argentinean Carbon Fund also seeks to promote Argentinean CDM projects by proposing to investors a portfolio of projects that have already been analyzed by the Fund.

While Argentina is the second most important economy of South America after Brazil, the potential in GHG emission reductions has not been fully exploited compared to his neighbor. 10 Argentinean projects have been registered by the CDM Executive Board, representing only 2% of the total number of registered projects.

As of 31 January 2008, 22 projects were presented to the Argentinean DNA. 15 have received a Letter of Approval and 2 are in the evaluation phase. In terms of project profile, out of the 15 projects approved by the DNA, 7 of them are in

the solid waste management sector. Municipal solid waste management is expected to continue to be a big portion of the market (around 50 %).



Opportunities for emission reductions in Argentina exist also in other sectors. The growing electricity demand is for instance an incentive for more wind power projects: estimations indicate that the installed capacity will reach 2 GW in 2010. There are also some opportunities for small scale projects. Projects bundling is estimated to decrease

transaction costs, in the sectors of electricity generation such as biomass and methane capture and flaring from animal waste.

In the mid-term, reforestation and land use are also expected to represent an important abatement portion of the market.

#### Argentina's Designated National Authority

Argentinean Office for the Clean Development Mechanism (OAMDL)  
Secretary of Environment and Sustainable Development  
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#### Links

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