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Interview: Hu Tao, Professor, School of Environment, Renmin University of China

Question: International negotiations started earlier this year to agree on a post-Kyoto regime that will last until the COP15 in December 2009 in Copenhagen. What is the position of China on the matter, especially with regards to quantitative emission targets?

Hu Tao: The official position stated in Bali is that China is willing to do more, but developed countries should go first. As a matter of fact, we should have a systematic view of greenhouse gas reduction. We have to look not only at total emissions of a country but also at the level of emissions per capita; not only at current emissions but also at historical emissions and not only at the level of emissions by producers, but also emissions due to consumption.

Regarding quantitative targets, I think that for China, it is not a problem of setting up a cap. The real issue is how to set up a cap for all the countries in the world. Many Annex I countries have been urging developing countries to take legal responsibilities towards greenhouse gas reduction. But for non-Annex I countries, the fundamental problem concerns the way the cap would be decided.



Grandfathering cannot be accepted by those countries. It ignores the historical responsibilities of industrial countries in climate change. A new principle is needed to reflect the UNFCCC principle of common but differentiated responsibilities. The best option would be a human rights based principle of grandmothering.

Responsibilities should be equally taken and greenhouse gas emission rights should be equally distributed to each human being. It means that everybody has the same responsibility and the same right to emit a certain level of greenhouse gas. Using grandmothing, the cap-and-trade approach encourages every party to reduce greenhouse gas emissions in their own interest.

Question: How does your country try to tackle greenhouse gas emission reduction domestically?

Hu Tao: China has made great progress in the past two decades to reduce greenhouse gas. This has recently been acknowledged by UNEP for instance.



Domestic efforts go from indoor temperature regulations for governmental buildings to the development of electric scooters and motorbikes, as it can be seen in Beijing. The National Climate Change Plan (NCCP) adopted in June 2007 sets quantitative targets such as a 20% energy intensity reduction by 2010. In terms of renewable energy, the target is 10% of the total energy generation by

2010. For N₂O, the objective is to stabilize the level of emissions between 2005 and 2010.

Question: You have done a lot of research on the embedded carbon in goods or the carbon content of products. And you developed a concept called "virtual carbon trading". Could you say a few words about it?

Hu Tao: Virtual carbon is defined as the embedded carbon or the carbon content of each good and service. The objective is to analyze carbon emissions not only from the point of view of the producer, but also from the consumer.

Let me give you an example. In order to reduce carbon emissions by 20%, China focuses on carbon intensive sectors such as iron and steel, cement and chemicals, by taking a couple of monitoring measures. 23% of China's greenhouse gas emissions are due to export products, mainly to the United States, Japan and European countries. This is why China took trade measures since January 1st, 2007 to reduce carbon leakage. The most significant one being to apply a 5 to 25% export tariff on carbon intensive products, such as on iron & steel products, coke and alumina products.

Hu Tao is Professor of School of Environment, Renmin University of China. He is also the Chief Expert of Trade and Environmental Expert Group for WTO New Round Negotiation. He is currently a Visiting Professor at the University of Oregon.

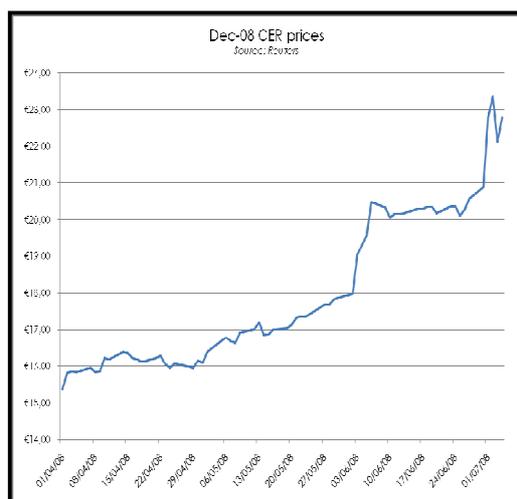
A two-year peak in carbon prices

Carbon prices have increased by more than 40 % since January 1st 2008

On July 1st, 2008, Dec-08 EUA prices reached a two-year high of 29.33€ on the European Carbon Exchange (ECX). At the same time Dec-08 CER prices have hit a level of 22.11€. These prices are the highest seen in 25 months, with a 40 % rise in the last four months alone.

Several factors explain this trend since the beginning of the year. The first one has to be found on the energy market with an unprecedented level in the oil price. The barrel reached a 146 USD record on July 3, 2008. This favors a switch from gas to coal in electricity generation. Due to higher carbon intensity, coal-fired power plants are requiring additional carbon allowances and pushing up the price of carbon.

Another factor is the lower than expected supply of CERs. The tightening in the issuance of CERs is due to a number of projects of questionable environmental benefits. This is also pushing the price up. Recent UNEP forecasts indicate that the CER market will be shorter by 300 million tons due to poor quality projects.



Another bottleneck is arising at the level of the CDM Executive Board. It takes more time than originally expected to register projects. However, this situation should be transitory and we can assume that it will be solved in the mid-term once the CDM Executive Board will have more capacities, especially human resources.

Unexpected events such as the Sichuan earthquake, impacted the market. Several Chinese projects are affected. Our expectation is that up to 6% of the CERs in

China to be issued by 2012 might not be delivered due to the earthquake.

Finally, the delays in the connection between the International Transaction Log (ITL) and the Community Independent Transaction Log (CITL), even if there are now integrated by the market, continue to be a source of concern.

In the short term, we do not see any change in the rise of CER and EUA prices. The structural disequilibrium between supply and demand and the fact that the United States are likely to enter into the carbon market and become buyers of CERs, up to 300 million tons per year, will continue to pressure the market. Hence, we see a Dec-08 CER price at 25€ at the end of the year.

CDM projects opportunities: Focus on Vietnam



Vietnam has ratified the Kyoto Protocol on September 25, 2002. The Ministry of Natural Resources and Environment (MONRE) was assigned by the Government of Vietnam as a National Focal Agency for taking part in and implementing the UNFCCC and the Kyoto Protocol. The International Cooperation Department of MONRE was designated as a Clean Development Mechanism National Authority (CNA) in Vietnam in March 2003. CDM National Executive and Consultative Board (CNECB) was established in April 2003 with representatives from related Ministries and Offices.

Since then, not only has the country made progress in terms of CDM institutional requirements, but it has also signed several cooperation agreements in this domain, with Japan and the Republic of Austria. Regarding potential greenhouse gas emission reductions, the country has been growing at a pace of 8.3% per year in average during the last decade, mainly driven by the industrial sector. Growth is expected to continue to be strong although the country is facing financial uncertainty since the beginning of 2008. In our Business-as-Usual scenario, domestic greenhouse gas emission will continue to rise.

The main abatement potentials are in the energy sector. Vietnam's electricity demand is fast-growing and to satisfy increasing electricity consumption, eight new coal-fired power plants have been built in the past five years. And in order to maintain an economic growth rate at the same current actual pace, electricity production capacity should be multiplied by two by 2010.



Currently, Vietnam has several hydroelectric projects under registration and the potential in hydroelectric production is significant. Other opportunities for greenhouse gas emission abatements in the country are in the landfill gas and methane recovery sector.

In this respect, we have reinforced our presence in Vietnam, with Mr. Tinh Nguyen, our CDM Expert in the country.

Vietnam's Designated National Authority

National Steering Committee for UNFCCC and Kyoto Protocol
Ministry of Natural Resources and Environment (MONRE)
83 Nguyen Chi Thanh Street - Dong Da, Hanoi
<http://www.monre.gov.vn>

National Office for Climate Change and Ozone Protection
45 Tue Tinh, Hanoi
<http://www.noccop.org.vn>

Corporate News

Conferences

Alexandre Borde, Managing Director of Carbonium, made a presentation during the seminar “El Mecanismo de Desarrollo Limpio como incentivo para el sector eléctrico boliviano” organized by ODL in La Paz, Bolivia, March 13-14, 2008.



The presentation can be seen on the website of the Bolivian DNA:
<http://www.odl.gov.bo/cursos/20032008/ppt/PowerPoint-AND%20Bolivia-14032008%20ALEXANDRE%20BORDE.pdf>

Corporate Social Responsibility

After the earthquake that struck Sichuan province in China on May 12, 2008, Carbonium decided to make a donation to the Chinese Red Cross Foundation (<http://www.crcf.org.cn>) to participate in the disaster relief and reconstruction efforts.



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