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Interview: Juan Delgado, Senior Economist, Bruegel Institute

Question: The EU is discussing the integrated energy and climate change package to reduce carbon emissions and increase the use of renewable energy. What are the main characteristics of this package and what are the chances to have it adopted?

J. Delgado: The EU is currently discussing its long-term strategy to fight climate change. The main axes of the strategy are a reduction of at least 20% in greenhouse gases (GHG) by 2020, rising to 30% if there is a satisfactory international agreement about global emissions reduction, and a 20% share of renewable energies in EU energy consumption by 2020. Both targets are ambitious and require firm commitments from EU governments. The aim of the French Presidency of the EU is to reach an agreement before the end of the year. There are still obstacles regarding the distributions of the targets between Member States and the impact of climate policies on EU competitiveness. However, an agreement seems feasible. It is essential to reach such an agreement before the current Commission steps out and before the elections for the European Parliament.

Question: What would be the impact of this package on the European energy market?

J. Delgado: The package will have an impact not only on energy markets but also on all aspects of our life: the way of producing electricity, the means of transport, and the way we produce and consume goods. The energy sector will need large investments in order to meet this challenge and the transition will not be easy.

Question: As an expert working closely with the European Commission, how do you think the package can be improved?

J. Delgado: The package is a good start but still lacks some important elements such as a stronger focus on technology and on energy efficiency. To reduce emissions in the long term we need new technologies and we definitely need to make a much better use of energy resources.

Question: Nobody knows what will be the future of the Kyoto Protocol. How does it affect the internal European discussions about the energy and climate change package?

J. Delgado: Europe is taking the world lead in climate change policies. Adopting the climate package will show that Europe is acting on solid grounds. Europe cannot ask other countries to commit if the EU does not commit itself. There are however current decisions, such as how to tackle carbon leakage, that will be important elements in the negotiation of a post-2012 global climate agreement.

Question: There is a debate going on whether to allow more carbon offsetting through payments to developing countries. What is your opinion on such mechanisms?

J. Delgado: World carbon emissions have to be reduced no matter where and financial instruments have to be articulated to promote investment in developing countries where the opportunities to abate emissions are less costly. The current Clean Development Mechanism (CDM) does this job partially. We need more instruments and we need to improve the existing ones. We need to improve the functioning and monitoring of the CDM in order to make it really effective to reduce carbon emissions.

Question: What should be the priorities in a post-Kyoto agreement?

J. Delgado: The priorities should be to get firm commitments from other developed and developing countries. We might not be able to set immediate targets to cap developing countries emissions but, at least, a long-term emissions path. The Kyoto Protocol showed that emissions targets are not enough. We also need accompanying policies that show that the commitment is real.

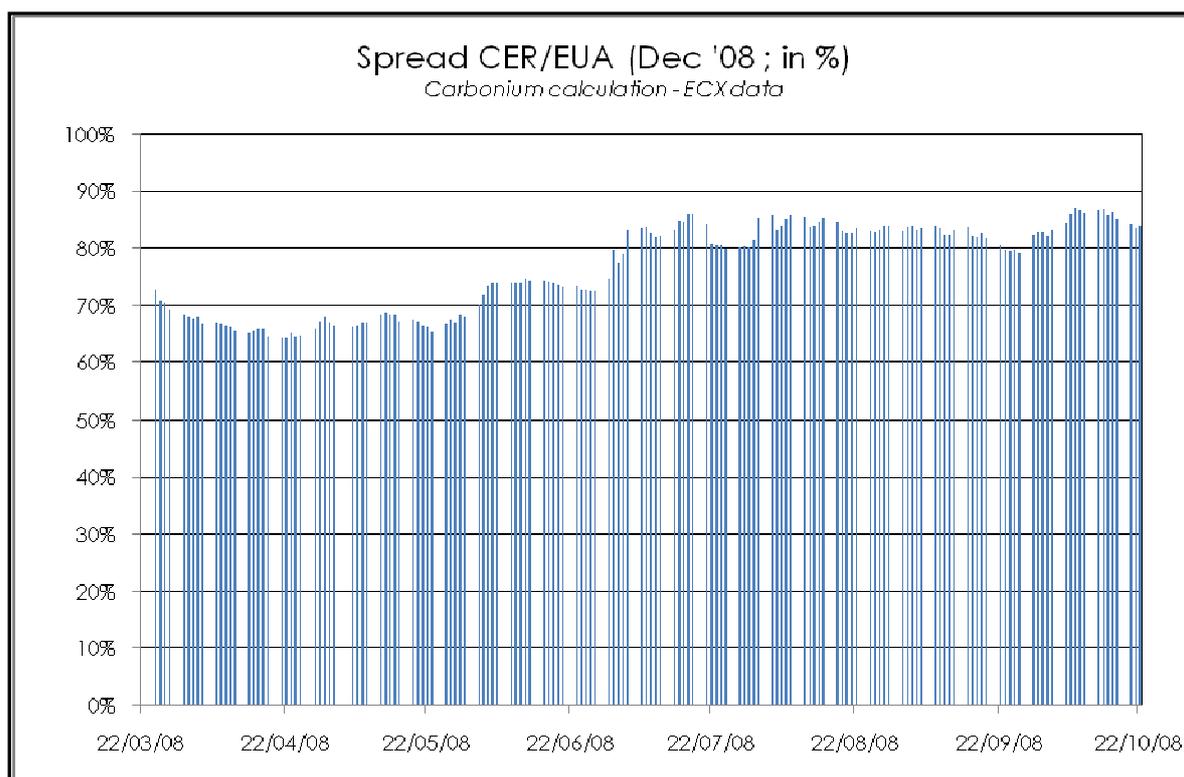
Juan Delgado is Research Fellow at the Bruegel Institute, in Brussels. His expertise is on markets, competition and regulation and, in particular, on energy and climate change policies. In 2007, he was one of the writers of Bruegel's first "Blueprint Energy: The Choices for Europe".

How much the carbon market is exposed to the financial crisis?

Low volatility and narrowing CER/EUA spread

By looking at the carbon market, it is difficult not to have in mind the current financial turmoil. One surprise is that, while most of the commodities prices have been very volatile during the past weeks, the carbon market proved to become mature by remaining stable. This is good news for the investors while in the same time, transactions' growth has been steady on both the EU Emission Trading Scheme and the CDM/JI markets. CER prices for instance appear still to be more affected by the delays at the level of the CDM Executive Board and the uncertainty regarding the post-2012 regime than by the financial crisis.

Nevertheless, Dec '08 EUA prices decreased to reach a 12 months low at 19.14 Euros on October 23, 2008 while Dec '08 CER prices dropped at 16.05 Euros. The CER/EUA spread is tightening to 3.09 Euros or 83.8%. Among the factors explaining the narrowing spread is the recent CITL-ITL connection.



If the recent observations are confirmed, i.e. a lower volatility of the carbon market compared to other commodities markets, it could become a good incentive for keeping on track with long-term investment decisions.

However, uncertainty regarding EUA and CER forward prices will stay high until both the financial situation will be stabilized and the EU Energy and Climate Change package will be known and adopted.

CDM projects opportunities: Focus on the Democratic Republic of Congo



In March 2005, the Democratic Republic of Congo ratified the Kyoto Protocol and it entered into force in June of the same year, with the Designated National Authority of the DRC located at the Ministry of Environment, Nature Conservation and Tourism.

Since the ratification of the Kyoto Protocol, the country has developed a national adaptation action plan to climate change (Programme d'Action National d'Adaptation au Changement Climatique) as early as September 2006. The program aims at facilitating capacity building, transfer of investment and technologies through CDM for implementation of projects that reduce or capture GHG emissions and contribute to DRC's national sustainable development priorities. A focus is also given to reduce the vulnerability of the country to climate change, following Decision 28/CP.7.

The country is making progress in the institutional requirements of the Clean Development Mechanism, with a certain number of rules already in place, especially with regards to afforestation/reforestation (A/R). It also benefits from the support of several bilateral or multilateral donors. Among others, the United Nations Environment Program (UNEP) launched early 2008 the CASCADE initiative to enhance expertise to generate carbon credits in Agriculture, Forestry and Other Land Uses (AFOLU sector) as well as for bioenergy activities. For the purpose, a workshop for project sponsors was organized from the 24th to the 28th of September 2008 in Kinshasa.

In DRC, Carbonium was mandated to undertake the carbon assessment of an agro-forestry project supported by the European Commission. The project is located in Mampu on the Bateke plateau. It is covered by 8,000 hectares of planted forest managed by more than 300 farmers. In addition to the agriculture and forestry sector, the country has a tremendous potential in hydro power. In this respect, Carbonium has started to inventory sites and entered in contact with some national electricity generation companies.



Democratic Republic of Congo's Designated National Authority

Autorité Nationale Désignée
Ministère de l'environnement, conservation de la nature et tourisme
35, Avenue Pumbu
Commune de la Gombe – Kinshasa 1
République Démocratique du Congo

Corporate News

In the Media

Alexandre Borde, Managing Director of Carbonium, was interviewed by Jeremy Fain about the carbon market on October 1st, 2008 on the channel Decideurs TV.



The interview can be seen at:

<http://www.decideurstv.com/index.php/carbonium-alexandre-borde-lemergence-du-marche-du-carbone/video/01102008240>

Conferences

"Climate Change and Carbon Offsetting Projects" – Carbonium presentation during the Créaplus Congress, October 23-24, 2008 at the Futuroscope in Poitiers, France.



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