

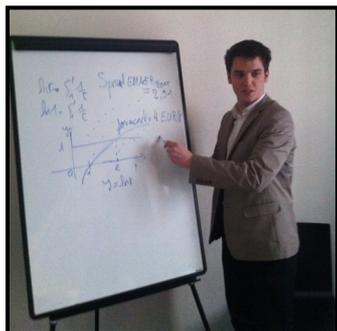
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## INTERVIEW WITH ALEXIS POUILLAIN CARBON MARKET ANALYST AT CARBONIUM

**You followed very closely the COP 16 at Cancun last December. Based on the decisions made during the Conference, how do you consider the market perspectives in the short-term?**

Each Conference of the Parties (COP) brings a few progresses towards a less carbonized world. Even if we are still far from a second commitment period after the Kyoto Protocol, these results were anticipated by the market. More important is the fact that the EU ETS is leading the way and takes avant-garde initiatives, for instance the recent banning of the HFC-23 credits or the acceptance of least developed countries (LDCs) emissions reduction in Phase 3 (2013-2020). At least in Europe, the market perspectives are ahead of the international negotiations.

**If we focus on the European market, what are the main drivers of the European Commission for Phase 3 (2013-2020)?**

The EC is striving for more environmental integrity and for a better geographical distribution of the emissions reduction projects. This is why the EC will only allow the emissions reduction from LDCs. What is unknown is to what extent bilateral agreements with other countries will be signed. Besides, the EU ambitions concerning global warming remain unequalled. The EC advocates in particular a new mitigation system known as "sectoral mechanism", targeting especially LDCs and technologies that have a much greater potential for emissions reduction. The idea is to curb emissions on criteria so that a given sector remains under a predetermined cap of emissions. On top of that, the EC is acting proactively in a lot of other fields. As an example, there is no doubt that the inclusion of aircraft operators in the EU ETS will spark something at an international scale.

**But don't you think that the recent EUA thefts jeopardize the fate of the EU ETS?**

The EUA thefts demonstrated the need of enhancing the security of the IT system used in the carbon market. In a way, it was a necessary evil: the CITL is now getting more secured, and the fraud suspicion should progressively fade away, paving the way to more efficiency in the market. In fact, the price stability during the last 2 years is self speaking. Recently, a survey highlighted that the confidence of the investors in the carbon market is at an all time high. The EU ETS is, and will remain, the most cost effective policy to cut greenhouse gas emissions in Europe.

**INTERVIEW WITH ALEXIS POUILLAIN** *CONTINUED FROM PAGE 1***Regarding aircraft operators, what are the next steps towards a specific carbon market for this sector?**

About 2,000 operators from the sector are to be regulated under the European scheme as early as 2012. These aircraft operators will have to cover their emissions using European Aviation Allocation Units (EUAs). This will imply a separate auctioning process. A small number of Member States with the largest airports in terms of traffic will account for a significant number of EUAs to be auctioned.

The emissions in the aviation sector are expected to exceed the EUAs cap. As the aircraft operators will have the possibility to buy EUAs for their compliance needs, EUAs prices are likely to be linked to EUAs prices. It also infers a new upward pressure on the price of the EUAs, given the new demand the aircraft operators will exert.

**While the European carbon market accounts for more than 80% of the worldwide market, more and more other countries—United States, China, South Korea, India, New Zealand, Australia—are willing to have their own ETS. What is your opinion about it?**

It is a matter of prime importance. Different approaches are tested, such as regional voluntary schemes like in the United States, especially in California with the California Air Board. In India, the Perform, Achieve and Trade (PAT) scheme will start this year to combine energy efficiency and emissions reduction units.

Carbonium is pretty much involved in the Chinese ETS for instance, and is a founding member of the Beijing Emissions Trading Association (BETA). For instance, the China Beijing Environmental Exchange (CBEEEX) platform is based on a voluntary approach but anticipates an evolution of the Chinese legislation to become mandatory for large emitters. As a matter of fact, China's 12<sup>th</sup> five-year plan includes the principle of a domestic carbon market. Likewise, South-Korea is considering putting in place a market which might become compulsory by 2015.

**In a sense, it is a good sign that things are moving towards new Emissions Trading Schemes and an evolution of the main one from 2013, the EU ETS. But the increasing complexity of these schemes is still a substantial concern. How does the market tackle this?**

It is true that the lack of an international agreement leads to fragment the market towards many regional or even domestic markets, each one having its own rules. Even within the European Union, there can be differences from one country to the other. This is what we observe and we have to adapt ourselves together with our counterparts.

To tackle this, I can give you some insights about how we do it. We have obviously developed a very strong expertise in France, since the company is headquartered in Paris. The same is true in China where we have a representative office. From Phase 2 to Phase 3, we have more and more requests from our French compliance customers on opting out or CER eligibility risks. It implies to be in regular contact with the governmental bodies to be updated about the European decision-making process. Hence, all our solutions regarding carbon portfolio optimization are in compliance with the existing and forthcoming regulations. For all our downstream activities, the ultimate goal is helping our customers to reduce their compliance costs through the use of innovating solutions.

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## LATEST DEVELOPMENTS REGARDING A FUTURE CHINESE EMISSIONS TRADING SCHEME

China is the main provider of carbon offsets since the origin of the Clean Development Mechanism. The country understood from the beginning the benefits of the CDM. Today, with 55% of all issued CERs and an industry oriented towards renewable energy and other emissions reduction technologies, China has proven to be strongly involved in the CDM.

However, international climate negotiations are stalled and are going towards a disengagement of Annex-1 countries in financing emissions reduction projects in several host countries like China. Even though the Chinese Government has pledged to reduce its carbon intensity by 40-45% per point of GDP by 2020, part of the international community is still considering that China must agree to cap its own emissions if the country wants to receive further investments for emissions reduction projects. One can think that Chinese negotiators are not committed to this and no significant progress happened nor in Copenhagen nor in Cancun. However the above is a simplistic view.



The recent evolutions in China tend to prove the opposite. For two years, almost 20 carbon exchanges have been created in China by local governments and private enterprises in order to establish the trading foundations of an expected domestic carbon market. While some observers remark that only celebrities and companies will buy domestic carbon credits for corporate social responsibility purposes, the Chinese Government might announce a pilot trading scheme as part of the next five years plan approved in January 2011.

Amid this enthusiasm of various actors, the Beijing Emissions Trading Association (BETA) has been launched by the China Beijing Environmental Exchange (CBEEX) with the support of more than 30 founding members, among which Carbonium. The newly created association intends to facilitate the low carbon transformation of the country via the support of market-based tools such as an emissions trading mechanism.

The objective is to foster debate between international and Chinese stakeholders and promote preferential policies for such an industry in China. In its effort to represent its members and diffuse knowledge about international carbon markets, BETA contributes to structuring a domestic market mechanism.

To conclude, there are many initiatives and options on the table in China. It is far too early to know what will come out of this. Nevertheless, China will surprise us by one way or the other.

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**CDM PROJECT OPPORTUNITIES: FOCUS ON PERU**



Peru is a fast growing and open economy with abundant natural resources in mining, energy, agriculture and the forestry. The manufacture and services sectors are continuously increasing in size since the beginning of the century. A careful management of public finances, mixed with an increasing number of free trade agreements signed among others with Thailand, Singapore, the United States, Canada, China and South Korea makes it a very good place to invest.

But the Peruvian economy faces environmental and social challenges. Desertification of land, pollution of watersheds, melting glaciers, deforestation, and the increasing occurrence of El Niño are threatening the sustainable development of the country. To tackle these challenges, the Government recently created a



Ministry of the Environment which is the guardian of Peru's new sustainable development policy. Furthermore, because a robust growth implies more electricity demand, the Ministry of Energy and Mines is giving a push to raise the installed capacity using clean energies. The Parliament has recently approved a new decree (*decreto legislativo n°1002*) to ease private investments in renewable energy projects (hydro, wind, biomass, solar and geothermic) for electricity generation. Indeed, the country pushes also for the Clean Development Mechanism to further incentivize the development of such projects.

**Designated National Authority**

Ministerio del Ambiente (MINAM)  
Dirección General de Cambio Climático, Desertificación y Recursos Hídricos

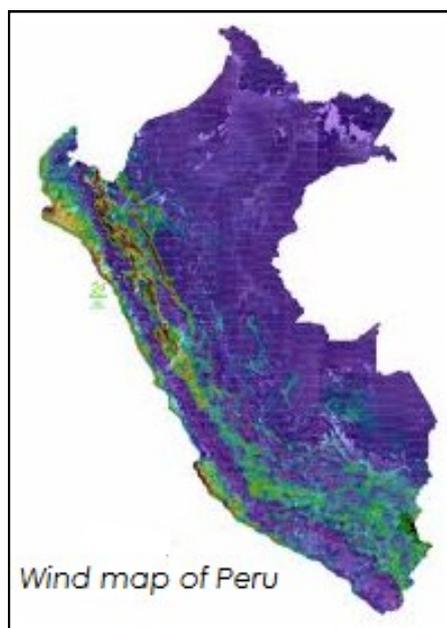
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Today, Peru is considered among the most CDM attractive countries worldwide due to its significant potential. Although only 23 projects are registered at the CDM Executive Board, many more are in the pipeline. To boost the portfolio of projects, the Peruvian Government has built a new climate change policy launched in 2008 with an institutional setting for the implementation of CDM projects.

The Ministry of Environment acts as the national DNA and is committed to approve a CDM project within 45 days. The National Environmental Fund of Peru (FONAM) is also part of these efforts, by being in charge of the promotion of Peru's CDM potential at national and international levels. According to Mrs. Julia Justo, FONAM's Executive Director, Peru has a pipeline of 190 projects diversified in hydropower, wind power, solar power, geochemical power, biomass, fuel switching, cogeneration, energy efficiency, transportation and forestry. This portfolio of projects contains 147 projects in the energy sector which represents an investment of 12 billion USD and an emissions reduction potential of 25.78 million tons of CO<sub>2</sub> per year.



Wind map of Peru

CORPORATE NEWS

Conferences



Olivier Levallois represented Carbonium during the **Green Investment Plaza 2010** conference in Seoul, December 7<sup>th</sup>, 2010. Carbonium was invited by KOTRA to attend this conference organized by the Korean Ministry of Environment and the Korea Environmental Industry & Technology Institute.  
<http://eng.keiti.re.kr>



Vincent Cornu spoke about the evolution of the carbon market in China at the **Cap Chine 2011** conference organized by the **Chambre de Commerce et d'Industrie Française en Chine**, in Beijing on January 18<sup>th</sup>, 2011.  
<http://www.ccifc.org>



As part of a large study on **waste water and sludge treatment** for the **Municipality of Wuhan**, Alexandre Borde presented the results of the CDM feasibility study at the **closing workshop organized in Wuhan**, January 25<sup>th</sup>, 2011. The overall workshop was organized by Artelia Group in cooperation with the French authorities in China and their Chinese counterparts.



Carbonium is honored to announce its membership to the **Beijing Emissions Trading Association (BETA)**. BETA is an initiative of the **China Beijing Environment Exchange (CBEEEX)**, aiming at the development of the Chinese carbon market.  
<http://www.cbeex.com.cn/article/en>

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Corporate Social Responsibility

On March 6<sup>th</sup>, 2011, six persons from Carbonium, Paris Office, ran the Paris Half Marathon.



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