



China and CDM Market

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CDM Market and China

- Trading Emissions PLC
- China in the CDM Market
- Why China?
- Regulations
- Market Characteristics - Buying and Investing
- Example Projects

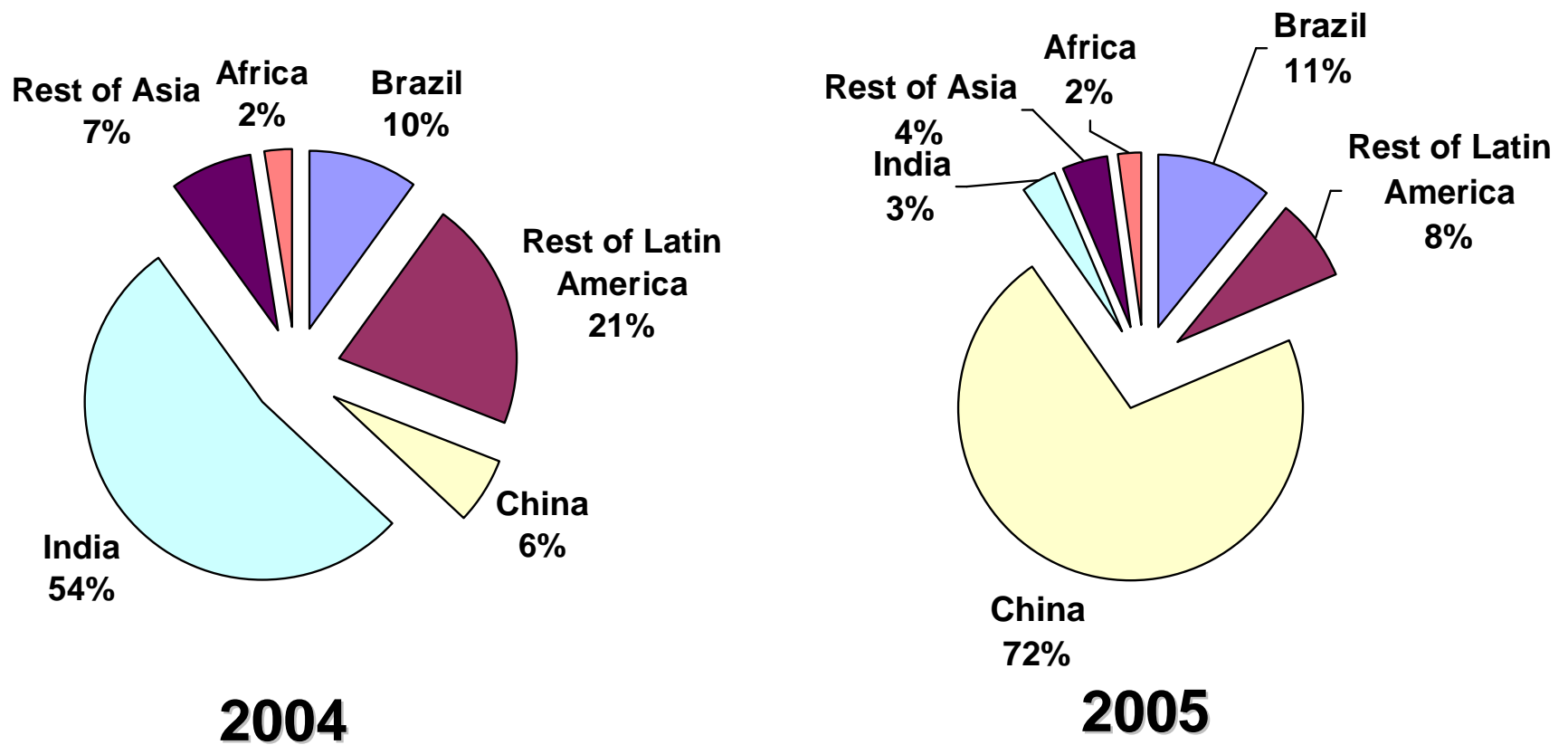


Trading Emissions PLC

- An investment company listed in London in 2005
- Has raised £310m to invest into different environmental markets
- Mostly invested into CDM market as equity, mezzanine debt or to support ERPA transactions
- Current pipeline includes over 50 projects in China across a range of sectors
- Investment Advisor is EEA

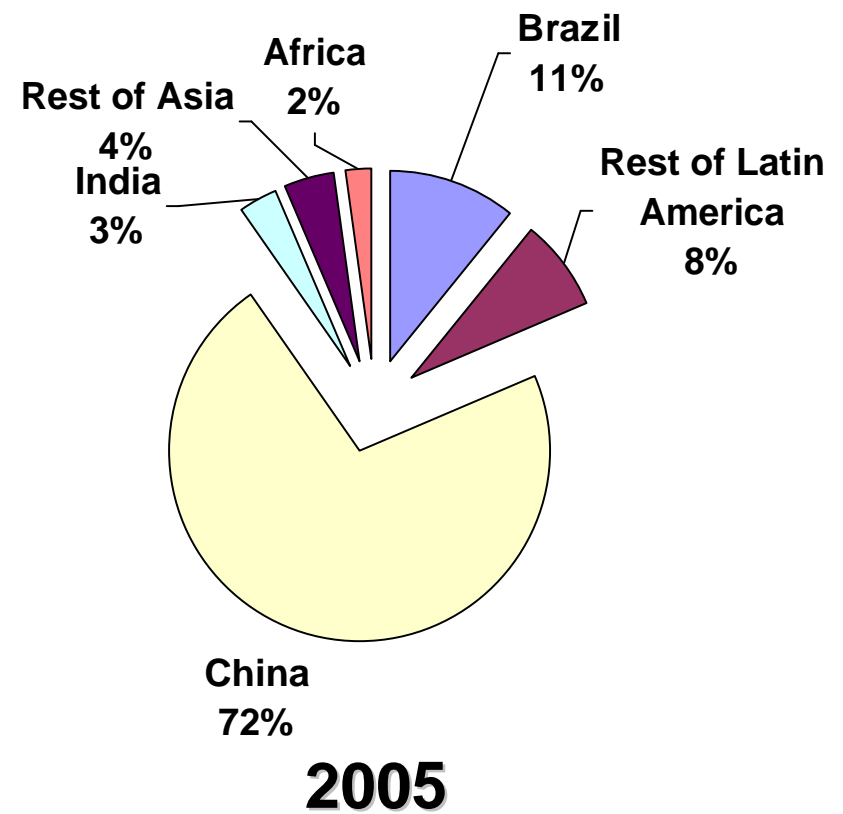
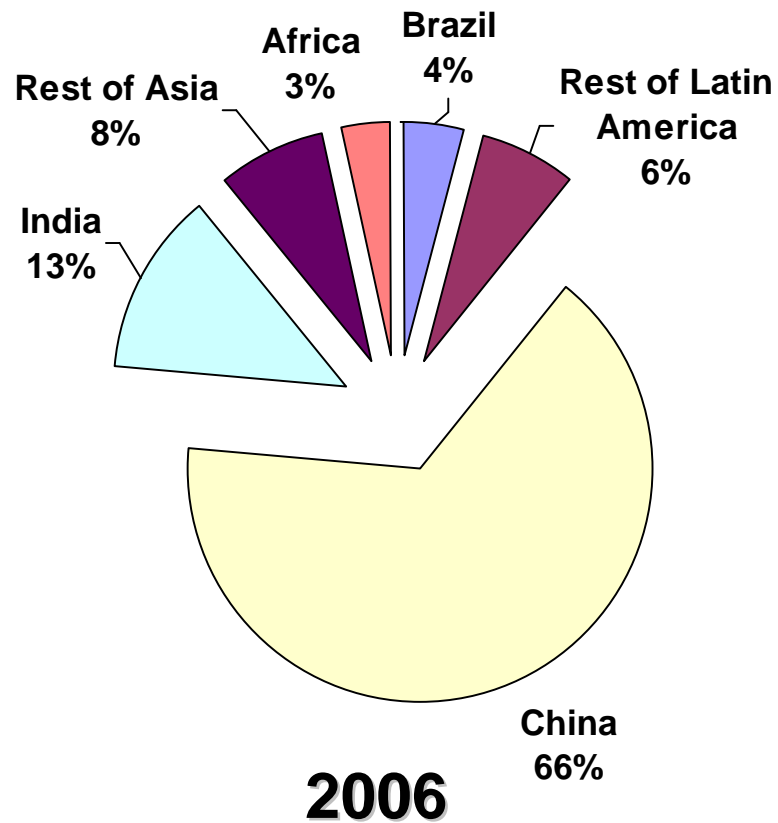


CDM Market Share (supply side)





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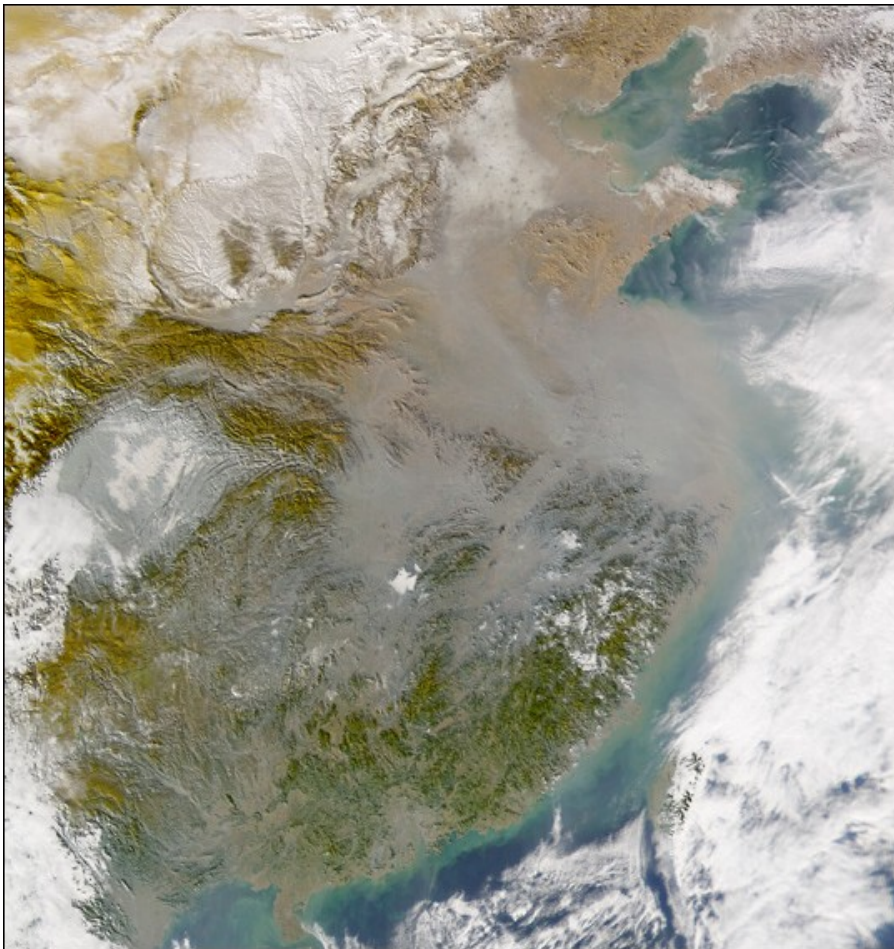


Chinese Project Pipeline

Project Type	CDM Projects at Validation	% of Projects at Validation from China	CDM Projects Registered	% of Projects Registered from China	CDM Av. CERs/yr	China Av. CERs/yr
Wind	146	64%	89	43%	80,000	107,000
Biomass	260	5%	149	3%	57,000	187,000
Hydro	295	66%	118	14%	57,000	118,000
Waste Heat	113	68%	32	13%	183,000	617,000
Fuel Switch	50	32%	17	0%	41,000	700,000
Landfill Gas	90	20%	55	11%	273,000	211,000
CMM	36	92%	4	100%	881,000	881,000
HFC	3	100%	15	53%	4,375,000	6,258,000
N2O	26	73%	9	11%	2,285,000	350,000
Biogas	169	2%	120	0%	9,000	7,000



Why China?



1. Already large emissions – easier reductions
2. Rapid development – new power projects n particular required
3. Access to capital
4. Clear CDM Regulations

BUT

1. Market increasingly crowded – price pressure
2. Difficult to structure inward investment
3. Portfolio risk – “no HFC no China!”
4. Future projects – regulations don’t encourage small scale or new methodologies

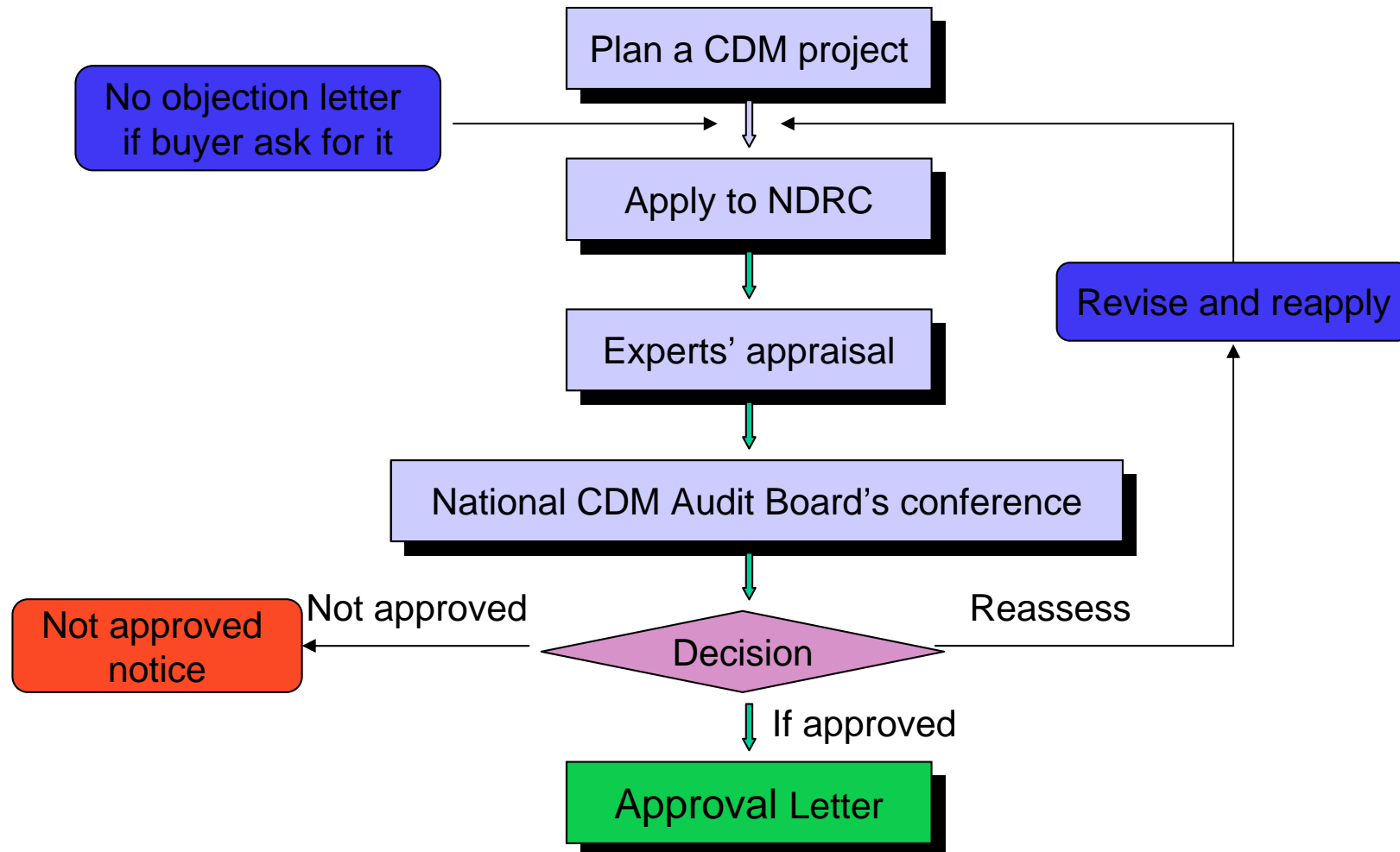


Chinese CDM Regulations

- Identified Priority areas: energy efficiency, new and renewable energy, recovery and utilization of methane
- Floor price: varies over time and depending upon project but has been around €8.00 for some time
- Project entity must be majority Chinese owned
- CERs belong to the Chinese government and the project owner, direct revenue sharing by other entities is forbidden
- Levies on CERs (impact the seller):
 - 2% for priority areas, small scale projects and forestry
 - 30% - N₂O
 - 65% - HFCs and PFCs – contributing to sustainable development



Approval process for CDM projects





Buying from Projects in China



Minimum Price rules are key to the market:

- Gives sellers confidence
- Sets a de-facto market price
- Restricts the use of market based pricing structures
- Promotes bilateral projects as easier to get approval to sell once
- Once LOA is issued difficult for seller to renege on deal
- LOA specifies volume – how will price approval work for excess CERs or post-2012?



Investing into Projects in China



Little direct investment has occurred in China CDM market

- 49% cap on foreign equity is the major barrier
 - JV structure must be approved locally
 - What are your options for an exit?
- Lending
 - Restrictions on the assets that can be used for security
 - Enforcing rulings might not be straight forward
 - Must have any loan registered with SAFE to ensure the counterparty has the right to foreign currency to repay loan
- Prepayment
 - More straightforward but really only security is the CER flow to the project



Industrial Projects in China



- HFC – Large volumes straightforward almost all done registered
- N₂O – Volume varies upfront capital costs often provided by buyer
- Methane – In China can not simply flare
- PFC – Aluminium sector in China has been modernised over past number of years without paying attention to CDM – difficult additionality arguments or small benefit
- Methanol from Coke Oven Gas – questionable additionality due to regulatory requirement to utilise Coke Oven by-product gas
- Energy efficiency – many waste heat utilisation projects in industry but little else



Energy Projects in China



- Massive growth in electricity infrastructure and very high grid emission factors
- Wind – commands premium price but...
 - Biomass – resource availability
 - Hydro – additionality in certain regions
 - Landfill gas – climate impact on gas production
 - Natural gas – Critical projects for sustainable development
 - USC Coal – Methodology approved
 - Future – IGCC and CCS
 - Nuclear?
 - Post-2012 market need clarity now for investment decisions



Conclusions

- China is the single most important country in the market
- Strong regulations have helped secure this position
- Large projects and lots of them due to rapid economic development and historically low efficiency
- Future of market some what uncertain



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