

The EVI Newsletter

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Carbon Advisory Business

For 'The Planet in Peril'

The 44th presidential election of the United States touted as one of the most important elections in the country's history, saw Barack Obama emerge as President-elect with his promises for change specifically on environmental issues, such as climate change and energy. There is widespread expectation amongst the environmentalists that change is indeed coming has strengthened with his decision to send his own representatives to the COP-14 in Poznań, Poland being held in December this year.

The proposed Obama-Biden plan for the environment aims to integrate major climate change and energy bills that will bring the US back into the international climate change arena.

The plan aims to reduce greenhouse gas emissions by 80 percent by 2050 using an economy-wide cap-and-trade programme and will also introduce a mandate to reduce emissions to

1990 levels by 2020. If these ambitious objectives are achieved, the US would go from one of the world's worst polluters to be a leader on climate change, surpassing commitments of many European countries.

Some of the other efforts in the plan includes

- Investing US\$150 billion over the next 10 years to catalyse private efforts to build clean energy
- Establishing a national low-carbon fuel standard
- Weather-proofing one million homes annually
- Putting one million hybrid cars on the road in the US by 2015
- Ensuring that 10 percent of domestic electricity comes from renewable resources by 2012

However, the global financial crisis could severely deter these plans because climate, energy, food, and the economy are all intertwined, and a holistic ap-

proach is required to successfully deal with the issue.

Yet, many are still hopeful for a better global stand with few bold decisions to save planet in peril as the president-elect said during a pre-election rally, "this is not the future I want for my daughters. It's not the future any of us want for our children. And if we act now and we act boldly, it doesn't have to be."

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New Perspective: A Cap and Share approach.

This approach returns the revenue directly to consumers. The industries get the permit to pour carbon into the atmosphere at a cost that would rise steadily as the caps are lowered. The rising cost would increase the price of energy drastically.

To avoid customers getting affected, instead of the money going into government treasury, every citizen would get a check each year for their share of the proceeds. This would partially compensate for the rising cost of energy.

Such approach may find its way in the U.S. Legislation.

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What Benchmark to Choose?

The EB-40 report at Para 40 states that "... many proposed CDM project activities in the energy sector in India seek to demonstrate additionality by means of investment analysis applying a benchmark of 16%, which is based on tariff orders published in accordance with the Central Electricity Regulation Commission. The Board is concerned with the use of this value as a benchmark for proposed CDM project activities, as this value is used in tariff determination for CDM projects and for non-CDM projects. Therefore the Board is of the view that this value is not a suitable benchmark."

With CERC tariff order no longer being acceptable, the power project which used return on equity based

on the CERC tariff order as benchmark now has to justify the benchmark in line with the cost of capital i.e. deposit rate plus suitable risk premium. EB suggests in case of Equity IRR, the required/expected returns on equity may be considered along with Benchmarks supplied by relevant national authorities while in case of Project IRR, benchmarks like weighted average costs of capital (WACC) or Local commercial lending rates are considered to be appropriate. The other benchmarks that are also suggested are post tax Internal Rate of Return or the Prime Lending Rate by Reserve Bank of India/ Indian Renewable Energy Development Agency Ltd. (IREDA).

In recent times, the *External*

Weighted Average Cost of Capital has shown popularity over other benchmarks when Project IRR is the indicator as observed from the power Projects in the pipeline.

While many power projects are facing the woes of not getting registered with the recent change in guideline on the benchmark in India, there is a ray of hope with the recent registration of a Wind Power Project last month that has used the summation of Govt Bond Rate and Market Risk Premium which is in conformity with the EB Guideline as the benchmark. The Registered Project Activity has also considered the summation of Rate of interest and inflation rate to justify its Benchmark.

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EB Report 43 says spot-checks on DOEs

The Board concluded in its 43rd meeting that it would conduct spot-checks on DOEs. The Board agreed on the scopes of the spot-check and requested the CDM-AP to complete the spot-check process and submit its recommendations for the consideration of the Board. The names of DOEs under spot checks by the Board shall be made public soon. The board took this decision by observing the statistical rise in number of issues in the requests for registration and issuance submitted by DOEs for the period May 2008 to September 2008 and overall performance of DOEs. A range of possible enforcement options suggested are as follows: Provision of general and specific information on the performance of DOEs to the public; establishing a mechanism of incentives to the DOEs to comply with the requirements and quality objectives of the Board; writing informal warning letters to the management of DOEs; implementing options for coverage of costs for review in reference to paragraph 21 of the procedure for review referred to in paragraph 41 of the CDM M&P and procedure for review referred to in paragraph 65 of the CDM M&P; possibility for suspension, partial suspension and withdrawal of accreditation status of DOEs. The Board also suggested a system of incentives for the DOEs to comply with quality standards of the Board including the possibility for financial penalties, in respect of continuing incompetence, malfeasance or fraud is being developed. In this regard, the Board has requested the secretariat to continue to develop its statistics on performance of DOEs with a view to publication of performance results and to report back on the work at its 45th meeting.

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Vinod Kala, Managing Director, Emergent Ventures (India), wins the 2008 Carbon Market Expo Awards at Australia recently.

1100 delegates from Australia and 26 other countries took part in the event. There were two core messages that came out of Carbon Market Expo. Firstly, there is vast commercial opportunity in tackling climate change and job creation. The second message from bankers, investors, infrastructure developers, technology companies, and energy companies stressed that scaling up clean technology and clean energy projects in the very near term is vital and finance flows must not be hindered. [More Info](#)

Reduced Emissions from Deforestation and Degradation (REDD)

Every year some 13 million hectares of forest is lost. Massive deforestation in the tropics accounts for up to 20% of global emissions of carbon dioxide (CO₂), making it the second most important contributor to climate change after the combustion of fossil fuels and the largest source of greenhouse gas (GHG) emissions in the developing world. About 65% of the total climate change mitigation potential (up to 100 US\$/tCO₂-eq) is located in tropical regions and about half of the total could be achieved by reducing emissions from deforestation (RED).

High rates of tropical deforestation have severe consequences for climate change, loss of biodiversity, air pollution, flooding, siltation and soil degradation. Further, deforestation causes impoverishment of rural communities as it poses threats to the livelihoods and cultural integrity of forest dependent people and the supply of timber and non-timber forest products for future generations.

Tropical forests are abundant in developing world, which needs technologies and finance to efficiently reduce rate of deforestation. As of now avoidance of deforestation is not included under the CDM based compliance structure of carbon market under

Kyoto protocol. CDM projects are confined to Afforestation and Reforestation only, at least for the first commitment period (2008-12). Non-Kyoto compliance markets also do not include it under their framework while voluntary market players like Social Carbon, VCS (AFOLU), and Chicago Climate Exchange are already allowing avoided deforestation as eligible activity for voluntary carbon credit generation.

Similarly, Australian Global Forest Fund has been established in March 2007. The Australian Government has resolved to devote US \$160 million to help reduce deforestation in the Asia-Pacific region (Neeff, 2007). The Forest Carbon Partnership Facility (FCPF) has been launched by the World Bank as a pilot carbon fund that will aim to use carbon finance to reduce emissions from deforestation. The FCPF will influence private players to facilitate countries build up approach for avoiding forest degradation through tradable carbon credits. The facility will initially pilot its activities in selected tropical developing countries. The World Bank targets US \$250 millions for this fund by 2012 and US \$1 billion by 2015.

Developing countries may choose voluntary deforestation avoidance/reduction

targets that can be met through incentives and technologies from developed nations. This is possible through some carbon market based mechanism under compliance and/ or voluntary framework. Developed nations may, in return, get certain non permanent emission reduction credits.

Switching from non renewable biomass to renewable sources; efficiency improvement measures like cooking- improved choolha, improved crematoria; Forest Fire Management system including fire detection, alarming system, prevention and care; grazing management; clear cutting and Collection of Non wood forest products, reduction of illegal felling by enforcement of

law; reducing illegal collection, forest encroachment; shifting cultivation and conversion to agricultural land and curative measures like treatment of ill trees.

In conclusion, not only may RED reduce harmful GHG emissions but this mechanism could also provide substantial co-benefits for biodiversity and human development. To achieve such an all encompassing benefits, it is pertinent that the global community seriously considers the opportunity present in front of them in the form of 'green gold'- the forests.

The Climate Science

Levels of the greenhouse gas methane begin to increase again- Cause Unknown [More Info](#)

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The Missing Greenhouse Gas- Nitrogen trifluoride (NF₃) [More Info](#)

The Climate Business

Carbon disclosure trails other CSR reporting [More Info](#)

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'PAS 2050': A new product standard [More Info](#)



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Emergent Ventures India (EVI) is one of the leading Carbon Advisory firms in India. EVI is a network of professionals with Expertise in CDM, Technology and Finance with a portfolio of > 75 million Carbon Credits (150+ projects; 23 already registered; 50+ Received HCA). EVI is amongst the largest VER sellers in the world. Also, we are the first firm to offer Carbon Neutral-ity services in India to various organizations and events. We are now spread across more than eight countries/regions i.e. India, Pakistan, Thailand, Indonesia, Malaysia, Bangladesh, Sri Lanka, Africa and Europe.

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Carbon Market Updates

Compliance Market

EUA Prices plummeted over the last month, with the sharpest drop coming in the last week of October when prices fell about €1.5 overnight. EUAs touched an 18-month low of €17.40 during this period. This was caused by strong selling from EU industrials due to the anticipated economic recession, with two factors coming into play: one being the lower emissions that would result due to a slow-down in manufacturing and power use, and the other being the need to raise short-term cash. There was also a sharp drop in oil prices at over \$3/bbl, which contributed to the EUA price fall. With the ITL linkup coming online, EUA/CER swaps have also risen due to greater liquidity in the markets.

CER prices followed the drop in

EUAs, but showed more resilience and the spread narrowed by almost €1. This was in part due to an anticipated supply shortage in CERs, with expected issuances being far less than required to meet the shortfall between emissions and EUA availability. The supply is expected to drop due to bottlenecks in CDM registration

| Commodity | 14/10/08 Close | 12/11/08 Close |
|-----------------|----------------|----------------|
| EUA Dec08 (ECX) | €23.29 | €17.95 |
| CER Dec08 (ECX) | €20.20 | €15.65 |
| CCX CFI 2008 | US\$ 1.75 | US\$ 1.20 |

and CER issuance, and also lack of available funds to finance new CDM projects. The current anticipated floor is €15, with prices expected to rebound to €20 levels by March 2009. There has however been a sharper fall in Primary CER pricing, with Buyers showing reduced interest due to low credit availability. Forward price for a registered project is

currently around €12-13.

Voluntary Market

CCX prices fell further over the last month, in spite of an increase in traded volumes. As the new US president has now been elected, all eyes are turned towards the new administration's approach to tackling Climate Change, with a US cap-n-trade expected around 2012.

VER demand has continued strong, with only a minor drop in average prices due to the financial crisis. However, demand continues to grow for more exotic projects, with attention shifting away from Indian and Chinese projects which make up the majority of the market as of now. Projects with high sustainable and social co-benefits are in demand now more than ever.