



## CHINA SPECIAL

Welcome to the September issue of MH-Carbon UPDATE.

Around 2006, China overtook the USA to become the largest emitter of CO<sub>2</sub> or equivalent greenhouse gases. Its industrialisation has been radical and swift. Virtually all the computers and electronic equipment we use are substantially manufactured there. But there is massive heavy industry there too. China had never signed to international agreements to restrict emissions but like the USA, at Durban Climate Conference of November 2011, it made commitments to come off the sidelines.

Though topping the list of CO<sub>2</sub> emitters, its enormous population means that, on a per capita basis, it does not even come in the top 10 countries. However, its per capita use is rising fast and approaching the European average.

China is certainly behaving in a responsible way regarding its emissions. The huge size of the country means that various significant initiatives are taken on a regional basis and, additionally, senior Chinese ministers have been very active on the international front to reach agreements relating to emissions reduction. This UPDATE illustrates China's latest schemes to control emissions.

Much of the emissions associated with the 2012 Olympics were offset and we also present an article showing that this approach is now considered a prerequisite for major events and offsetting is being arranged for the 2014 World Cup.

**So what does all this mean for MH-Carbon clients? It means that the worldwide carbon reduction movement is going from strength to strength and carbon credits are a vital and integral part of it. So now is an ideal time to speak to our friendly team on 020 7929 6141 and find out how easy it is to become involved.**

MH-Carbon Analyst Team

## A Massive New Market Opens in Guangdong, China



## China's Guangdong to launch world's 5th biggest CO<sub>2</sub> market

According to Reuters, the Guangdong region in southern China has launched its own Cap and Trade carbon trading market. When it comes into full force next year, it will set caps on CO<sub>2</sub> on power generators and manufacturers, and experts anticipate the Guangdong Emissions Trading Scheme, ETS, will become the fifth biggest carbon market in the world after Europe, Australia, California and South Korea.



### First Guangdong CO<sub>2</sub> permits trade at 7.25 euros

The first carbon credits have now been traded in China's fledgling Guangdong carbon market and the price achieved has exceeded expectations, reaching EUR7.25. According to local media, the first deals involved four cement producers in the province buying 1.3 million CO<sub>2</sub> permits from the government at 7.25 euros per unit, well above expected price levels.

The four companies concerned are China Resources Cement, Sinoma, Taipai and Yangchun Hailuo. They have bought the permits with the intention of hedging their carbon exposure as the region embraces the new scheme and investors speculate on future upward price movement.

Under the Guangdong Emissions Trading Scheme (ETS), companies will have to pay for 10% of their expected carbon emissions. Many companies are preparing themselves for this now by cutting their own direct emissions and by starting to buy carbon credits to offset their emissions and, additionally, familiarise themselves with the procedures and workings of the carbon market.

The price paid for the permits in the first-ever

trade in the Guangdong ETS surprised experts and comes as a welcome relief to investors.

"If this price was reached via market force under a well-published cap in a transparent market, then I have no problem with it but, if it was a government-directed price level, then it defeats the purpose of having an emissions trading scheme," said one observer. "The whole reason to set up an emissions exchange is to create transparency in the market," he added.

The Guangdong region has put a cap on CO<sub>2</sub> emissions at 660 million tonnes, a 30 percent increase from 2010 levels. The scheme will cover 827 facilities across nine sectors, which are responsible for 42% of the province's emissions. The participants in the scheme have not been published yet. Rumours suggest that the government plans to start allocating permits in March 2013.

As with most cap and trade schemes, companies will initially be given permits by the government for free to cover their expected emissions and will only have to buy permits in the market if they exceed their permitted level.

### China's Guangdong eyes carbon link by 2015

In previous issues of the MH-Carbon UPDATE, we have reported on new regional emissions initiatives and the Chinese appear to be set on a national carbon trading system. As reported elsewhere in this issue, China's Guangdong province is host to the first cap and trade system in the country and next year will cap CO<sub>2</sub> emitted by 827 of its biggest polluting companies including power generators and manufacturers

in what will be the fifth largest carbon emissions scheme in the world. The Guangdong local government has also hinted at plants to link its emissions trading scheme to other Chinese systems by 2015 in what would be the first step towards developing a national carbon market. Considering that China is the world's biggest carbon emitting nation, this progress would be a great leap for the international carbon markets.

## ► Shenzhen CO<sub>2</sub> scheme to regulate over 800 firms

Next year the Chinese city of Shenzhen will launch an emissions trading scheme to curb CO<sub>2</sub> from over 800 companies and regulate over 40 million tonnes of CO<sub>2</sub> per year. This follows a year in which the Chinese have made great progress in the carbon markets.



## Arctix embraces an even stronger Voluntary Carbon Market

CF Partners is a specialised advisory, trading and investments firm active in the renewables, commodities and energy markets. It has launched a new offsetting business called Arctix Sustainable Solutions in response to the booming voluntary market.

The company is based in London and aims to help companies to account for unavoidable emissions as part of their sustainability strategy by purchasing offsets in low carbon projects around the world.

Bloomberg New Energy Finance estimates that, in 2011, businesses offset 95 million tonnes of CO<sub>2</sub> equivalent by volume, expanding the voluntary emissions reduction (VER) market to \$576m – its highest level since 2008. Bloomberg also expects the market to continue growing to 600 million tonnes by 2020, despite problems experienced within the compliance markets.

Tobias S Troye, head of carbon solutions at Arctix, told BusinessGreen that the VER market is "reaching a tipping point" now that more and more companies are adopting sustainability policies that require them to be "carbon neutral".

Microsoft and Marks & Spencer are the latest companies committing to buy huge amounts of credits while the 2012 Olympics, US Open and 2014 World Cup in Brazil are among a number of large events set to offset their carbon impact.

Troye said that Arctix feel it is a good time to be involved in the VER market and that there are many companies that now really understand what carbon footprinting is and – increasingly – how to do it, adding that shareholders and consumers now look at companies' sustainability strategies and want to buy from companies that are carbon neutral.

Troye insisted project certification schemes such as the Voluntary Carbon Standard (VCS) ensure voluntary credits are of high quality and have transparent benefits. He said that such standards give companies confidence that going carbon neutral helps projects take place that otherwise would not do so.

A screenshot of the Arctix Sustainable Solutions website. The header features the company logo and navigation links for 'about', 'how arctix works', 'our projects', 'resources', and 'contact'. Below the header is a large image of several small figurines of people walking. To the left of the image is the text 'Implement a comprehensive environmental strategy'. To the right is the text 'Strategic Measure &amp; Reduce Offset Communicate'. At the bottom of the page, there are sections for 'CORPORATE ZERO-CARBON SOLUTIONS THROUGH MARKET LEADING EXPERTISE', 'about us', 'why we're different', and a note about the company's award-winning expertise in Voluntary Emissions Reductions (VER).

# Brazil 2014 World Cup to offset carbon footprint

The 2014 Fifa World Cup in Brazil and all the preparations for it will generate 14 million tonnes of CO<sub>2</sub>. This is roughly 0.8 percent of Brazil's annual emissions.

Estimates prepared by CO<sub>2</sub> Zero which is based in Sao Paulo, show that new construction and transportation projects being constructed for the world's second largest sporting event could add 11.1 million tonnes of carbon dioxide equivalent and that, during the event, emissions, mainly related to internal air and land travel between the 12 host cities, would add 3.01 million tonnes of CO<sub>2e</sub>.

Brazil, which will also host the 2016 Olympics in Rio de Janeiro, is investing heavily in infrastructure projects such as roads and airports in its attempts to reduce congestion in its major cities.

Last June, when it presented a sustainability report for the Rio World Cup, Fifa, football's governing body, declared its intention to offset most of the emissions from the event and said it had projected spending around \$20 million on this.

It is now estimated that Fifa, football's governing body, would need to spend around \$15 million dollars buying carbon credits in the voluntary market just to offset emissions produced during the championships themselves.



# California carbon market to be short of offsets

California's carbon market is progressing on the international stage at quite a pace but analysts believe it could be 29% short of offset credits in its 2013-2014 pilot phase if regulators do not expand the list of allowable project types. This short supply is likely to make it more expensive for companies to cut their emissions.

By around 2018, the market will be 67%, or 134 million tonnes, short of offsets, according to the American Carbon Registry (ACR).

Regulators have approved four offset project types that can generate credits for the California cap-and-trade system but these will not deliver a sufficient supply and other project types need to be integrated to ensure demand is met.

# Summary

- China launches major carbon market
- Carbon credit price for first deal higher than expected
- Major Chinese city to impose cap and trade system on 800 major polluting firms
- California carbon credit supply shortage is likely to push up prices
- Brazil 2014 World Cup set to offset emissions
- Prominent UK renewable company sets up specialised offsetting business

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### Risk, price and liquidity

- Any prices of carbon credits shown are indicative only and are based on current exchange rates. Carbon Credit prices can go down as well as up. It may be difficult to obtain true market price for VERs as many are transacted "over the counter" and as such values may vary from reseller to reseller.
- Currently VER's are illiquid in comparison to the compliance EUA credit market. There may be a big difference between the buying and selling price of carbon credits. Trading in carbon credits involves risk. You may get back less than your total outlay and in extreme cases make no recovery. However you may also benefit from any possible increase in the value of the carbon credits. Any growth shown or suggested is a projection only and cannot be guaranteed.

### Type of credits handled by MH-Carbon and requirement of client's instruction before any sale

- MH-Carbon deals in the physical delivery of carbon credits only operating mainly in the Voluntary credit market. MH-Carbon use carbon credits from recognised and independently verified projects to ensure the emission reductions are effective. The credits can be held for any length of time. They are sold only on your instruction and will never be sold collectively or without taking your specific sell order.

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- The purpose of this report is solely to provide introductory information and some background to the specific topic. It is not intended for use directly or indirectly in market forecasting or for making decisions.

- This news flow is provided to contribute towards gaining some understanding of global carbon credit markets and it may cover both EUAs & VERs. Information on the compliance market and EUAs traded on it is supplied solely to help gauge a view on the market as a whole. MH-Carbon primarily trade in VERs which currently are illiquid in comparison to EUAs and, for more information, you should refer to our website, [www.mhcarbon.com](http://www.mhcarbon.com), noting the risk warning in particular. Should you have any query, please contact us.
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