

“Re: Consultation Paper on Certified Emission Reduction Futures”

(1) The first commitment period of the Kyoto Protocol will expire in 2012. The continuity of CERs as recognized carbon emission offsetting credits under the Kyoto Protocol is subject to a new international framework for the second commitment period under negotiation with a target completion in the United Nations Climate Change Conference in Copenhagen in December this year. Meanwhile, the US appears to be committed to develop a US emission trading scheme, but the details of the scheme are subject to further announcement and the relevance of CERs is uncertain. Against this background, do you think CERs should be the core carbon emission product to pursue in Hong Kong now or in a few years' time?

Yes we think there has been success in trading CERS in the past, and this can be continued and improved into the future, and under the new framework.

(2) At this stage, the global CER market is dominated by European participants connected to the EU ETS and the delivery of CERs is based on the EU standard. Mainland China is the major supplier of CERs, which focuses on clean development projects and CER origination. Under Mainland China's policy, CERs are usually engaged by foreign investors based on forward sale agreements before they are issued by the United Nations. As such, the secondary CER trading market is not developed. European participants are using CER markets in Europe to manage their carbon emission trading needs and risk exposure. Under the existing market conditions, in what way can Hong Kong add value to the business process of the CER market and attract carbon emission trading participants to the Hong Kong marketplace? What are the success factors for Hong Kong to develop a commercially viable CER trading platform that can attract trading activities and develop trading liquidity? Do you think Hong Kong possesses the success factors? Please explain your view.

Hong Kong does possess the success factors to develop a viable CER trading platform. As with all markets, the market makers need to be encouraged to operate in Hong Kong - some European participants might be encouraged to base some or all operations in HK , or new participants can be encouraged . Trading in RMB denominated CERs may be a good initiative, for example. RMB denominations and settlement may only be allowed in the HK marketplace. This would probably suit Mainland Chinese issuers of CERS much better than using a foreign currency, which they are obliged to use at the moment.

(3) Do you consider Hong Kong investing communities have sufficient knowledge in carbon emission trading and are they ready to participate in trading CERs products? Please explain your view.

HK has a sophisticated investment community and we think they can pick this up quickly.

(4) If you are a financial intermediary, please respond to the following questions

The British Chamber has several locally based and international Financial Intermediaries in its membership.

The following is a representative response.

(i) Do you see any potential in the asset class of carbon emissions and how would you rank the priority of carbon emission trading business among your other business initiatives? (high, medium or low)?

Yes carbon emissions are a separate asset class. Environmental initiatives are gaining ground all the time so the priority and urgency is increasing and is likely to increase even more after the Copenhagen meeting in December, when the new framework is set. Hong Kong should take the initiative, to participate, in this market.

(ii) How would you assess your clients' interest in carbon emission trading? Do you have the know-how and expertise in handling carbon emission trading related operations and providing advisory services to your clients?

Several of our members already buy CERS; and several of our members have the expertise to market make and broker these transactions. They can be encouraged to start /base their operations in HK. New players in this new market can also be encouraged.

(iii) Are you located in Hong Kong and if so are you an Exchange Participant of Hong Kong Futures Exchange?

Some of our members are Exchange Participants of the Hong Kong Futures Exchange.

(5) Are there any other issues regarding the introduction of CER futures not mentioned in this consultation paper that we ought to consider? Please explain your view 5. Can the

Government : please clarify the tax treatment. Tax exemptions would encourage this industry to start up here in Hong Kong , and they would send the right signals about Government support for this sector.

(6) Do you have any other comments in relation to the overall development of emissions or pollutants trading markets in Hong Kong?

The development of these markets should be encouraged by the Hong Kong Government rather than leaving this to the private sector. The reason the EU has taken a lead is that the market is there. In Hong Kong, in line with the initiatives in Beijing and Shanghai, the new exchange could be called the Hong Kong Environment Exchange...