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From:

Sent: Monday, August 03, 2009 10:53 PM

To: response

Cc:

Subject: RE: Consultation and Questionnaire on CER Futures by HKEx

Dear

Thank you for your email of 29th June.

I hereby respond to your "List of Consultation Questions", as follows (adopting your same numbering):

1. Difficult question, especially in view of the current uncertainty surrounding the use of international offsets in any US scheme. Notwithstanding this uncertainty, however, I think it is highly unlikely that CERs will ever be phased out completely. We should remember that they remain the offset of choice for the likes of Japan and there are millions of CERs and more than 4000 projects still looking to go through the UNFCCC process. To cut these off in 2012, would send all the wrong messages to this market and further dent what is already a criticized market. For the sake of certainty, consistency and the future of this market, these projects/CERs must continue beyond 2012, with or without the US.

I also think about other non-Annex 1 countries who may well need these CERs for their own purposes beyond 2012. By way of example, I am strongly convinced that China has and continues to position itself for a national cap and trade scheme (or something akin to same), post 2012. This, I believe, is one reason why many Chinese Sellers develop projects with crediting periods beyond 2012 and refuse to sell their credits beyond 2012. If they do accept to do so, there is often much optionality surrounding same, with no firm commitment on the Chinese Seller's part to sell.

It is likely that the existing CDM regime will change, especially with sectoral schemes likely to come into play in 2012. Again, notwithstanding such changes, I do not think it is the end of CDM.

2. Chinese Exchanges are becoming more complex, offering more products and greater exposure to the outside world. It is increasingly becoming a medium through which European and Japanese companies can access their market directly, without the need for middlemen – which are being cut out, more and more, especially since they are often perceived as being too expensive and add little value.

A Hong Kong Exchange would provide further opportunities for European and Japanese companies to access the market direct and buy from project Owners throughout Asia. Increased competition (i.e. with the Chinese, Indian and future Japanese Exchanges) would likely be a good thing (although politically sensitive, I suspect) and should provide the market with greater efficiency and clarity – both needed in today's market. I also

think more people will access the market (both Sellers and Buyers) and this will increase the flow of projects – possibly new ones from regions still untouched.

Hong Kong also provides traders with an attractive time zone and a certain degree of independence from the rest of Asia. Rightly or wrongly Hong Kong has often been perceived as being the “Neutral Asian”, at least to a certain extent.

Any Exchange today, needs to be able to trade spot/future CERs (futures and options) and, if possible, provide some forum to trade project CERs, i.e. pCERs. In an ideal world, such an Exchange (this does not yet exist, I believe), could provide an opportunity for the market to price different projects, with different methodologies – i.e. industrial projects would be priced below wind projects, for example. This already exists in the market, but not on an Exchange – this would offer arbitrage opportunities and, in my opinion, would provide this clarity and transparency that this market needs today. It would certainly appeal to any future US market, which has clearly indicated its desire to look more favourably upon renewable projects.

3. I am not a resident of Hong Kong and, only on a few occasions during visits there, have I attempted to conclude CDM business. That said, when I did, there was a general lack of knowledge about the carbon markets. What many people fail to realize is that there is much information available regarding the carbon markets and, especially today, news travels very fast.

Even if such depth of knowledge is lacking today (and this may not be the case, but just my personal experience), I think it is relatively easy to educate oneself and the market and quickly come up to speed. I therefore think that entry into the market is feasible and should be done now, while there are still opportunities and it remains somewhat “simple”. Complexities and boundaries to entry are likely to occur in the future, as this market matures.

4. N/A.

5. I think this is a fantastic opportunity for Hong Kong to open a CER Exchange. They are at the center of Asia and need to provide some “neutral equilibrium” to the already existing Chinese, Indian Exchanges and future Asian Exchanges, such as in Japan.

We should also remember that Asia is and, I believe, will remain the Leaders in CDM. This will be the case, regardless of what does or does not happen in the US. As you know, the world is changing fast, especially the spheres of influence.

If Hong Kong sets up a CER Exchange it will have done the first and right step to tapping into what is likely to become one of the biggest commodity markets of all time – such an Exchange, being already in existence, will have the ease and facility to adapt and change itself to the new carbon markets – whether or not that includes the US – which, I believe, it will.

6. See point 5 above.