



Carbon Market Report

JANUARY Month End 2008

North America Carbon Wrap-Up

The final two days of January saw leaders from around the globe come together in Hawaii to re-establish negotiations in search of solutions to global climate change. The talks in Hawaii were hosted in the hope of continuing on the initial progress made at the Conference of Parties (COP) in Bali. The key issues discussed revolved around sectoral approaches to mandating emission targets for industry on a global scale. The proposed endgame would be the setting of different emission reduction goals for different sectors of the economy. This is in contrast to the European Union's approach which caps levels on an economy wide basis. Both Japan and the US took this opportunity to reference their contributions of \$10 Billion and \$2 Billion respectively for the establishment of a Global Clean-Technology Fund. The themes of technology transfer and sectoral agreements were central to all discussions undertaken during the course of the talks. Delegates from European nations stated that they viewed the proposed sectoral approach as a potential 'compliment' to the existing national emission reduction targets as opposed to a replacement. As the talks came to a close, no definitive targets were reached.

In regional markets, the key date of June 2 is fast approaching for the Regional Greenhouse Gas Initiative (RGGI). The 1st auction for emission allowance allocations is slated to take place in Massachusetts on this date. This will provide the 1st real price signal for the marginal cost of carbon abatement in the US. This however will be tempered by the fact that there will be a \$10 price cap constricting the appreciation of this carbon commodity. Massachusetts, New York, New Jersey, Connecticut and Maine have all finalized their rules for the program ahead of the 1st auction in June, whilst the remaining states are still at the drafting table.

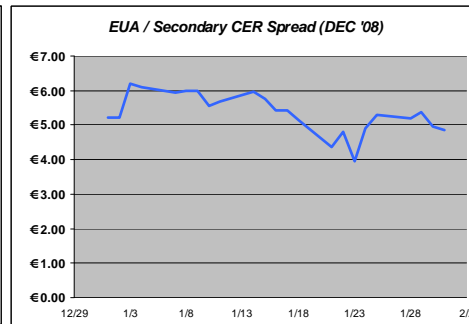
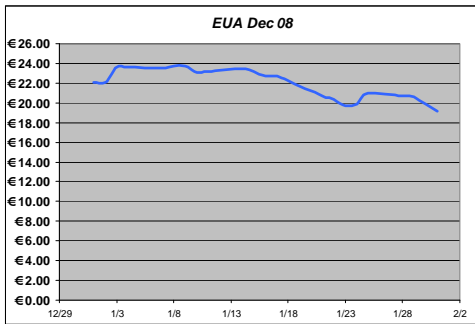
At a corporate level, 3 of the largest US Investment Banks, Citigroup, JP Morgan and Morgan Stanley released a set of 'carbon principles' in consultation with 7 of the largest coal fired utilities. These principles focus on 3 key benchmarks that will help provide a grading system for analyzing potential new investments in this space. These areas are: energy efficiency, renewable / low-carbon distributed energy technologies and proposed advanced coal technologies.

These principles were set up in the hope of bringing sustainable lending practices to the fossil fuel generated community

Global Market Wrap-Up

Pricing in the Dec 08 EUA reached an intra-month high of €23.70 on January 8th as utility participants stepped in to establish positions in the now prompt EUA vintage. The market trended down as the month progressed until January 21st when the contract dropped 7% overnight, mirroring the sell-off in the European capital markets. It is thought that it was not fundamental catalyst that moved the contract down, but a flight to safety in other asset classes. At the close on February 4th, the Dec 08 EUA contract came in €19.15 / 19.25

The spread on the Secondary CER for delivery in Dec 08 vs. the Dec 08 EUA went out to €6.20 wide at the start of the month. On January 23rd, the spread tightened to a historically tight €3.95 before recovering to widen to €4.85 at month end. At the close on February 4th, the Dec 08 EUA contract came in €14.30 / 14.50 with the 2008-2012 Strip coming in €4.10 / 14.25



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