



Project-Based Carbon Credits

- EU experience on voluntary and early action markets-

Structure

1 3C Group Corporate Profile & Track Record

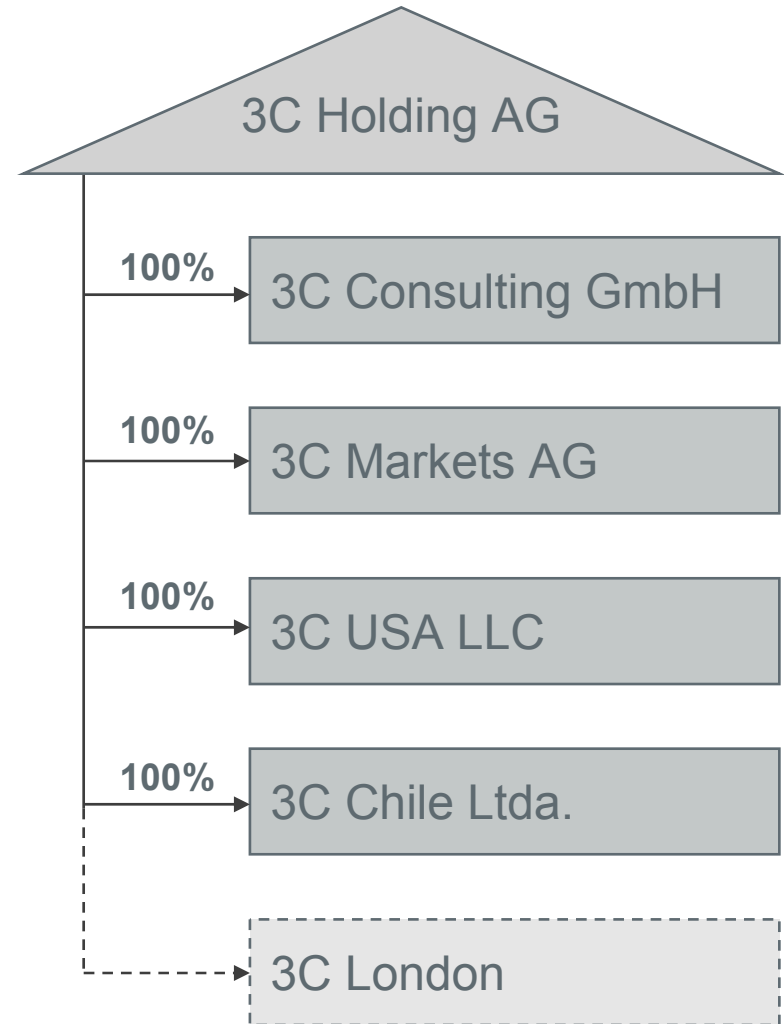
2 The Voluntary Carbon Market

3 Quality Standards for Verified Emission Reductions

4 Lessons learnt in the EU

3C - Key Data

- 3C was founded in 2003
 - in Frankfurt am Main / Germany by Dr. Sascha Lafeld and Markus Hübener
 - as independent spin-off from Dresdner Bank / Allianz Group
 - in Jan. 08, 3C AG will merge with Factor AG, Switzerland
- 3C currently employs 50 specialists
 - based in Frankfurt, offices in Berlin, Zurich, Santiago de Chile and Washington, D.C.
 - Offices in London, New Delhi and Beijing to be set up in 2008
- Since 2006 structured as a holding organization and backed by a strategic investor



Business Areas

3C operates in four core business areas



**Carbon
Investment
Advisory**



**Origination of
CDM/JI/VER
Projects**



**Trading
Strategies &
Execution Desk**



**Climate Neutral
Products &
Services**

Compliance market - 3C as investment advisor

Climate Change Investment SA I

- closing size: 67 M€
- asset class: CERs, ERUs

Climate Change Investment SA II

- target size: 100 M€
- asset class: CERs, ERUs, Gold Standard CERs/ERUs, tCERs
- will be launched in 1st quarter 2008

Carbon Opportunity Fund – Hedge Fund

- target size: 25 M€
- asset class: EUAs, secondary CERs, VERs, Post-Kyoto credits, RGGI, CCX
- first tranche will be launched in Jan. 08

Singapur Climate Change Investment

- target size: 100 M US\$
- listed on AIM, project finance + carbon credits
- asset class: power, CERs
- will be launched in 3rd quarter 08

3C's market position on the voluntary market

- Retirement of about 1,5 Mio tons CO₂ in 2005-2007
- Growth above market average for 2007
- Close cooperation with TUEV SUED
- Contribution to the development of a Carbon Stewardship Council
- 3C as expert for *"Code of Best Practice for the provision of carbon offsetting"* (DEFRA)

→ 3C is one of the world's leading providers of carbon offset services

Selected Carbon Offset Projects



renewables hydro



renewables wind



renewables solar / photovoltaic



renewables biomass



renewables biogas



energy efficiency



methane avoidance



transport



afforestation / reforestation

Carbon Neutral Track Record

Frankfurter Rundschau

neckermann.de



Heag MOBILO



Deutsche Bank



Deutsche Telekom

Deutsche Post World Net

gtz

SHARP



Dresdner Bank
Die Beraterbank

HSBC



Swisscanto

Allianz



CREDIT SUISSE



UBS

TOYOTA



Fischer



Münchener Rück
Munich Re Group



United Nations
Environment Programme
Division of Technology,
Industry and Economics (DTIE)

Inter-American
Development Bank



IWC
INTERNATIONAL WATCH CO. SCHAFFHAUSEN
SWITZERLAND, SINCE 1868



FOOTBALL
for
HOPE



Product Service

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The Voluntary Carbon Market

The Market

- Climate change is present in public and media – companies and consumers are aware of climate change
- “*Carbon Offset*” is Word of the Year 2006
- Businesses use action on Climate Change as reputation driver and market differentiator





Business Benefits

Grow Business Value

Socially Responsible Investments

Sustainability Ratings

Management of off-balance sheet risks

Win Green Business

High CO2 awareness in society

Green consumerism

Lifestyle of health and sustainability

Prepare for Compliance

Extension of the emission trading scheme

Energy efficiency benchmarks

Energy efficiency and carbon covenants

Reduce Energy Costs

Rising energy and raw material costs

Energy efficiency potentials

Attract/Retain Talent

War for talent

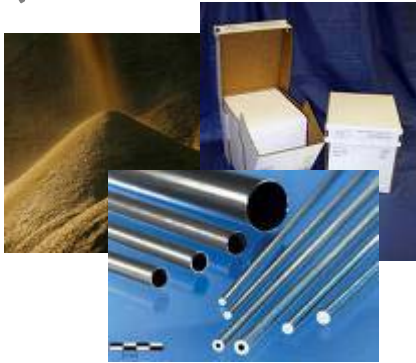
Preferred employer

Climate Neutral Solutions

Be Climate Neutral!



Purchase Climate Neutral



Travel Climate Neutral



Produce/Use Climate Neutral



Deliver Climate Neutral



Communicate Climate Neutral



Climate Neutral Process

Six Steps to develop and implement Climate Neutral Activities:

- Step 1** Explore where emissions can be avoided or reduced
- Step 2** Calculate the unavoidable emissions to be compensated
- Step 3** Select a compensation project
- Step 4** Purchase high quality emissions reduction credits
- Step 5** Retire the certificates
- Step 6** Marketing and awarding the climate neutral label

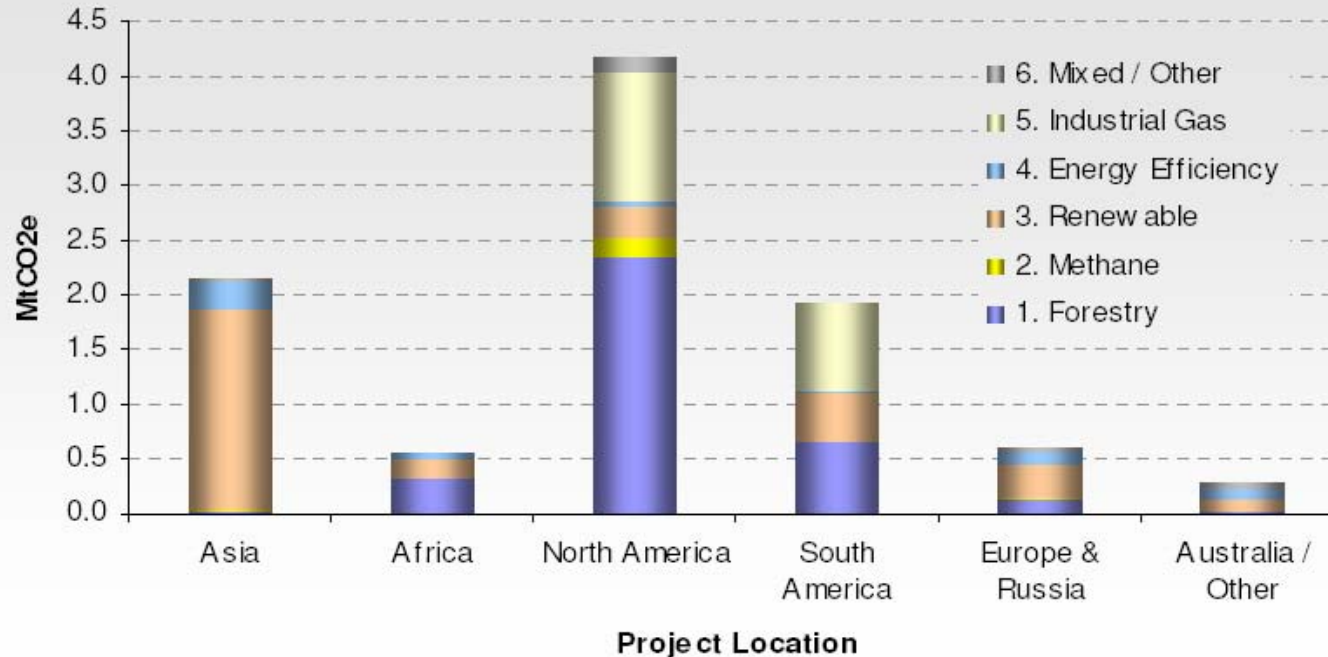
Size of carbon markets – compliance vs. voluntary

Table 1: Keeping Up with Kyoto? The Voluntary Markets in Context

	2006 Volume (Million tCO ₂)	2006 Value (US\$ Million)
Voluntary OTC Offset Market	13.4	54.9
CCX	10.3	36.1
Total Voluntary Market	23.7	91
Other GHG Trading Schemes		
EU ETS Trading Scheme ²	1,101	24,357
Primary Clean Development Mechanism	450	4,813
Secondary Clean Development Mechanism	25	444
Joint Implementation	16	141
New South Wales	20	225

Taken from Ecosystem Marketplace and New Carbon Finance State of the Voluntary Carbon Markets 2007: Picking Up Steam

Transactions by Project Location, 2006 (9.7Mt)

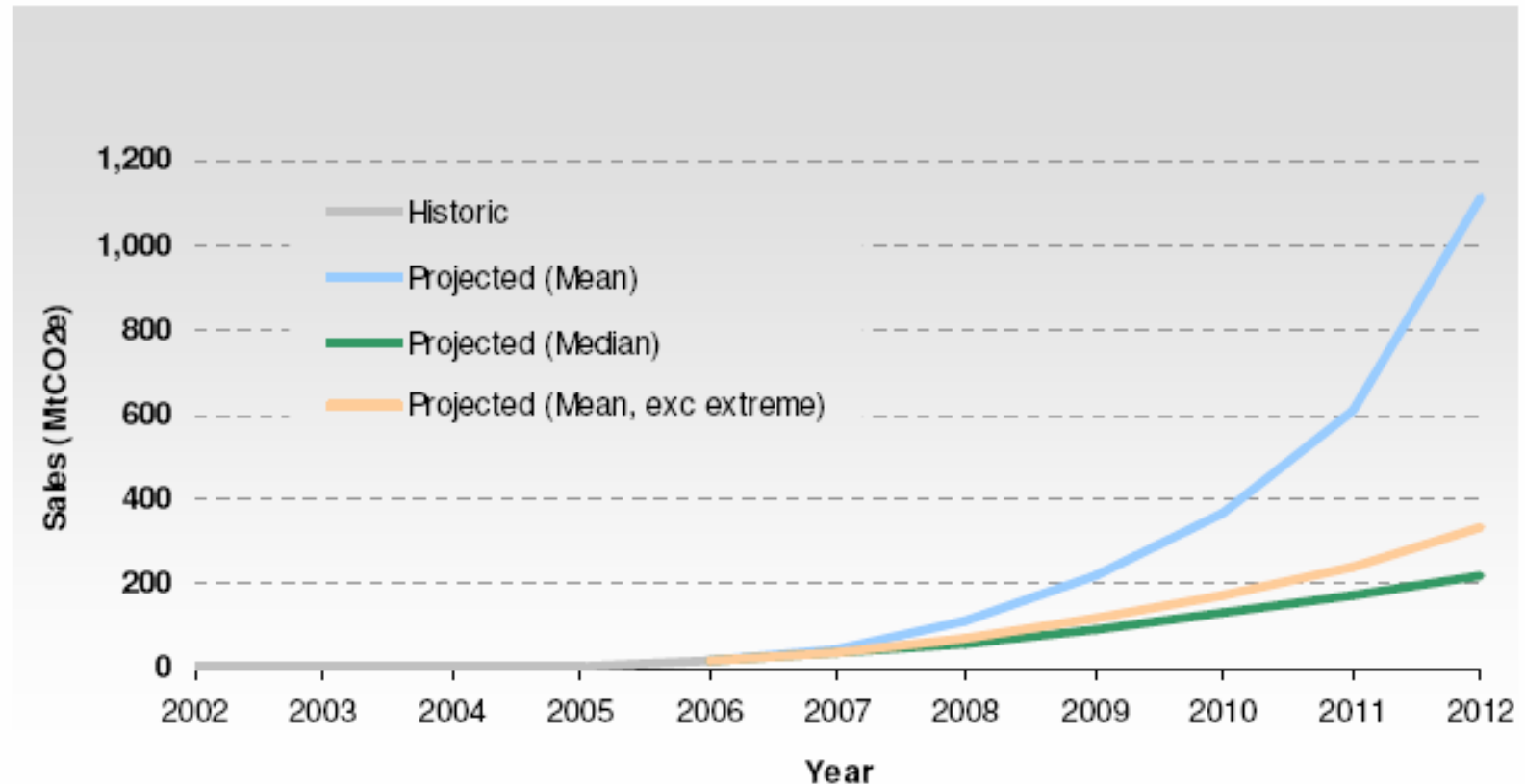


Transactions within a vast range of prices: €0.33 (NOK 2.68) to €33.40 (NOK 268) per ton.

Taken from Ecosystem Marketplace and New Carbon Finance State of the Voluntary Carbon Markets 2007: Picking Up Steam

Voluntary Carbon Market – projected future growth

Figure 24: Future Market Size Estimate (average of seller responses)



Taken from Ecosystem Marketplace and New Carbon Finance State of the Voluntary Carbon Markets 2007: Picking Up Steam

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Quality Standards for Verified Emission Reductions

High quality and transparency is key!

Standards – need to be applied globally

Emission reductions must be

- real
- measurable
- permanent
- additional
- conservative

Third party assurance needed

Registries needed to ensure emissions are not double counted.



Climate Neutral Protocol

Quality Standards for Climate-Neutral Activities

Science has identified greenhouse gas (GHG) emissions as the main cause for climate change, with carbon dioxide (CO₂) being the predominant compound. Therefore GHG – in particular CO₂ emissions – should be avoided or reduced from the outset wherever possible. Unfortunately this cannot always be achieved. But even where emissions cannot be avoided, there is an option to contribute to climate protection – through climate neutrality.

This Climate Neutral Protocol describes the quality standards used for the 'climate neutral' label, which was developed in a project called 'Hessian Climate Partners'. The project was funded by the Hessian Ministry of the Environment. The protocol was written by 3C Consulting GmbH in close cooperation with TÜV SÜD, a global leader in the market for climate protection services. Other partners include Deutsche Bank AG, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, Deutsche Post WorldNet AG, Frankfurter Rundschau, H&M mobile GmbH, KfW Bankengruppe, Neckermann.de GmbH and T-Com.

Climate neutral – what does that mean?

The damaging effect of greenhouse gases is global; therefore it is irrelevant in terms of climate protection where emissions are being caused or where they are being avoided. Unavoidable emissions at location A can be compensated by initiating additional climate protection projects at location B, and thereby become 'climate neutralized'. This principle allows for services, events or even companies to be recognized as climate neutral and to be awarded the climate neutral label.

The principle of climate neutrality

Five Steps to develop and implement Climate Neutral Activities:

- Step 1** Explore where emissions can be avoided or reduced
- Step 2** Calculate the unavoidable emissions to be compensated for
- Step 3** Select a compensation project
- Step 4** Purchase high quality emissions reduction credits
- Step 5** Retire the certificates

Each of these steps is based on transparent quality standards.

emissions to be avoided or reduced

Legal options for reduction or avoidance of greenhouse gas emissions include efforts towards climate neutrality. An instrument to introduce a new or systematically identify additional potential for a reduction or

emissions to be compensated for

Global greenhouse gas emissions are calculated based on data and agreed-upon factors (e.g. the German Federal Statistical Agency, the United Nations) for the various industrial products, such as cars – directly from existing emissions in a material form, and the volume transfers to the calculation. Compensation and complete net-zero calculation is guaranteed.

scope

Climate neutrality depends on a number of factors. It should, of course, be part of a strategy, and it should also reflect the core competencies of a company or organization. It is the responsibility of management to project a detailed and clear strategy of a measure. The following quality standards should be

emissions reduction have to be quantifiable. Projects are most likely to be

independently third parties.

the project is eligible for emissions compensation only if it depends on the credit for its financing, and only if it reduces actual emissions when the measure is implemented. The additionality of compensation projects is

emissions reduction projects to be assessed every year by an

climate neutrality. According to the rules set by the different project types, they are not eligible as climate compensation projects. Moreover, these

emissions are not eligible for compensation as additional potential for their region.

emissions reduction credits

are purchased directly from the developers of the compensation projects or

emissions to be avoided or reduced, one reduction credit that will be

retired when it is used for climate neutral activities in order to ensure

emissions compensation for emissions. Certified Emissions Reductions will be

retired into the official status-a register created for this purpose. Verified

emissions compensation projects will be issued as independent Certified

Available VER Quality Standards

Standards

VER+

VCS

CCBA

Social carbon

Gold Standard

Characteristics

Similar to CDM & JI, but more flexible on methodologies, forest projects allowed, additionality test and double counting included

Edition 2007 just released, flexible on methodologies, forestry allowed, additionality prove too soft, development of benchmarks unclear

Only for forestry projects, strong focus on community and biodiversity benefits, only in combination with VER+/ VCS/CDM

Strong focus on community benefits

Strong focus on community benefits, additionality test included, no forestry

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Lessons Learnt from the EU market

The voluntary carbon market in the EU started in 2003 as an early action market for the upcoming cap & trade systems

- at that time there were no efficiency/ carbon benchmarks
- policy regulations unclear
- unclear whether voluntary action will be counted as early action for compliance
- no standards available

➡ Some Projects did not become eligible under the EU-ETS

- With rising environmental awareness, the voluntary market has become a liquid market with good growth rates, untouched from Kyoto.

➡ No matter what will happen with Kyoto, the Voluntary Market will continue to grow – there is no way back.

- Quality is key: the market is self-regulating and selects the good from the bad - the client wants quality!

Recommendations for the US market

- The US carbon market is growing quickly, a fungibility and compatibility of standards is key to **link US markets to the global carbon market**
- Develop a transparent process for recognition of **‘good’ standards** that are comparable to regulated market standards
- Urge for **policy guidelines** with regards to benchmark setting, standard application, criteria for early action etc. to assure that your engagement now will be counted in the future.
- **Encourage organizations** to use credible standards
 - for accounting for their carbon foot print
 - for offsetting their carbon foot prints
- Ensure **linking of registries** to avoid double counting



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