



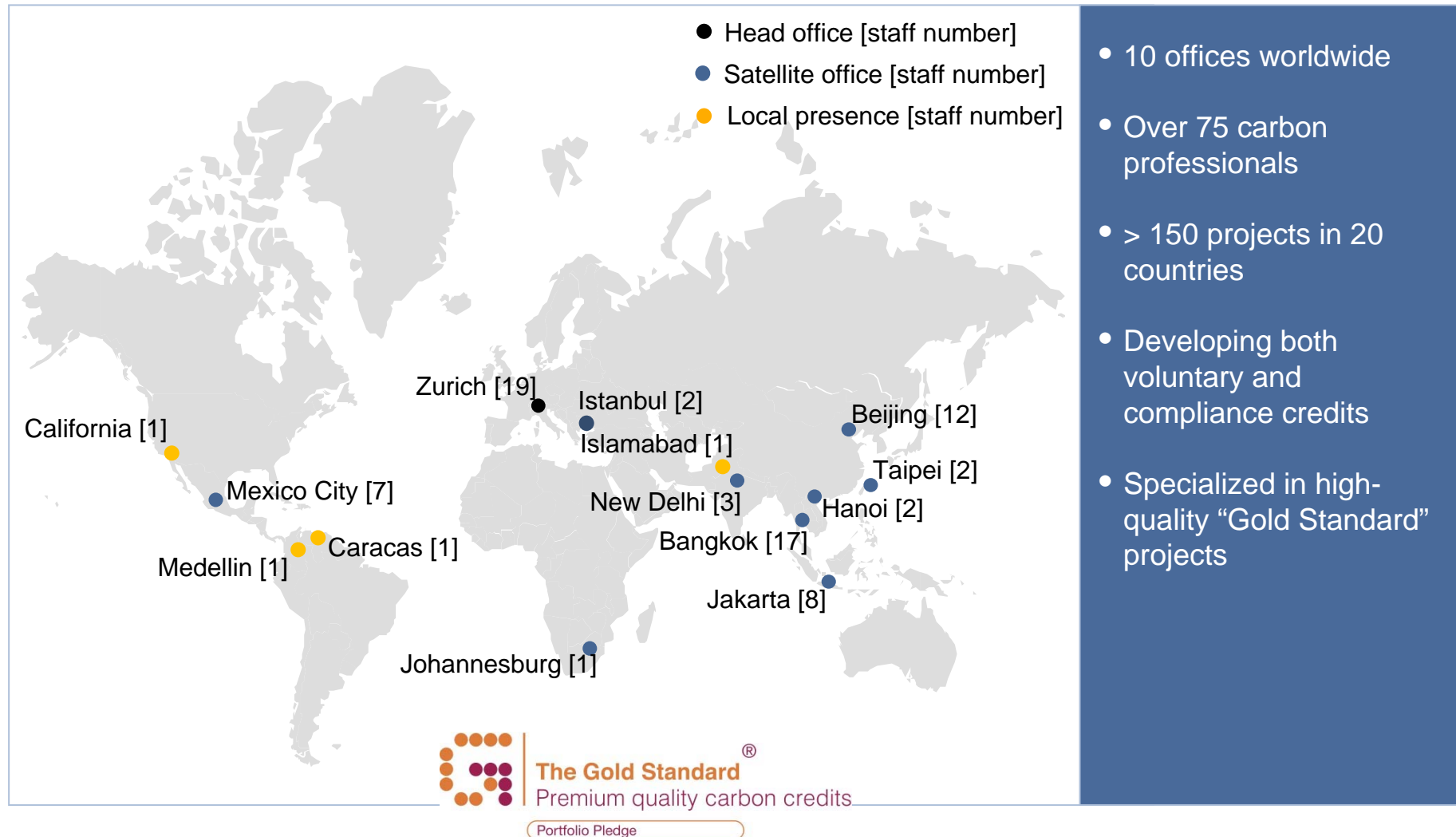
CoP 16 Side-Event

**What has carbon trade taught us about
ecological markets? Lessons learnt from a
developer's perspective**

Renat Heuberger, CEO, South Pole Carbon Asset Management

Cancun, December 10, 2010

South Pole is an international CDM/VER project developer with 10 offices - headquartered in Zurich





South Pole at a glance

Highlights

- One of the last independent global carbon developers
- More than 160 projects. managed by 75 staff in 10 offices
- Focus on high-quality CERs and VERs
- Largest Gold Standard portfolio worldwide (projects and issued certificates)
- First approvals for PoAs in Asia
- Driver of “CDM 2.0” – PoAs, NAMAs, standardized baselines and automated monitoring

Some of our customers (compliance / voluntary)



South Pole: A passion for CDM development with a global team from 19 countries





The current state of the CDM

Achievements

- Some 500m tCO₂e emissions have already been avoided
 - Methodologies have been developed for broad range of projects
 - Many project categories have seen uptake in investments
 - CDM has „transformed“ entire sectors
 - CDM has facilitated countless climate-related capacity development activities
- ⇒ ***“Carbon Revenues“ are now a central component of emission reduction projects***



The current state of the CDM

Challenges

- Limited scalability
- High transaction costs
- Inability of the CDM authorities to create predictability due to ever-changing rules
- Subjective additionality requirements & ratcheting up of approval standards
- CDM market dominated by highly controversial HFC and N₂O projects
- Market is paralyzed by post-2012 political uncertainties
- ⇒ ***The CDM does not yet provide “Carbon Finance” & is not scalable***
- ⇒ ***The CDM is a political market***



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- The Impact Debate
 - The Co-Benefits Debate
 - The MRV Debate
 - The Governance Debate
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The Impact Debate – Example (Biogas in Thailand)





The Impact Debate

Did the carbon markets have a true impact on climate change mitigation?

Depends on the sector:

1. Yes, in case of methane projects
2. Yes, in case of industrial gases – but wouldn't policies have been the better tool?
3. Debatable, in case of renewable energies
4. No, in case of transport, buildings and decentralized projects, CDM was not appropriate for that.
5. No, in case of forestry – no demand from the EU ETS



The MRV Debate - Example

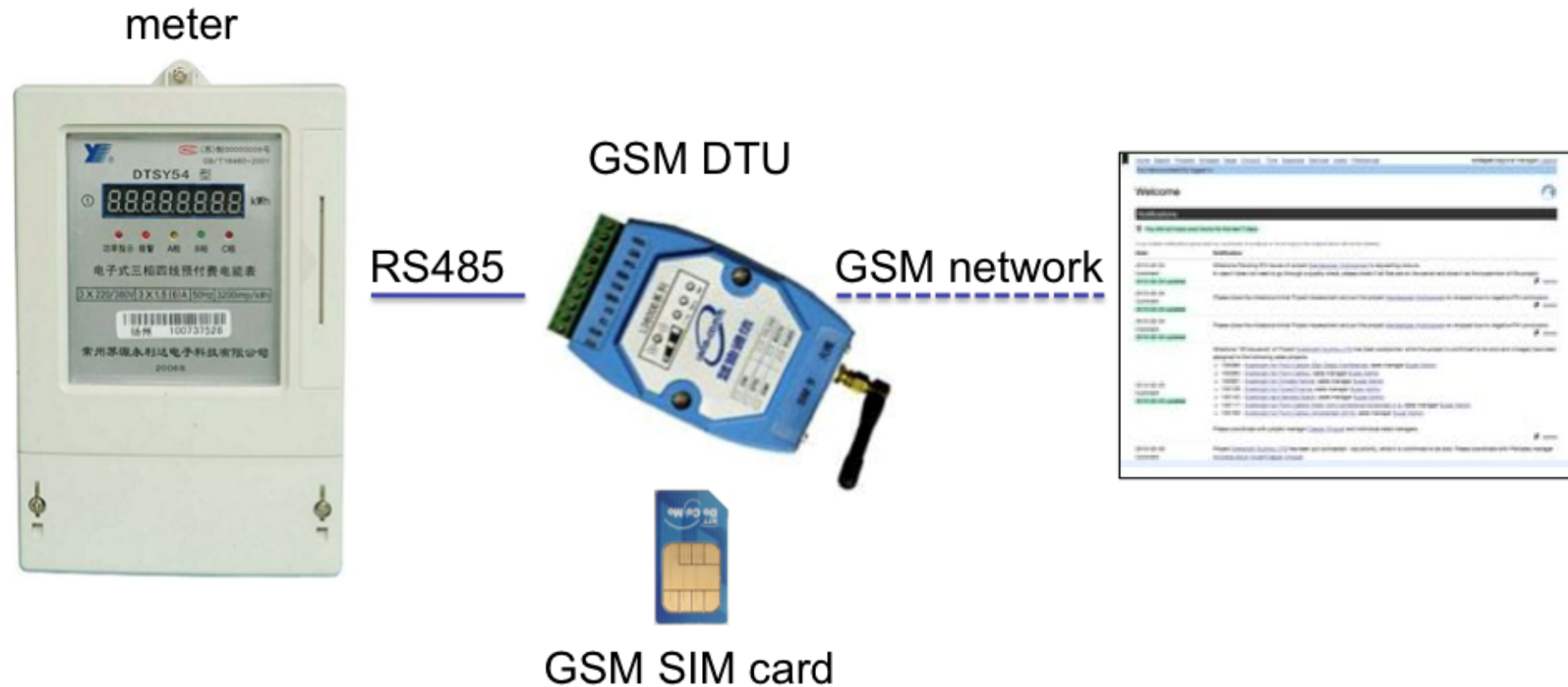
- Group of 95 micro-hydro projects in rural China
- Located in mountainous areas, mostly populated by minority groups
- Only small run-of-river hydroelectric plants
- Installed capacity 1.6 MW to 5 MW
- First delivery of 1 mill VCUs in May 2010 – world's first delivered carbon credits from PoA-style activity
- South Pole's automated monitoring system is currently being installed (MOVERs)





The MRV Debate - Example

- GSM based technology using common industrial standard (RS485)
- Simple, cost effective hardware set-up





The MRV Debate - Example





The MRV Debate

- MRV is a crucial pillar of any climate change mitigation programme
- However, MRV is complicated and has limitations
- The perfect is the enemy of the good
- Even more so for other ecological markets that lack a „currency“ such as CO₂e



The Co-Benefits Debate – Example

- Gold Standard VERs (micro-scale)
- Financing of up to 5000 energy-efficient stoves for rural households
- Approx. 10k GS VERs per annum
- Location in Upper-Yangtse area, home to the Panda
- Carbon finance provides through innovative offsetting scheme set up by WWF and South Pole





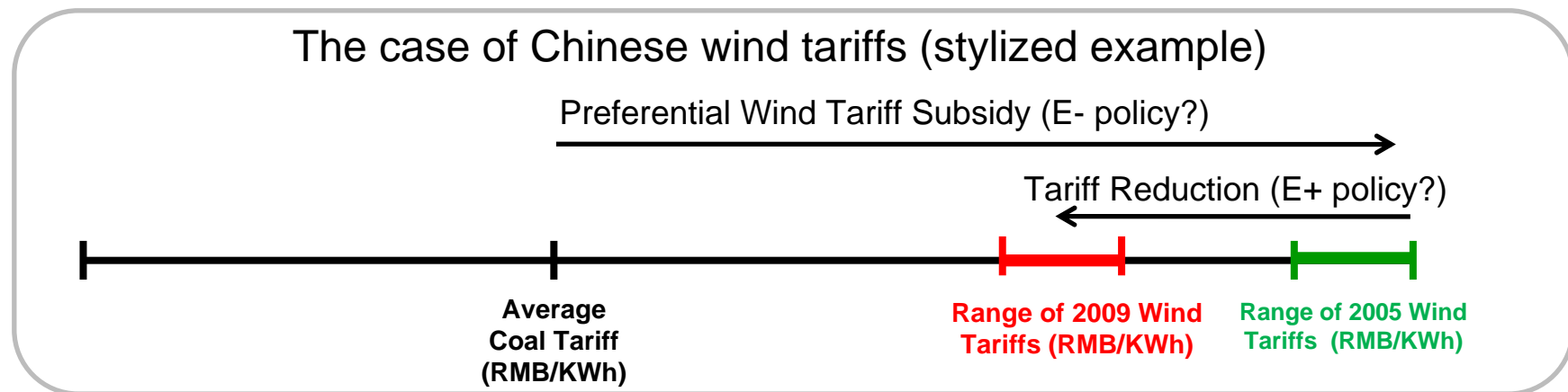
The Co-Benefits Debate

- According to the KP, CDM shall assist host countries in achieving sustainable development
- For many buyers, co-benefits are a must-have now
- However, risk of exaggerated focus on co-benefits could water down the main purpose of the CDM, namely climate change prevention.



The Governance Debate - Example

Are China's subsidies for wind power E+, E-, or neither?





The Governance Debate

- Investors need clarity and predictability – to a certain extent
- One of the main shortcomings of CDM are the ever-changing rules, combined with changing interpretation of existing rules
- Is a political body like the UNFCCC the right institution to govern a market mechanism?



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