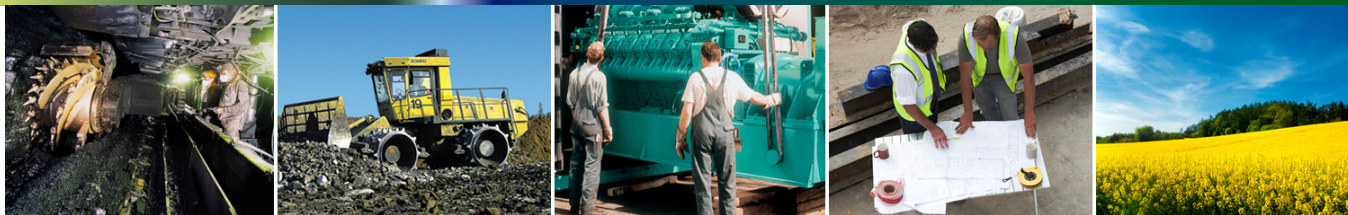
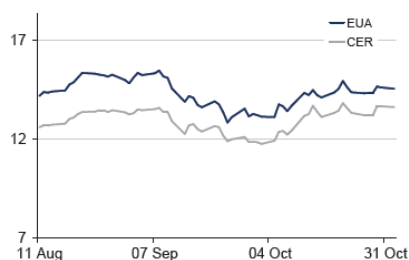


MONTHLY CARBON REPORT



MARKET INDICATORS:

EU Allowances (top) & sCER Prices (€)



Source: Point Carbon 2 Nov. 2009

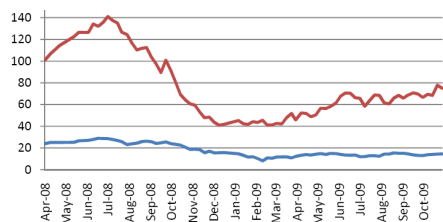
Secondary CER Prices (€)

OTC secondary CER closing prices and change (€/t)

Delivery	Bid	Offer	Close	+/-	Diff
Spot	13.70	13.80	13.75	-0.06	0.79
Dec-09	13.56	13.66	13.61	-0.04	0.93
Dec-10	13.35	13.45	13.40	-0.05	1.50
Dec-11	13.36	13.46	13.41	-0.06	2.09
Dec 12	13.72	13.82	13.77	-0.06	2.53
Dec 09-12	13.50	13.60	13.55	-0.05	1.95

Source: Point Carbon, 2 Nov. 2009

EUA and Crude Oil Prices



Red = Oil Prices (\$), Blue = EUA Prices (€)

Sources: EIA and Point Carbon, Oct. 2009

VER Prices

Gold Standard Spot	€7.00
"Exotic" VCS VCUs	\$4 – 5.50
"Pure" VCS01/2007 VCUs	\$2.00
U.S. VCS VCUs	\$5.50
Climate Action Reserve (CAR) CRTs	\$7.50
Chicago Climate Exchange	\$0.10

Source: MF Global 30 Oct. 2009

Climate Talks Toughen

With less than five weeks until the international climate meetings in Copenhagen begin, this issue of the Monthly Report will focus on what is at stake and what issues will make or break creation of a strong agreement and what it might look like.

Meetings continue in Barcelona this week, the last formal round before the "Conference of Parties to the UN Framework Convention on Climate Change" (COP - 15) in Copenhagen December 7 - 18. Over the past month pessimism has grown over the expected outcomes for Copenhagen as several critical issues have not been resolved and if anything, divisions are growing.

The aim of Copenhagen is to step up international efforts to combat climate change, to follow on the first phase of the Kyoto Protocol which expires in 2012. As the U.N. website states, "the Copenhagen agreed outcome need not resolve all details, but it must provide clarity" in four areas:

- Ambitious emission reduction targets for developed countries
- "Nationally appropriate" mitigation actions of developing countries (thus, targets are not required)
- Scaling up financial and technological support for both adaptation and mitigation
- An effective institutional framework with governance structures.

A number of commitments, not binding, have been made to limit emissions. The G8 group of wealthy countries, for instance agreed that emissions reductions must occur to prevent a two degree increase in global temperature. And most wealthy countries have announced emission reduction targets. Unfortunately, the numbers don't add up as the targets generally don't meet the two degree limit.

The debate to a great extent comes down to who does what. The developing countries make the correct point that they have not made the emissions that created the problem: 75% of cumulative emissions came from a handful of wealthy countries. Others, on the other hand, state correctly that most future emissions growth will be from the developing countries.

Getting the United States to join a future agreement is important, as it emits about one fifth of all greenhouse gases, but it is the only major nation outside the Kyoto Protocol. The U.S.' constitution makes it challenging for it to ratify international treaties: a two thirds majority in the Senate is required which always, effectively, means that support from many in the opposition party is necessary. In light of this, the Obama administration makes the point that without meaningful commitments on the part of developing countries it cannot sign on to a treaty.

At this point, even the UN doesn't think details for a treaty can be agreed at Copenhagen. The current objective for wealthy countries is for a "political agreement" that would include rich country targets,

developing country actions, avoiding deforestation, financing cleaner technology and adaptation to climate change. Unfortunately, there is little consensus on these issues. And developing countries have articulated that a “political agreement” is simply insufficient.

Another question is if extra allowances from the Kyoto period will be bankable. An estimated nine billion surplus allowances are expected, primarily from the former Soviet Union and other Eastern European countries; if these are carried forward they could significantly reduce the emissions reductions by developed countries. One estimate is that reductions would be halved from 12% to 6% based on announced targets. To limit banking, however, keep Russia and other states from joining a treaty.

While 180 governments are meeting in Barcelona this week, most think that these tough issues will only be worked out when national leaders are together during the last few days of talks in Copenhagen. In spite of the impasse, the prospects for a political decision are definitely not off the table. Delegates and world leaders across the world have made the point that a decision at Copenhagen is vital for the climate. If the politicians leave empty handed, it will look like a failure on their part back home, and politicians will spend months blaming each other.

From UNFCCC website, Point Carbon and Reuters.

What Future for the CDM?

The Clean Development Mechanism - the CDM - has been both widely lauded and damned. On the one side, proponents cite the more than 1,800 registered projects around the world, that have brought together project developers, sources of emissions, investors and technology providers to reduce emissions in the developing world. Opponents talk about how CDM has failed to promote sustainable development, and argue many of the projects would occur anyways. Others claim that the CDM is too stringent and a

lot of extra investment would occur if only the CDM Executive Board was more efficient and less arbitrary.

There are a variety of proposals to reform the CDM, and there also are discussions regarding what future the CDM will have after the Kyoto period ends in 2013.

The U.S. has expressed its interest in having the CDM include multi-project baselines and use a list of technologies that could automatically qualify for the CDM. As the U.S. is not a party to the Kyoto Protocol, and wants to have a new treaty replace Kyoto, it shows its interest in a sustained, internationally sanctioned carbon credit currency.

Other proposals include improving the operations of the existing CDM including having an appeals system in place for rejected projects, and measures to reduce delays in registration and project issuance.

The CDM post-2012 looks to continue, but there are many questions regarding what it will include and where it will apply. The EU, for instance, sees a role of the CDM in least developing countries, with other developing countries adopting emission targets for industry sectors, thus removing project-based crediting. Developing countries, on the other hand, are not so eager for sweeping changes in the CDM. At the climate talks in Barcelona, African countries boycotted talks on CDM reform as a protest against the lack of progress of wealthy nations on setting sufficiently stringent emissions targets.

From Point Carbon.

U.S., Australia Legislation Delays and Obstacles

A famous U.S. congressman, Tip O’Neil, said “all politics is local.” As noted in the articles on the international climate talks, domestic policies, in particular in key countries, impact the potential for a workable agreement at Copenhagen. While China and India, the two most influential developing countries, have made several announcements

related to their planned actions to improve energy efficiency (while not committing to emissions targets), the U.S. and Australia, arguably the two most demanding industrialized countries in the climate talks are facing an uphill battle in finalizing climate legislation in advance of Copenhagen.

Following the passage of a comprehensive climate bill out of the U.S. House of Representatives (the lower house of Congress) in June, the remaining key hurdle to climate legislation is passage out of the Senate. Draft legislation was released last month - the Boxer-Kerry Bill - and is going to hearings this week. However, the opposition Republicans are boycotting the hearings stating the need for further economic analysis. And a moderate Republican Senator announced he will be drafting new climate legislation that will be acceptable to other moderate Republicans and thus garner sufficient votes for passage. The result of all these developments is that no bill will progress before Copenhagen.

Meanwhile, in Australia the government put its climate legislation to a failed vote in the summer. It now is planning to resubmit the bill to the legislature in mid-November. If it fails again, this could be the trigger for a re-election that the opposition would likely lose. Therefore, the opposition leadership is proposing amendments that it hopes will be made and then hopes the legislation will be passed. But a number of opposition parties, and many members of the lead opposition Liberals, are saying they will vote against the bill even if all amendments requested are made.

The U.S. legislation in particular has been viewed as a critical part of a climate agreement. However, the hurdles for passage of domestic climate legislation are smaller than for an international treaty: 60 votes out of 100 are required to prevent opposition blockage of legislation in the Senate; 67 votes are needed for the Senate to ratify an international treaty. The U.S. is not a party to the current Kyoto Protocol, in large part owing to the difficulty for the government to ratify treaties. Could it be that once again a treaty is agreed, but the U.S. remains outside?

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