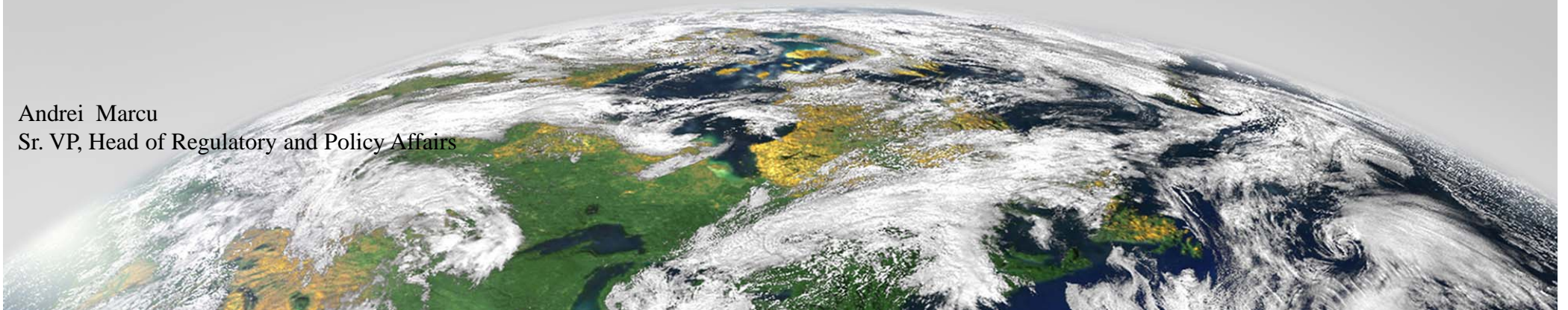


MERCURIA  
GLOBAL ENERGY SOLUTIONS

# Market Perspectives

IEA/IETA/EPRI Meeting  
Paris, September 2010

Andrei Marcu  
Sr. VP, Head of Regulatory and Policy Affairs

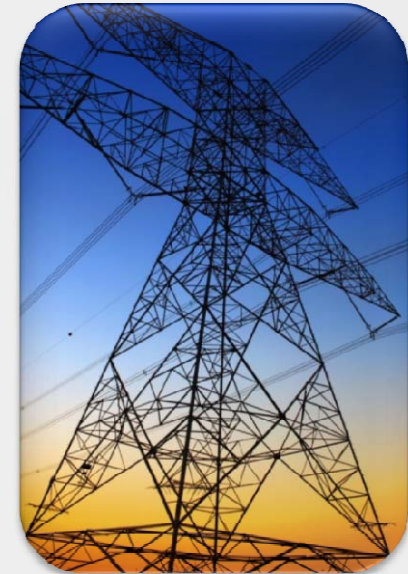
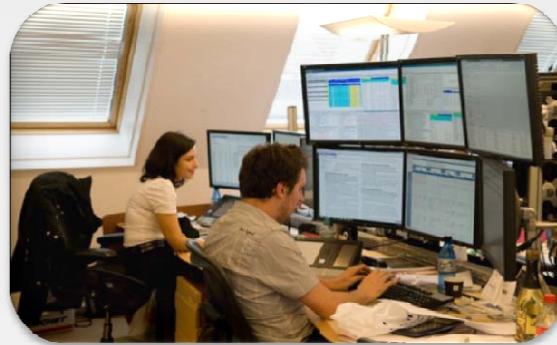


# Introduction

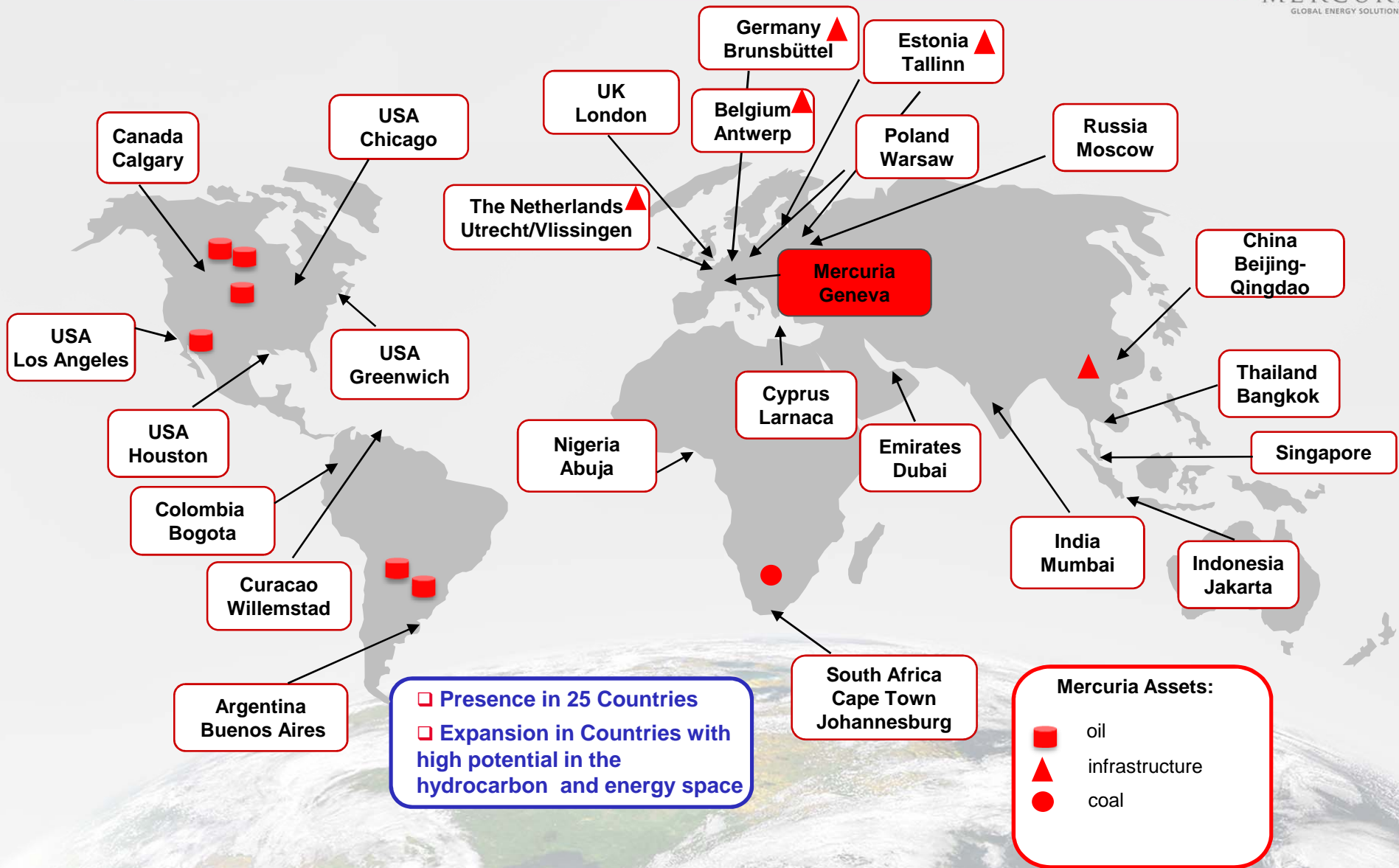
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## Mercuria Energy Group: a major global energy player

*Mercuria Energy Group Ltd is a privately owned international group of companies active over a wide spectrum of global energy markets including crude oil and refined petroleum products, natural gas, power, coal, biodiesel, vegetable oils and carbon emissions. The Group is one of the world's five largest independent energy traders.*



# Global Presence: Geographical Coverage



# Content

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- ❑ Where are we now
  - ❑ Overall
  - ❑ EUE TS
  - ❑ Offset instruments
  - ❑ Other considerations
- ❑ Where are we going
- ❑ What is needed



# Where are we now - Overall

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- ❑ Critical junction
  - ❑ Markets are out of fashion - in general, and in climate change
    - ❑ New systems not coming on line
    - ❑ In UNFCCC negotiations
  - ❑ EU ETS provides support but its sustainability alone is being questioned
  - ❑ Offsets are under siege
  - ❑ General feeling – momentum is lost
  - ❑ But some bright stars over the horizon
  - ❑ Urgent action is needed
- 



# Where are we now ? EU ETS

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- ❑ Has changed business culture
  - ❑ Given credibility to shortages of GHG emission rights
  - ❑ Focused public attention
  - ❑ Not booming
    - ❑ Narrow price range
    - ❑ Volumes stationary
    - ❑ Companies servicing EU ETS exciting
    - ❑ Industry consolidation
  - ❑ Regulator impacting BOTH supply AND demand
  - ❑ Perceptions
    - ❑ Current spin - “Scandal Plagued” - and it is catching on (VAT, recycled CERs)
    - ❑ Loosing touch with industry concerns and original objectives
    - ❑ A difficult business to be in
  - ❑ Phase 3 being defined
    - ❑ Qualitative(or quantitavie) restrictions
    - ❑ Use of EUAs to promote technologies
-

# Where are we now ? Offsets/CDM

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- ❑ Great instrument – has made a difference **BUT**
  
- ❑ “Benefits” from unconnected regulators – EU and UNFCCC
  - ❑ Uncertainty created at both levels
  - ❑ Every week brings new surprises
  
- ❑ Rapidly loosing credibility
  - ❑ Heavily politicized regulatory process
  - ❑ Under attack from a black-green alliance
  - ❑ Taking unpredictable decisions
  - ❑ CPM guidance being not acted upon in its spirit
  - ❑ Applying decisions retroactively
  - ❑ What is in, what is out ?
  - ❑ Calling fro review outside the review period
  - ❑ Calling for review on outside the mandate
  - ❑ Perceived use of regulatory system for political motovations



# Where are we now ? Offsets/JI

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- ❑ Coming back after left for dead
- ❑ Under-resourced
- ❑ Post 2012 uncertainty greater than CDM
- ❑ New players coming to market
- ❑ Can still be acted upon until 2012 for EU ETS





# Where are we now? Other considerations

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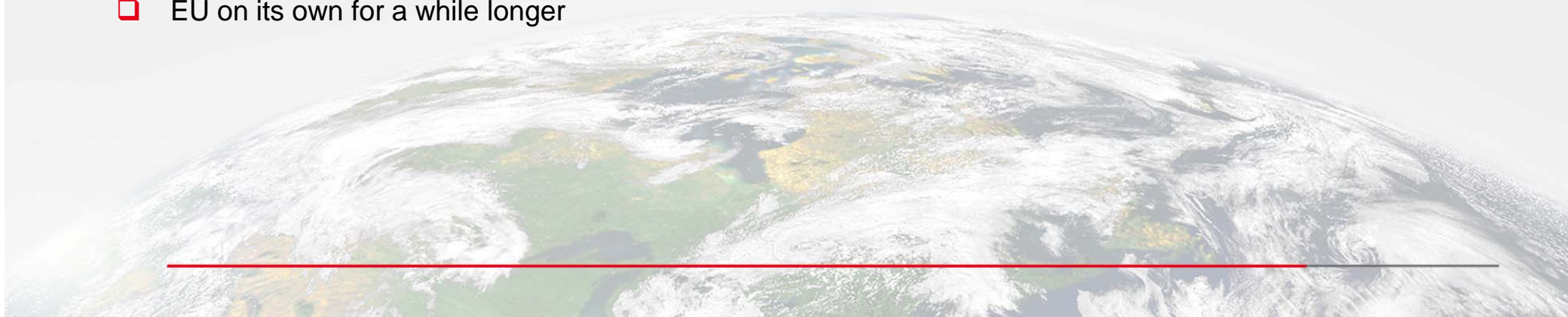
- ❑ Coming to end of KP1
- ❑ Price is an increasing driving factor
- ❑ Strong competition for CDM
  - ❑ JI T1
  - ❑ GIS
  - ❑ AAUs – lots of them left
  - ❑ Japanese bilateral arrangements? + others ?
- ❑ New AAUs players
- ❑ Unclear industry stance



# Where are we going ?

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- ❑ Into the “GAP”
  - ❑ Kyoto regulatory gap
  - ❑ Market mechanisms gap
  
- ❑ Time Running out for meaning full CDM reform in CP1
  
- ❑ The Russians are coming
  
- ❑ A menu of **market instruments** for countries to chose from
  - ❑ CDM classic – LDCs
  - ❑ PoA
  - ❑ Sectoral baselines
  - ❑ Sectoral crediting
  - ❑ Sectoral trading
  - ❑ National cap-and-trade
  
- ❑ EU on its own for a while longer



# What is needed ?

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- ❑ Success in Cancun
    - ❑ Low probability of a KP2 out of Cancun
  - ❑ Definition of NEW market instruments and role of private sector
  - ❑ CMP clarity on market instruments continuation – a CMP political declaration
  - ❑ EU to clarify P3
    - ❑ Qualitative restrictions – urgent compromise is needed
    - ❑ 30%
    - ❑ Benchmarks
  - ❑ Dialogue to ensure similar objectives for linking national/regional schemes
    - ❑ US objective is low price/low cost compliance
    - ❑ EU objective – high prices to drive change
  - ❑ Some good news....if possible
    - ❑ China
    - ❑ India
    - ❑ Russia
    - ❑ Ukraine
-

# Elements of a CMP Political Declaration

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- ❑ Emission reduction units (ERU) and assigned amount units (AAU) under Articles 6 and 17, as well as removal units resulting from activities under Article 3, paragraphs 3 and 4, that have been issued during the first commitment period of the Kyoto Protocol may be used in the trading of units after 31 December 2012.
- ❑ ERUs can continue to be created after December 31<sup>st</sup> 2012, using AAUs issued during the first commitment period
- ❑ The Clean Development Mechanism will continue after December 31<sup>st</sup> 2012 and for all purposes set out in that article and that certified emission reductions (CERs) under Articles 12 can continue to be created and may be used in the trading of units after 31 December 2012.
- ❑ The work of the EB and the UNFCCC Secretariat will continue for that purpose.



# Elements of Qualitative Restrictions Compromise

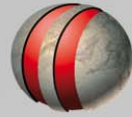
Project	Project Name in short	Emission	Registration	Crediting Period		Host	CERs upto	CERs during	CERs during	
Reference		Reductions pa	Date	Years	Start	End	Country	31-12-2012	first crediting period	entire project life
1947	Yingpeng	7865277	20-Apr-09	3 * 7	20-Apr-09	19-Apr-16	China	29.11	55.06	165.17
1867	HFL	442310	14-Nov-08	10	14-Nov-08	13-Nov-18	India	1.83	4.42	4.42
1194	<a href="#">China Fluoro</a>	4248092	14-Sep-07	3 * 7	14-Sep-07	13-Sep-14	China	22.52	29.74	89.21
1105	<a href="#">Changshu Haike</a>	3473385	15-Feb-08	3 * 7	01-May-08	30-Apr-15	China	16.22	24.31	72.94
0868	<a href="#">No.2 Zhejiang Juhua</a>	4809631	05-Apr-07	3 * 7	06-Apr-07	05-Apr-14	China	27.62	33.67	101.00
0838	<a href="#">Navin Fluorine</a>	2802150	30-Mar-07	10	01-May-07	30-Apr-17	India	15.90	28.02	28.02
0807	<a href="#">Frio Industrias</a>	1434143	10-Mar-07	3 * 7	15-Oct-07	14-Oct-14	Argentina	7.48	10.04	30.12
0767	<a href="#">Zhonghao Chenguang</a>	2065533	01-May-07	3 * 7			China			
					01-May-07	30-Apr-14		11.72	14.46	43.38
0550	Limin Chemicals	4783753	27-Oct-06	3 * 7	01-Jan-07	31-Dec-13	China	28.72	33.49	100.46
0549	Zhejiang Dongyang	3656598	27-Oct-06	3 * 7	01-Nov-06	31-Oct-13	China	22.56	25.60	76.79
0499	<a href="#">Chemplast Sanmar</a>	539163	16-Feb-07	10	16-Feb-07	15-Feb-17	India	3.17	5.39	5.39
0306	Changshu 3F Zhonghao	10437249	08-Aug-06	3 * 7			China			
					22-Dec-06	21-Dec-13		62.94	73.06	219.18
0232	Shandong Dongyue	10110117	13-Mar-06	3 * 7	01-Jan-07	31-Dec-13	China	60.69	70.77	212.31
0193	<a href="#">Zhejiang Juhua</a>	5789682	03-Mar-06	3 * 7	01-Aug-06	31-Jul-13	China	37.18	40.53	121.58
0151	Quimobasicos	2155363	14-Jun-06	3 * 7	14-Jun-06	13-Jun-13	Mexico	14.13	15.09	45.26
0115	SRF	3833566	24-Dec-05	10	01-Jul-04	30-Jun-14	India	32.61	38.34	38.34
0011	Jiangsu Meilan	8411432	04-Jun-06	3 * 7	01-Dec-06	30-Nov-13	China	51.21	58.88	176.64
0003	Ulsan	1400000	24-Mar-05	3 * 7	01-Jan-03	31-Dec-09	Korea	14.01	9.80	29.40
0001	Gujarat	3000000	08-Mar-05	10	13-Feb-06	12-Feb-16	India	20.65	30.00	30.00
								480	601	1590

# Elements of Qualitative Restrictions Compromise

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- ❑ An objective approach needed
  - ❑ Objective criteria are used to identify that asset class.
  - ❑ No retroactive application of legislation.
  - ❑ Any decisions should engage consultations with all stakeholders in a participatory way
  
- ❑ All registered projects would generate 480 million CERs up to 31 December, 2012.
  
- ❑ However, if the EU-ETS allows in all CERs generated up to end of first crediting period, this would mean 601 million CERs, viz, 121 million additional CERs would be used in the EU-ETS
  
- ❑ If all CERs up to the entire registered period for all projects were to be allowed in, this would mean 1590 million CERs coming into the EU-ETS.
  
- ❑ By allowing CERs up to the end of the first crediting period, instead of up to 31 December, 2012, the EU-ETS would be letting in an additional 121 million HFC23





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