Market Perspectives
IEA/IETA/EPRI Meeting
Paris, September 2010

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

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.
Mercuria Presence in 25 Countries
- Expansion in Countries with high potential in the hydrocarbon and energy space

Mercuria Assets:
- Oil
- Infrastructure
- Coal

Canada Calgary
UK London
Belgium Antwerp
The Netherlands Utrecht/Vlissingen
USA Chicago
Russia Moscow
Estonia Tallinn
USA Greenwich
Poland Warsaw
USA Los Angeles
USA Houston
USA
The Netherlands
USA
Cyprus Larnaca
India Mumbai
Singapore
Colombia Bogota
Nigeria Abuja
India
Emirates Dubai
Curacao Willemstad
Argentina Buenos Aires
Curacao
Argentine
South Africa Cape Town
Johannesburg
Indonesia Jakarta
Thailand
Mercuria Global Energy Solutions
Content

- Where are we now
  - Overall
  - EUE TS
  - Offset instruments
  - Other considerations

- Where are we going

- What is needed
Where are we now - Overall

- 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

- 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 quantitativ) restrictions
  - Use of EUAs to promote technologies
Where are we now? Offsets/CDM

- 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 losing 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 for review outside the review period
  - Calling for review on outside the mandate
  - Perceived use of regulatory system for political motivations
Where are we now? Offsets/JI

- 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

- 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?

- Into the “GAP”
  - Kyoto regulatory gap
  - Market mechanisms gap

- Time Running out for meaningful CDM reform in CP1

- The Russians are coming

- A menu of market instruments for countries to choose 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?

- 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

- 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 31st 2012, using AAUs issued during the first commitment period.

- The Clean Development Mechanism will continue after December 31st 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.
<table>
<thead>
<tr>
<th>Reference</th>
<th>Project Name in short</th>
<th>Emission</th>
<th>Registration</th>
<th>Crediting Period</th>
<th>Host</th>
<th>CERs upto</th>
<th>CERs during</th>
<th>CERs during</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>Yingpeng</td>
<td>7865277</td>
<td>20-Apr-09</td>
<td>3 * 7</td>
<td>China</td>
<td>29.11</td>
<td>55.06</td>
<td>165.17</td>
</tr>
<tr>
<td>1867</td>
<td>HFL</td>
<td>442310</td>
<td>14-Nov-08</td>
<td>10</td>
<td>India</td>
<td>1.83</td>
<td>4.42</td>
<td>4.42</td>
</tr>
<tr>
<td>1194</td>
<td>China Fluoro</td>
<td>4248092</td>
<td>14-Sep-07</td>
<td>3 * 7</td>
<td>China</td>
<td>22.52</td>
<td>29.74</td>
<td>89.21</td>
</tr>
<tr>
<td>1105</td>
<td>Changshu Huie</td>
<td>3473385</td>
<td>15-Feb-08</td>
<td>3 * 7</td>
<td>China</td>
<td>16.22</td>
<td>24.31</td>
<td>72.94</td>
</tr>
<tr>
<td>0868</td>
<td>No. 2 Zhejiang Juhao</td>
<td>4809631</td>
<td>05-Apr-07</td>
<td>3 * 7</td>
<td>China</td>
<td>27.62</td>
<td>33.67</td>
<td>101.00</td>
</tr>
<tr>
<td>0830</td>
<td>Navin Fluoro</td>
<td>2802150</td>
<td>30-Mar-07</td>
<td>10</td>
<td>India</td>
<td>15.90</td>
<td>28.02</td>
<td>28.02</td>
</tr>
<tr>
<td>0807</td>
<td>Flu Industries</td>
<td>1434143</td>
<td>10-Mar-07</td>
<td>3 * 7</td>
<td>China</td>
<td>7.40</td>
<td>10.04</td>
<td>30.12</td>
</tr>
<tr>
<td>0767</td>
<td>Zhonghai Changang</td>
<td>2065533</td>
<td>01-May-07</td>
<td>3 * 7</td>
<td>China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0550</td>
<td>Limin Chemicals</td>
<td>4783753</td>
<td>27-Oct-06</td>
<td>3 * 7</td>
<td>China</td>
<td>11.72</td>
<td>14.46</td>
<td>43.38</td>
</tr>
<tr>
<td>0549</td>
<td>Zhejiang Dongyang</td>
<td>3656598</td>
<td>27-Oct-06</td>
<td>3 * 7</td>
<td>China</td>
<td>28.72</td>
<td>33.49</td>
<td>100.46</td>
</tr>
<tr>
<td>0499</td>
<td>Chemplast Summar</td>
<td>539163</td>
<td>16-Feb-07</td>
<td>10</td>
<td>India</td>
<td>22.56</td>
<td>25.60</td>
<td>76.79</td>
</tr>
<tr>
<td>0306</td>
<td>Changshu 3F Zhonghao</td>
<td>10437249</td>
<td>08-Aug-06</td>
<td>3 * 7</td>
<td>China</td>
<td>3.17</td>
<td>5.39</td>
<td>5.39</td>
</tr>
<tr>
<td>0232</td>
<td>Shandong Dongyue</td>
<td>10110117</td>
<td>13-Mar-06</td>
<td>3 * 7</td>
<td>China</td>
<td>62.94</td>
<td>73.06</td>
<td>219.18</td>
</tr>
<tr>
<td>0193</td>
<td>Zhejiang Juhao</td>
<td>5789682</td>
<td>03-Mar-06</td>
<td>3 * 7</td>
<td>China</td>
<td>60.69</td>
<td>70.77</td>
<td>212.31</td>
</tr>
<tr>
<td>0151</td>
<td>Quimobasicsos</td>
<td>2155363</td>
<td>14-Jun-06</td>
<td>3 * 7</td>
<td>Mexico</td>
<td>37.18</td>
<td>40.53</td>
<td>121.58</td>
</tr>
<tr>
<td>0115</td>
<td>SRF</td>
<td>3833566</td>
<td>24-Dec-05</td>
<td>10</td>
<td>India</td>
<td>32.61</td>
<td>38.34</td>
<td>38.34</td>
</tr>
<tr>
<td>0011</td>
<td>Jiangsu Meilan</td>
<td>8411432</td>
<td>04-Jun-06</td>
<td>3 * 7</td>
<td>China</td>
<td>51.21</td>
<td>58.88</td>
<td>176.64</td>
</tr>
<tr>
<td>0003</td>
<td>Ulsan</td>
<td>1400000</td>
<td>24-Mar-05</td>
<td>3 * 7</td>
<td>Korea</td>
<td>14.01</td>
<td>9.80</td>
<td>29.40</td>
</tr>
<tr>
<td>0001</td>
<td>Gujarat</td>
<td>3000000</td>
<td>08-Mar-05</td>
<td>10</td>
<td>India</td>
<td>20.65</td>
<td>30.00</td>
<td>30.00</td>
</tr>
</tbody>
</table>

Total: 480 601 1590
Elements of Qualitative Restrictions Compromise

- 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