



Dear Readers,

At the outset, we wish our readers a wonderful New Year 2012 filled with abundance of joy, prosperity and treasure of happiness. The Carbon credit team of IDBI reiterates its commitment to our valued clients in establishing mutually beneficial long-term relationships during 2012 and beyond. We would continue providing handholding support to our patrons by offering customized and innovative products which suit to their needs in environmental banking and be a trusted partner to their success and realization of goals.

Carbon market grappled with uncertainty during the major part of the last year. The CER prices were quite volatile and remained much lower than the expectations of all stake holders. The much awaited event during previous year was the UNFCCC's conference (COP 17/CMP7) at Durban in South Africa, which ended on December 11, 2011. The conference delivered a breakthrough on the future of the international community's response on climate change. The governments, including 35 industrial countries agreed a second commitment period of the Kyoto Protocol from January 1, 2013. Indian CDM projects would continue to benefit under extended Kyoto period. During the second commitment period India and China (both developing countries) and USA would not have any binding emission reduction targets under the Kyoto Protocol. Governments agreed to develop a new market-based mechanism in 2012 to assist developed countries in meeting part of their targets or commitments under Convention.

In order to support the developing world especially for the poorest and most vulnerable to adapt to climate change, the govts. agreed for full implementation of the package which included Green Climate Fund, an Adaptation Committee designed to improve the co-ordination of adaptation action on global scale to cut emissions to the desired level so that keep the global average temperature rise

below two degrees celcius. However, there has been a mixed response to the outcome of the conference and the CER market has not shown any remarkable improvement.

The Renewable Energy Certificates (REC) trading business in India has been growing significantly since its beginning from March 2011. .

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- **Carbon Market Development in India**

- During last trading session on December 28, 2011 the trading volume increased by 10 % as compared to November 2011 session. The price discovered at Rs 2950 /REC was 1.72 % higher than the price achieved during the previous trading session at IEX New Delhi. The similar trend was seen for REC trading at PXIL, Mumbai.
- NLDC, nodal agency for REC market had issued a total of 86,878 RECs during December 2011 against 1,35,697 in November 2011. As on date, 277 projects with 1869.87 MW capacities have been registered and 1 Solar PV project with 8.5 MW capacity has been accredited with Central Agency.
- The New Zealand Government has decided to ban trading of international emission units generated from industrial gas destruction projects involving HFC-23 and N₂O from New Zealand's Emission Trading Scheme effective Jan 2012. This decision would affect sale of CERs generated by the Indian CDM projects engaged in HFCs and N₂O.

- **International Carbon Market Developments**

Brief details of key decisions that emerged from COP17 in Durban

Green Climate Fund

Countries have already started pledging their contribution to start-up costs of the fund, meaning it can be made ready in 2012, and at the same time can help

developing countries get ready to access the fund, boosting their efforts to establish their own clean energy futures and adapt to existing climate change. A focused work programme on long-term finance was agreed, which will contribute to the scaling up of climate change finance going forward and will analyse options for the mobilisation of resources from a variety of sources.

Adaptation

The Adaptation Committee will report to the COP on its efforts to improve the coordination of adaptation actions at a global scale. National Adaptation Plans will allow developing countries to assess and reduce their vulnerability to climate change. The most vulnerable are to receive better protection against loss and damage caused by extreme weather events related to climate change.

Technology

The Technology Mechanism will become fully operational in 2012.

Support of developing country action

Governments agreed a registry to record developing country mitigation actions that seek financial support and to match these with support. The registry will be a flexible, dynamic, web-based platform.

Other key decisions

A forum and work programme on unintended consequences of climate change actions and policies were established. Under the Kyoto Protocol's Clean Development Mechanism, government adopted procedures to allow carbon-capture and storage projects. These guidelines will be reviewed every five years to ensure environmental integrity.

Governments agreed to develop a new market-based mechanism to assist developed countries in meeting part of their targets or commitments under the Convention. Details of this will be taken forward in 2012.

- **Certified Emission Reduction (CER) market - Price Trends**

European Carbon Market

Spot CER market

During December 2011, both the spot CER transactions and prices remained low as in last month with high price volatility. The Spot transactions were traded between Euro 3.87 (Lowest) and Euro 5.56 (Highest) during the month.

ECX CER Future Contracts

Price trend for future ECX CER Contracts 2011 and 2012

Contracts	December 2011			November 2011		
	<u>Highest</u> (€)	<u>Lowest</u> (€)	<u>Volatility</u> (%)	<u>Highest</u> (€)	<u>Lowest</u> (€)	<u>Volatility</u> (%)
ECX CER Dec 2011	5.37	3.87	38.76	7.02	5.30	32.45
ECX CER Dec 2012	5.38	3.92	37.24	7.06	5.19	36.03

ECX CER Dec 2011 future contract was traded at its lowest price of €3.87 on December 14, 2011 (previous month €5.30 on November 25, 2011). The contract was traded at highest price of €5.37 on December 01, 2011 (previous month €7.02 on November 11, 2011). The highest and the lowest closing prices of ECX CER 2011 future reflected volatility of 38.76% (previous month 32.45%).

ECX CER Dec 2012 future contract was traded at its lowest price of €3.92 on December 14, 2011 (previous month €5.19 on November 25, 2011). The contract was traded at highest price of €5.38 on December 20, 2011 (previous month €7.06 on November 11, 2011). The highest and the lowest closing prices of ECX CER 2012 contract during the month reflected volatility of 37.24% (previous month 36.03%).

- Clean Development Mechanism (CDM) Statistics (As on December 31, 2011)
Summary of Registration and Issuance

Total CDM projects in pipeline (UNFCCC)	> 5600
Total no. of projects registered with UNFCCC	3752
No. of Projects requesting registration	68
Expected CERs until end of 2012 (UNFCCC) out of the CDM projects in pipeline	> 2700 Mn
Expected CERs until end of 2012 (UNFCCC) out of the CDM projects registered	> 2110 Mn
Total No. of CERs issued	821.178 Mn
Total No. of Registered projects from India	772
Total No. CERs issued to Indian Projects	129.83 Mn

- China leads with 1758 registered CDM projects accounting for 46.82% followed by India (772 projects i.e.20.56%) and Brazil (200 projects ie. 5.33%) respectively. Total CERs issued to registered projects, amounted to around 821.178 millions, of which China accounts for 58.62% followed by India at 15.81%.

- **Carbon Credits / CDM Services by IDBI Bank**

IDBI Bank is the first among the public sector banks to have entered into this business and has undertaken the pioneering role in the Indian banking sector in the area of environment banking. Since early 1990s, IDBI has been instrumental in the phase out of Ozone Depleting Substances (ODS) and is involved in the national projects for phase out of production of Chlorofluoro Carbons (CFCs) and production and consumption of Carbon Tetrachloride (CTC) as a Financial Intermediary of the World Bank. IDBI Bank is actively involved at national and international levels in various forums on climate change and is working with no. of national and multilateral agencies for sustainable carbon credit business. IDBI Bank is the forerunner in providing complete range of CDM related services tailor-made to suit the needs of the clients as under:

- A. **Funding of the CDM projects;**
- B. **Facilitating registration of CDM projects under the UNFCCC for availing carbon credits, covering preparation of technical documents (PDDs), interacting with various agencies like MoEF, GOI, validating agencies (DoEs) etc.**
- C. **Advisory Services for Trading of Certified Emission Reductions (CERs)/ Voluntary Emission reductions (VERs) - Both buying and selling under different structures to meet the requirements of clients and preparation of bankable Emission Reduction Purchase Agreements.**
- D. **Upfront Financing against the Carbon Credits/Carbon Credits Receivables**
- E. **Related Banking and financial advisory services for syndication (Debt/Equity) etc.**

Advantage IDBI Bank

- Strong relationships with good quality buyers
- Ability to work out different price structures to meet the requirements of buyers and sellers while mitigating risks
- Possibility of funding against future sale can be explored
- Experience of analyzing documents including ERPA
- Long term partner for business growth
- One stop solution for all the banking and advisory needs of the clients
- Complete transparency in dealings.

- **India Chiller Energy Efficiency Project (ICEEP):**

The Ministry of Environment & Forest (MoEF), GoI, in association with the World Bank has launched ICEEP for provision of financial grant incentives for accelerated replacement of energy inefficient Chloro Fluoro Carbon (CFC) based centrifugal chillers with energy efficient non-CFC based centrifugal/ screw chillers. The project is being financed by the Global Environment Facility (GEF), Multilateral Fund for Implementation of the Montreal Protocol (MLF) aggregating USD 7.30 million. IDBI Bank has been appointed as Project Implementing Entity (PIE). The project development objective is to promote deployment of energy efficient technologies to reduce GHG emissions under Kyoto Protocol and support GoI in compliance with the Montreal Protocol obligations for complete phase out of new CFCs in the production & consumption sectors through provision of incentives directly to chiller owners in order to lower their opportunity costs and upfront capital cost and demonstrate significant rate of return on investment of chiller replacement. For more details of ICEEP please refer our web link: <http://www.idbi.com/IEEE.asp>

Grant incentive aggregating USD 0.19 million (Rs. 86.94 lakh) has been released to two sub-project beneficiaries on successful completion of their sub-project activities of installation of new non CFC energy efficient chillers.

The project has achieved the spirit of project development objective, namely reduction of GHG emission through phase-out of CFC based chillers in the country. The World Bank has now decided to restructure the project in consultation with GEF and GoI for expanding eligibility for grant incentives under ICEEP to non-CFC based chillers.

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