

Alternative Commodity: New Opportunity



Clean energy sector around the globe rose for the past two months, in line with the benchmark's performance. Over a longer term, warming of the climate system is widespread, being evidenced from the observations in global average air and ocean temperatures, melting of snow and ice, and rising average sea level. The UN's Intergovernmental Panel on Climate Change (IPCC) made certain that the reduction of greenhouse gas (GHG) emissions, which are widely believed to have contributed to global climate change, will be a policy issue for decades. In fact, burning of fossil fuels is a major source of industrial greenhouse gas emissions, especially for power, cement, steel, textile, fertilizer and many other industries which rely on fossil fuels, like coal, electricity derived from coal, natural gas and oil. The major greenhouse gases emitted by these industries are carbon dioxide, methane and nitrous oxide, all

of which increase the atmosphere's ability to trap infrared energy and thus affect the climate. To address this, intensive energy consuming industries as steel, aluminium, cement and paper industries will have to invest in emission-reduction technologies to offset expected increase in power cost and the need to abide by mandate on emission reductions. On the other hand, carbon trading markets would become more and more popular for reducing GHG emissions, and in particular carbon dioxide emissions, which are the largest constituent of GHG emissions. In the long run, when fossil fuels' price rises, the price of energy from all sources will rise, making other energy generation technologies competitive. This will encourage investments in solar, nuclear, hydroelectric, and wind energy, all of which offer

significant carbon reductions over coal, oil, and natural gas. Now, many uranium production companies will definitely benefit from this strategic move. Those companies include Cameco (CCJ), which produce 19% of world's uranium production, Rio Tinto (17%) and BHP Billiton (8%). On the other hand, policies that provide an implicit price of carbon could create incentives for producers and consumers to significantly invest in low-GHG technologies and processes. Such policies could include economic instruments, government funding and regulation, while noting that a tradable permit system is one of the policy instruments that has been shown to be environmentally effective in the industrial sector, as long as there are reasonable levels of predictability over the initial allocation mechanism and long-term price. **IB**

Microscope

Carbon trading is to control the emission of carbon dioxide whereby governments set overall limit on carbon emission. The mechanism was formalized in the Kyoto Protocol, an international agreement between more than 170 countries, and the market mechanisms were agreed through the subsequent Marrakesh Accords. The mechanism adopted was similar to the successful US Acid Rain Program to reduce some industrial pollutants. Companies who will be emitting more carbon than they have permits to emit must therefore buy additional credits on the open market, while those who will emit less can sell their credits. This mechanism is attractive to governments for several reasons. First, it easily enables sliding reductions in carbon emissions over a number of years. Every year, the number of credits granted can just be decreased by the government. Second, it creates an efficient market for carbon reduction, encouraging reduction of carbon emissions by those companies who can do so at the least cost. After all, a company for whom reducing carbon emissions is expensive will buy excess credits from a company that can reduce the emissions cheaply. **IB**

MARKET BRIEFING

YTD % (local curr)

US DJ	8,268 (-5.8%)
Nasdaq	1,680 (6.5%)
Euro Stoxx 50	2,364 (-3.6%)
HSI	12,790 (16.7%)
Japan NK225	9,265 (4.6%)
China Shanghai Composite	2,645 (45.3%)
Singapore	2,139 (21.5%)
India BSE30	12,173 (26.2%)
Brazil BOVESPA	49,007 (30.59%)
Aus All Ord	3,758 (2.7%)
US-10yr Bond	Yield 3.13%

As at 15/05/09

Insight: "Carbon Investing"

When greenhouse gases mitigation projects generate credits, this approach can be used to finance carbon reduction schemes between trading partners and around the world. There are many companies that sell carbon credits to commercial and individual customers who are interested in lowering their carbon footprint on a voluntary basis. These carbon offsetters purchase the credits from an investment fund or a carbon development company that has aggregated the credits from individual projects. The quality of the credits is based in part on the validation process and sophistication of the fund or

Development company that acted as the sponsor to the carbon project. The implications of a widespread carbon trading scheme, especially encompassing US carbon emissions, are vast and dependent on details of the legislation. Financial services companies and related businesses with prior experience trading carbon, with exchanges for trading carbon-emission credits, and those involved with providing real-time data to financial institutions and utilities would all stand to benefit from the emergence of new markets to expand into. Climate Exchange PLC is now the biggest CO₂ trading platform in the world. Investors can participate in trading of carbon. In addition, NMEX Holdings Inc. opened an exchange for trading environment related options and futures in Q1 of 2008. **IB**

A-Z Financial Tools

Tactical Asset Allocation allows active departures from the normal asset mix according to specified objective measures of value. The allocation requires forecasting asset returns, volatilities, and correlations among assets before. The forecasted variables may be functions of fundamental variables, economic variables, or even technical variables. **IB**



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Wealth Management Advisory
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Call 2268 6308
Email: insider@ibccapital.com

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