28 May 2010

Mr. Martin Enderlin
Chairman
Project Developer Forum Ltd.
100 New Bridge Street
UK London EC4V 6JA

Dear Mr. Enderlin,

I am writing in response to your letter dated 14 May 2010 in which you raised objections to the recent change in the VCS issuance levy. I can appreciate that the change in the VCU levy was not the most welcome news, but it was a decision the VCS Board took based on some important considerations.

One of the main reasons for the change in the VCU levy was to enable the VCSA to continue to grow, despite lower than anticipated revenues. In the last year the demands on the VCS have exceeded expectations, and yet issuances of VCUs have not kept pace with the initial forecasts made by the consultants who helped develop the original business plan, and upon which the original €0.04 fee was based. For example, the average of the forecasts made at the time suggested that approximately 48 million VCUs would be issued in 2010, and yet only 10 million have been issued this year, with 22 million issued in the first year of the operation of the VCS registry system. This means that revenues will be significantly lower than what had been envisioned, and curtailing the growth of the VSC Association would be counterproductive as it would undermine our ability to respond to the many demands placed on the VCSA.

In terms of the lead time for implementation of the new levy, the VCS Board did consider this and concluded that two months was sufficient. Importantly, delaying the levy change could have resulted in budgetary shortfalls in the near term, and thus the VCS Board wanted to ensure that the VCSA established a sound financial footing as fast as possible. As a point of reference, however, please note that the change in the VCU levy will apply to issuance requests begun after 15 June 2010 and which are accompanied by verification reports that are issued after 15 June 2010. In other words, a project proponent requesting VCU issuance and submitting a verification report prior to 15 June 2010 will be assessed the €0.04 fee.

I did want to point out that the VCS Board has considered a share of proceeds approach, as you suggest, but has concluded that it is not in the best interests of the VCSA. In the Board's determination, such a structure would create a conflict of interest in that the VCSA would have an interest in keeping the price of VCUs high, rather than serving as an independent and objective platform for the creation of high quality greenhouse gas emission reductions.

In addition, the VCS Board determined it was critical that the VCSA promote the development of broadly applicable methodologies under the VCS, and to accomplish this we have issued a proposal to compensate entities that successfully develop methodologies under the VCS double approval process. Under the proposed mechanism, the VCSA would rebate US$0.02 cents for every VCU issued with an approved methodology. In the absence of a change in the VCU levy the VCSA would not be in a position to propose such an innovative mechanism.

By putting the VCSA on a sound financial footing, the change in the VCU levy will enable the VCSA to continue to play a key role in the development of the carbon market. The VCSA is committed to continuing to build the infrastructure that the carbon market demands, and as an example, just in the last two weeks we have issued:

- Draft guidance (for public comment) for projects that would rewet and conserve peatlands (an entire new project category);
- A call for members to participate in a steering committee designed to provide guidance for the development of performance benchmarks and technology tests are streamlined approaches to baseline setting and additionality testing; and
- A Program Update and Policy Announcement that provides further clarification in respect of REDD projects.

I can assure you that the VCS Board did not take the decision to change the VCU levy lightly; the VCS Board considered all of the repercussions, not only of the size of the change but of the timing of its implementation. However, the VCS Board voted for the change with a view to strengthening the financial standing of the VCSA so that it can continue to (a) be independent and free from outside influence, (b) develop a robust infrastructure, and (c) foster the innovation that the market seeks.

I would be glad to share the above, as well as progress on certain initiatives, with you and/or members of the Project Developer Forum. If you have any further questions or concerns, please bring them to my attention.

Sincerely,

David Antonioli
CEO

Cc: Gudmundur Sigurthorsson, Chair of VCS Board