Carbon Monitor

Volume 12 Issue 9 **October 2007**

New Zealand ETS Launched

The government has decided in principle that the objective of the NZ ETS will be:

That a New Zealand Emissions Trading Scheme support and encourage global efforts to reduce greenhouse gas emissions by:

• reducing New Zealand's net emissions below business-as-usual levels; and
• complying with our international obligations, including our Kyoto Protocol obligations;

while maintaining economic flexibility, equity, and environmental integrity at least cost in the long term.

In-principle decisions have been made regarding the following core design features of the ETS:

• The NZ ETS will involve an obligation on participants to hold emission units that match the emissions levels for which they are responsible. A limited number of New Zealand emission units will be issued each year, and the scheme will operate within the global cap on emissions set by the Kyoto Protocol.

• The NZ ETS will, over time, include all major sectors (ie, forestry, transport, stationary energy, industrial processes (non-energy), agriculture and waste) and the six greenhouse gases specified in the Kyoto Protocol.

• The NZ ETS will involve the devolution to landowners of both the credits for forestry activities that lead to a removal of carbon dioxide from the atmosphere, and the liabilities for the subsequent harvest.

The NZ ETS will be introduced across the economy through a staged process that will allow gradual adjustment such that, by the start of 2013 all major sectors of the New Zealand economy will be exposed at the margin to the international price of emissions at the margin for all operations.

• The NZ ETS will include three types of participants: those with obligations to surrender emission units to cover their direct emissions or the emissions associated with their products; those that receive freely allocated emission units, or receive emission units for eligible afforestation, or hold other emission units that can be traded to other parties; and those that engage in trading activities to take advantage of market opportunities.
• The core obligation will be for participants with unit obligations to surrender to the government one emission unit to cover each metric tonne of eligible emissions in a compliance period (usually a calendar year). This is an absolute, rather than an intensity based obligation.

• A New Zealand Unit (NZU) will be the primary domestic unit of trade. For the first commitment period, NZUs will be fully comparable to, and backed by, Kyoto units by the end of the period for determining compliance (known as the true-up period).
• The NZ ETS will allow both sales to, and purchases from, international trading markets. This is essential for a small market like New Zealand, since it will aid liquidity in the market and act as a safety valve on price.
• Participants will face binding consequences for non-compliance with their obligations, including penalties and make-good provisions.
• The NZ ETS could potentially be augmented by an offsets mechanism, which would allow people without ETS obligations to earn emission credits for activities resulting in a reduction of total greenhouse gases being released into the atmosphere.
• The NZ ETS will be adaptable to future changes to New Zealand's obligations under the international climate change policy framework post-2012, and will continue to function even if there is a hiatus between the end of the first commitment period of the Kyoto Protocol and the implementation of a successor international agreement.

Importantly, the government will implement the NZ ETS through a transitional pathway that provides for a gradual adjustment to emissions pricing across the economy. The transitional provisions will vary by sector and will include the staged entry of different sectors, free allocation of emission units and/or the use of progressively increasing obligations to surrender emission units.

New Zealand Forest Sinks Back in the Hands of Foresters

Thanks in no small part to Roger Dickie and his loyal supporters (www.kfoa.co.nz) the New Zealand Government has announced those forest owners

wanting to trade forest sink credits on the NZ ETS will be able to do so provided they have Kyoto Forests.

The government discussion paper issues some warnings on the viability of individual foresters actually participating:

Entry into the ETS will be voluntary for all owners of post-1989 forest. This recognises the fact that participation in the scheme may not be attractive to all forest owners because of factors like:

• uncertainty surrounding the evolving carbon market;

• the difficulties that may be faced by the owners in managing harvesting liabilities, especially those who own single age-class forests;

• monitoring, reporting, verification and administration costs.

If the owner of a post-1989 forest decides not to enter the ETS, the credits and future liabilities associated with that forest will default to the Government.

But then clarifies who owns the credits in the event of a forest right being in place:

- *Owners of post-1989 forest will have 18 months from the passing of the ETS legislation to decide to join the ETS.*
- *Forest owners wishing to join the ETS after this date will have to wait until after 2012 to join.*
- *Where post-1989 forest is not owned solely by the landowner, that forest land will still be able to be entered into the ETS. However, if the participant is not the landowner then he or she must hold a registered forestry right or registered lease.*
- *Previously deforested land will be able to enter the ETS and receive NZUs, provided all the relevant liabilities have been remitted. Similarly, forest owners or registered forestry right holders can leave the ETS as long as all the units received for their post-1989 forest have been repaid.*

http://www.maf.govt.nz/climatechange/

EU Price Update

The Dec08 firmed over the 20 Euro mark in recent trading. EU announced the link from EUTS to Kyoto was liable to be delayed past the December 2007 target date.

www.leba.org.uk

VER Market Solid

The Voluntary Emissions Reductions market (VER) received a significant boost last month when the largest auction in history was held by Evolution Markets www.evomarkets.com

They say the carbon credits are of the highest quality, representing reductions above and beyond extensive internal voluntary reduction commitments. The offer is for up to six (6) million tonnes of verified emissions reductions (VERs) generated from the reduction of industrial by-product emissions. The project is implemented, ongoing and producing offsets verified by industry experts who note "extensive quality assurance and quality control processes". Furthermore, the seller has impeccable credit.

No offer of this size and quality has been seen in the US market. This offer provides the opportunity for U.S. firms looking for domestic credits to respond to calls to offset greenhouse gas emissions with assurance.

In addition to this landmark carbon offset offer, Evolution Markets has numerous high-quality US and international VER offers of various sizes and project types. A select list of projects on offer is included below.

With increasing concern over climate change has come increasing interest in greenhouse gas emissions offsets. There has in turn been more and more attention focused on finding quality offsets; that is, offsets that are real, quantifiable, beyond any regulatory commitment to reduce and beyond "business as usual" action.

TYPE	COUNTRY	SIZE	PRICE ($/VER)	VINTAGE
US/CANADA				
HFC	US	6 MM	3.5 to 7.5*	2003-2008
LFG	Canada	1.1+ MM	6.3 to 10.0*	2002-2012

N20	Canada	400+ k	4.0 to 5.0*	2006-2009
Forestry	US	100 k	9.0	2007-2016
LFG	US	250+ k	5.5	2004-2007
LFG	US	150+ k	5.5	2004-2006
INTERNATIONAL				
Forestry	Mozambique	1.7+ MM	5.00	2007-2016
3 Wind / 1 Biomass	India	1.1 MM	8.00	2005-2007
Wind	China	179 k	8.0 to 10.0*	2005-2012
Waste Heat Recovery	India	140+ k	6.0 to 8.0*	2004-2006
Wind	India	90+ k	7.00	2004-2006

NZ Treasury Sets Kyoto Price at USD$11.90

Climate Change Minister David Parker says the latest projection for New Zealand's carbon balance for 2008-2012 reinforces the need for the substantial climate change initiatives.

The Minister released the projected balance for the first commitment period of the Kyoto Protocol at the same time as the government announced an emissions trading scheme, which he said would have a significant impact on the balance.

The balance, also known as the net position, is estimated at a deficit of 45.5 million tonnes of carbon dioxide equivalent (Mt CO2e). This is an increase of 4.3 Mt CO2e over last year's estimate of the Kyoto deficit of 41.2 Mt CO2e.

Mr Parker said the main factors behind the rise in the estimated deficit were projected increases of 4.3 Mt CO2e of emissions from the agricultural sector, 1.5 Mt CO2e from the energy sector and 1.3 Mt CO2e from the transport sector. These increases are offset by an upwards revision of New Zealand's Kyoto allowance of 1.9 Mt CO2e.

The projections reflect the government's agreed policies up to April 2007.

"These projections show that unless we change our economy and our society so that we use our resources more sustainably, and reduce our greenhouse gas emissions, our impact on the environment continues to climb," David Parker said.

"The government has taken this projection into account in formulating the policies we are announcing today.

"I am confident that we can nearly halve this projected deficit to 25 Mt or less, through the implementation of an emissions trading scheme, and associated initiatives."

The Ministry's net position report (*Projected balance of emissions units during the first commitment period of the Kyoto Protocol*) is published on its website at www.mfe.govt.nz. Specific emissions data for each sector are published by the agency responsible, for example, energy and industry emissions are available from the Ministry for Economic Development.

The Treasury's latest price estimation for Kyoto compliant emission units calculates a likely cost of carbon of US$11.90, (NZ $15.48 at 30 June exchange rates). The report is available on Treasury's website at www.treasury.govt.nz/kyotoliability/.

Using the updated net position and carbon price, the valuation of the Crown's projected liability under the Kyoto protocol as at 30 June 2007 is $704 million (unaudited). The audited figure will be released with the Financial Statements of Government in early October.

Tax Treatment of NZETS

Pricewaterhouse Coopers have issued a summary of the tax treatment of the NZETS in the most recent issue of Emission Critical.

http://www.pwc.com/Extweb/pwcpublications.nsf/docid/3B73E46B6FEAC003CA25736100734455

Contact Details

Terry Quilty ph 64 21 250 6789
fax 64 9 920 1093
skype terryquilty
email terry.quilty@eitg.co.nz

Richard Hayes ph 64 21 310 301
fax 64 9 920 1093
skype richardshayes
email richard.hayes@eitg.co.nz

Simon Baillieu ph 27 82 558 9616
skype sbaillieu
email simon.baillieu@eitg.co.nz

'Carbon Monitor' is a client service of EITG.
EITG develops, facilitates and engineers Carbon Mitigation projects and strategies.

EITG corporate advisory provides high-level briefings and advice on building robust responses to emerging regulatory structures.

EITG Carbon Pool provides forest owners with a robust platform to access local and international markets while dealing with harvest and other liabilities.

EITG provides trading platforms and strategies based on

extensive mitigation and avoidance platforms under JI and CDM, with matched offset packages for emitters.

EITG is part of an international consortium with representation in Asia/Pacific, UK, USA and South Africa

To subscribe email richard.hayes@eitg.co.nz with your full contact details.

Portions © 2007 Environmental Intermediaries & Trading Group Limited all rights reserved

www.eitg.co.nz