

Carbon Monitor

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Voluntary Carbon Market

There is increased interest in verified emissions reductions (VER) markets in New Zealand.

EITG is working with key players to adopt VER standards that will result in trading on local markets and possibly the Chicago Climate Exchange (CCX)

Recent price increases have seen forest based voluntary credits trading at over \$4.50 USD up from around \$2.50 USD.



EITG consortium European Partners who are trading VER's in Europe note the following as issues when considering the VER market place;

Depending on which VER standard you may wish to apply, complying with current CCX rules has the advantage that you can claim on the current year and back-date another three years - so, as an example, if you are claiming for 2007 as your current year, you could also claim for 2006, 2005 and 2004 as well.

However, to do a CCX deal requires someone along your value chain to be a CCX member, as it is a closed exchange made up of its trading members.

Selling VERS in NZ - some of the protocols the CCX would require wouldn't be necessary.

The down-side is that VER's standards usually have strong additionality rules which are reviewed by the verifiers.

While CCX accept well documented SFM type e.g. FSC -PEFC forestry projects commencing from 1st January 1990, they don't push too hard on additionality. VER additionality rules are very hard to prove in historic forests originally planted for commercial use only - particularly if they were grant aided or are tax deductible. This would appear to put most NZ plantation forests beyond additionality compliance.

As an example, UK Forestry Commission establishment grants tend to exclude forestry owners

from claiming additionality in the VER market - despite what brokers are saying - and Defra (UK Department for Environment Food and Rural Affairs) are getting tight on this.

Defra have just published their carbon offset quality mark which currently excludes all voluntary sector projects only allowing CERS originating from Kyoto compliant projects and they specifically come down hard on forestry offsets for not meeting desired additionality rules.

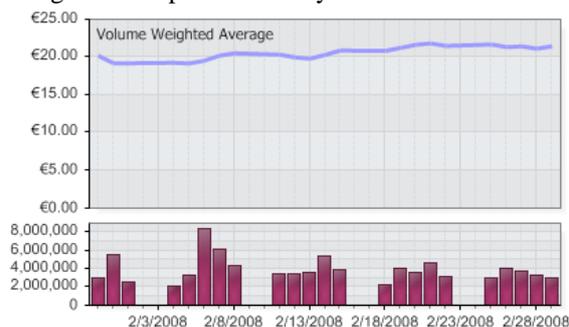
Needless to say, there are lots of long faces around in the voluntary offset sector at the moment - see link for press release.

<http://www.defra.gov.uk/news/2008/080219a.htm>

EU Price Update

The Dec08 firmed to 21.46 Euro mark in recent trading

Forward prices for 2009 are 21.80 Euro and for 2012 are 22.64 Euro! Peak volumes dropped with the largest trades being around 8mt whereas in January trading volume spiked to nearly 12mt.



www.cantorco2e.com

Application of Measurement Protocols for Forest Sinks

Recent submissions for the Climate Change and Renewables Preference Bill included commentary on the methodologies involved in measuring forest based carbon sequestration. These submissions came from EITG discussions with PF Olsen and were incorporated in both submissions.

The Explanatory Note to the Bill provides for the measurement of carbon and associated calculators to be made available later in 2008. It is therefore impossible to comment on the adequacy of these regulations.

However in discussions with MAF officials two critical points emerge:

1. It is not intended that tree density be included as a variable in assessing carbon captured or emitted in post-1989 forests. The issue is that density is a key driver of the carbon content of wood and an opportunity exists to get significant gains on carbon capture of forests through genetic gains and clonal propagation techniques favouring higher density. Average stand density is also reasonably cheap and easy to measure in forests.

2. The level of precision of carbon measurement will vary with the intensity of sampling and method applied. It is important the provision is made in the regulations for the method used for carbon measurement to be changed over time to reflect the benefit/cost associated with changing carbon prices and measurement costs.
Recommended Solutions:

1. Ministers to instruct MAF to include wood density as a variable in carbon measurement within 2 years of legislation being enacted, for any trees planted since 1st January 2008; and

MAF publicise their intention to do this during 2008 and undertake consultation with industry on how best to achieve this outcome in a way that maximises the benefit/cost of doing so.

2. Forest owners should be permitted to measure and report carbon stocks using different methods that give different levels of precision (cost) and to change the method used over time provided that the same method is used to report both opening and closing stocks within any commitment period. Under this scenario the forest owner would be credited additional units, or have to surrender a deficit generated by the change in measurement method, at the time the change is made, including adjustments to removals and emissions previously recorded in annual returns within the same Commitment Period.

The ability to move from the look-up tables to measured plot precision is particularly important given that MAF have indicated that all the plot measurement rules and calculators will not be completed and made available until mid 2009. If that is the case participants will be unable to plan for and undertake inventory in the winters of 2008 or possibly even 2009 with full certainty around plotting and measurement standards.

General Comment

Much of the Bill can be implemented by the Chief Executive making recommendations to the Minister.

These submissions focus on making the politicians aware of the options available to the chief executive and to ensure that optimum outcomes are achieved for the forest sector.

Australia – Legislation for ETS

Legislation for the Australian ETS is expected to be tabled before Xmas 2008.

Currently the debate centres around the allocation of the initial commitment period credits and how that may occur.

Auction is being mooted as the preferred option.

New Blog Released

Let your thoughts be known at www.ghgemissionstrading.wordpress.com

This blog is designed to discuss all aspects of emissions trading and GHG as well as the Kyoto Protocol

Terminology Devils

Firstly thanks to those who reminded me of the excessive use of undefined acronyms in last months Carbon Monitor. This month I will send a glossary of terms.

In the world of confusion around climate change this one really gets me

VER or 'verified emissions reductions'

Or if you like 'voluntary emissions reductions' if you read the Defra web site (oops – I did it again)

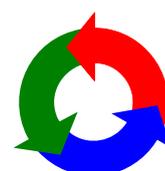
<http://www.defra.gov.uk/news/2008/080219a.htm>

Personally the latter definition makes more sense to me and it appears the UK Government agrees.

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'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

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