Carbon Monitor

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Uncertain Times and an Uncertain Carbon Market?

Whoever said 'we live in interesting times' certainly had the current situation in mind when coining the phrase.

Since the financial crisis hit and oil slumped from an all time high to around $40 USD the carbon market has followed with its own tumble loosing 60% of its value.

So what has happened? Simply the market is led by the European Emissions Trading System where European Allowances or EUA's are issued by participating Governments. These allowances have been in most cases 'given' to selected industries as part of Phase 2 of the European Emissions Trading Scheme.

Other than an EUA (European Allowance) only CER or certified emissions reductions (non forestry ones at least) are permitted in the EUETS. Given last years projected growth, EU companies spent time forecasting and then positioning themselves to meet their EUETS obligations. A forward market to 2012 was thriving and prices rocketed in early 2008 to nearly 30 Euros.

No one wanted to pay 30 euro for something they could pay 12 for so CER's suddenly became flavour of the month! Clever operators sold their EUA's at market and then replaced them with CER's. Some of them even staggered delivery and therefore payment unlocking even more wealth.

It was not long before the CER prices started to converge with the EUA price as those engaged in arbitrage fought for more and more allowances. Soon an upward moving CER price coincided with a dropping EUA price and then the whole lot spiralled down to the current lows.

Meanwhile Governments are overjoyed as their Treasuries can now reforecast their Kyoto Liabilities. New Zealand Treasury forecast a cost of $9.80 USD which the market is now potentially at, and along with the decrease in emissions deficits due to lower forecast growth the story for presiding Governments is a good one.

So how accurate are the forecasts? Looking at a moving average over the last 12 months it would be inadvisable to calculate liabilities 4 years hence at the spot price today. We don't see any Government jumping into the market to mop up their Kyoto Liability right now either!

Why not? You may ask. Simply they will start to drive prices upwards. Recently a small reduction in sellers created a significant price spike and that this just the harbinger of future correction in the market once buyers return.

Politically both New Zealand and Australia appear very worried as to the impact of an ETS on industries and the lobby groups constantly remind them an ETS is jobs lost. With the economic crisis the call now is we can't afford an ETS. Is that true? The answer is an age old one, short term pain for long term gain. With short electoral cycles and even shorter CEO tenures the age old adage is in our view overlooked too often.

Just because there has been an overdue clean out of bankers who had never run their own business, never had their own money on the line, does not mean we need to ignore our children's futures.

So do the Politicians listen to the new crop of CEO's bemoaning job losses? Or will they make it clear to them that climate change is here to stay and those who look carefully will see sustainability is profitable and preferable.

Australian Market Evaporates as Carbon Prices Slump

The market was void of buyers on 12 February following ever-decreasing international carbon prices and Treasurer Wayne Swan's order to the House of Representatives' economy committee to examine whether the carbon pollution reduction scheme is the best way for Australia to move forward (see story page 1).

CERs in the European market have dropped to below AUD $15 in recent days, hitting one record-low level after another.

On Monday 2 February broker Newedge reported the first-ever trade in the 2010/11 AEU contract, when 50,000 permits changed hands at A$21. The trade was the biggest so far to go through in the Australian market, and market participants commented that traders now feel more comfortable that the scheme will go ahead as planned.

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However, Swan's inquiry has now removed that confidence, and with the slump in CER prices, no buyer is currently willing to go near the A$20 price level.

There have been firm bids for AEUs over most of the two-week period, with traders bidding around A$18.75 for the 2010/11 contract, A$20 for the 2011/12s and A$20.50 for the 2012/13 financial year AEUs.

All bids went off screens on Thursday, however, according to brokers.

"All the buyers have stepped away, and I don't think anyone would be willing to pay more than A$15 or A$16 now," one broker said.

There is speculation in the market whether the government will reintroduce a quantitative cap on CER use in the emissions trading scheme given the recent developments. The answer to that will come when the ruling Labor publishes a legislative package for the scheme by the end of this month.

AEU OTC closing prices (A$/t)

Delivery	Bid	Offer	Close
AEU 2010/11	-	21.40	-
AEU 2011/12	-	22.75	-
AEU 2012/13	-	23.75	-

www.pointcarbon.com

Update

As of the 27th February Point Carbon now reports buyers and sellers are back and active in the market with bid and offer prices.

Delivery	Bid	Offer	Close
AEU 2010/11	19.25	21.00	21.00
AEU 2011/12	20.50	22.00	21.25
AEU 2012/13	21.00	23.00	22.00

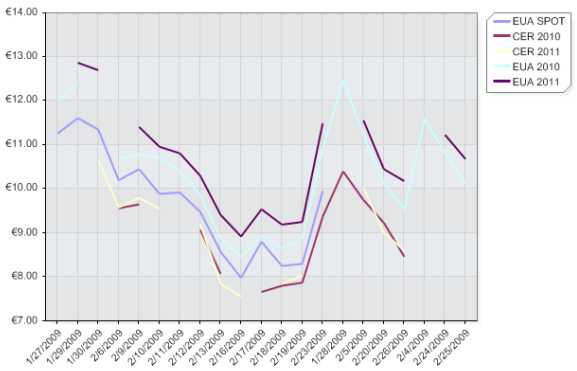
Speculation as to the reason for this sudden return and prices above prevailing CER prices were that in the Legislation about to be announced restrictions may be placed on the number of CER's permitted into the AUETS and the position of the USA in the emissions trading space.

Brokers confirmed that they are sick and tired of the political back and forth in the process causing nervousness in the buyers.

EU Price Update

All allowances bottomed out and bounced as the oil and energy prices slide in the last month. Prices of CER's bounced off a 12 month low in all categories of 8 Euro or $20 NZD or $16AUD.

Commentators are attributing the drop in EUA prices to companies with free allocations of EUA selling them to raise cash for their operations during the current financial crisis. Accordingly this has dragged down CER and that of course sets the NZU price, and potentially the AEU price.



www.cantorco2e.com

TZ1 Now Global Registry Partner for Plan Vivo

World leading environmental markets registry provider, TZ1 Registry has been appointed as the Global Registry Partner for Plan Vivo. The Plan Vivo System and Standards are developed and maintained by the Plan Vivo Foundation, a charity registered in Scotland.

Plan Vivo is a framework for community-based land-use projects that develop livelihoods, conserve and restore local ecosystems, and help to fight and adapt to climate change through Payments for Ecosystem Services (PES).The Plan Vivo Foundation registers and reviews projects against the Plan Vivo Standards, and issues Plan Vivo Certificates, each representing the reduction or avoidance of one tonne CO2e plus additional livelihood and ecosystem benefits.

There are currently three operational Plan Vivo projects in Mexico, Uganda and Mozambique with more in the pipeline. Collectively Plan Vivo projects have generated over 600,000 voluntary emissions reductions (VERs) to date.

The TZ1 Registry is recognized as the thought leader in extended environmental markets registry provision including the only biodiversity registry services, and other significant ecosystem infrastructure facilities.

"Plan Vivo has the potential to have a critical and significant impact in developing countries. It is imperative that our infrastructure and services support our goals and projects," said Alexa Morrison, the Plan Vivo Governance and Policy Manager. "The TZ1 Registry team has shown tremendous empathy to our needs and overall organizational objectives, and will add value and robustness to our offering."

"Plan Vivo is internationally recognized for its focus on helping address key international challenges and TZ1 is delighted to be chosen to play such an important role in the provision of listing the Plan Vivo credits, and to ensure authenticity and viability of the Plan Vivo system," said Helen Robinson, Chief Executive, TZ1 Registry.

The TZ1 Plan Vivo Registry will list Plan Vivo Certificates (VERs) which will be publicly available on-line for viewing by accessing www.planvivo.com and TZ1 www.tz1market.com

South Africa Proposes Favorable Tax Treatment for CER's

The 2009 South African National Budget provides for tax incentives for the implementation of CDM projects by proposing favourable tax treatment for Primary CERs and seeking to introduce more certainty in the tax treatment of both Primary and Secondary CERs.

The South African Minister of Finance, Trevor Manuel, delivered his 2009 Budget Speech to Parliament on Wednesday 11 February 2009.

The Budget links the environment and the economy by noting that, over the long term, environmental considerations will affect the sustainability of economic growth and, with this in mind, government intends to promote efficient use of energy and water resources by producers and households, along with measures to mitigate the effects of climate change.

The 2009 Budget addresses environmental fiscal reform in various ways, including through the following key measures:

- Introducing incentives for cleaner production (energy efficiency).
- Increasing the levy on plastic bags.
- Introducing taxation of incandescent light bulbs.
- Proposing a tax incentive for carbon credits from Clean Development Mechanism.
- Increasing motor vehicle ad valorem excise duties.
- Increasing international air passenger departure tax.
- Increasing fuel levies.
- Providing ZAR 45 million to Working for Energy, a programme which uses biomass to generate electricity.
- Providing ZAR 30 million to support research on climate change mitigation and adaptation strategies to inform the development of a national climate change strategy.
- Implementing, as from 1 July 2009, the electricity levy announced in the 2008 Budget. The levy, which is intended as the first step towards the introduction of a more comprehensive greenhouse gas emissions-based carbon tax, is a tax of ZAR 0.02c/kWh levied on the sale of electricity generated from non-renewable sources, to be collected at sources by the producers / generators of electricity. The electricity levy acts as a disincentive to fossil-fuel based power generation.
- Providing ZAR 1 billion to the Department of Water Affairs and Forestry for the installation and rehabilitation of 71 regional bulk water and sanitation schemes.

Most of the environmental interventions proposed in the 2009 Budget will take effect from the beginning of the 2010/2011 fiscal year.

See Warburton Attorneys release http://communities.thomsonreuters.com/Carbon/documents/

EcoSecurities CEO Resigns

The chief executive of London-listed carbon project developer EcoSecurities , Bruce Usher, will step down once a successor is found, the company said.

The change in chief executive had nothing to do with trading issues, EcoSecurities said in a statement.

"Usher, who is stepping down to pursue personal interests, remains fully committed to the Company. The Board confirms trading is in line with its expectations."

EcoSecurities develops projects which avoid greenhouse gas emissions in the developing world, for example by building wind farms or improving energy efficiency.

The company sells the resulting carbon offsets to countries and businesses in the north which are struggling to meet their climate targets.

Carbon prices both under both the U.N.-run offsetting scheme, called the clean development mechanism, and under a cap and trade scheme in Europe have collapsed as a result of the recession, which is curbing industrial output, in turn cutting carbon emissions and demand for permits under EU and U.N.-led emissions trading schemes.

Prices hit new record lows on Wednesday, piling pressure on project developer profit margins.

The European carbon price has lost three quarters of its value in seven months and is down nearly 50 percent since Jan. 1.

Sources earlier told Reuters that Usher wanted to pursue an academic career and that the company had already prepared a short list.

"He's already an adjunct professor at Columbia (University) and he wants to focus on his role there," a source close to the company said.

"He will continue to work with the business in a consultancy capacity." EcoSecurities shares closed down 7 percent at 18 pence earlier on Wednesday.

This news failed to feature on EcoSecurities web site. www.ecosecurities.com

Commentary

Promode Kant of the Institute of Climate Change & Ecology, New Delhi shared his view on the resignation.

In my view excessive speculation has not yet arrived in the carbon markets and can not be the reason for the turbulence. The declining prices, beyond the previous market projections based on which EcoSecurities entered into forward purchases of that size, is better explained as linked behaviour, a kind of 'sympathetic' response to the tribulations of an apparently unrelated general world market of all goods and services.

I would be concerned about EcoSecurities CER portfolio, not the prices at which they effected their forward purchases which I think were reasonable, even conservative. They are perhaps more exposed to risks because they invested too heavily in one or two sectors in one country driven primarily, I suspect, by the ease of carbon investment.

But whatever the reason for this price behaviour ultimately a centralized regulation would be required to keep the market within the four walls of reason, even the 'bazaar' reason. So why not do it now !

EITG to Present at Key Carbon Conference

Terry Quilty Director EITG will be addressing the Carbon Reporting and Account Master Class in Wellington on the 15th and 16th of April 2009.

'Carbon markets and carbon finance: What you need to know

The global carbon trading markets can seem complex and confusing to the uninitiated, with voluntary and mandatory schemes operating both domestically and internationally. This session will outline the global carbon market, their role in mitigating organisational and transactional risk, and what it can do for your business.

• How the global markets work: Kyoto standards, EU ETS credits and more

• Developing the risk management mindset when thinking about carbon markets

• What do you do if your organisation wants to start trading?'

http://www.conferenz.co.nz/the-2nd-annual-carbon-accounting-and-reporting-masterclass.html

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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, Europe, USA and South Africa

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