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European ETS short 40 million tonnes for 2008 on Preliminary Estimates

The European Union's Emissions Trading Scheme was at least 40 million tonnes short of carbon permits in 2008, analysts said after reviewing preliminary EU data recently.

Carbon market analysts said discounting incomplete data and comparing like-for-like figures between 2007 and 2008 showed companies emitted between 40 and 100 million tonnes over their allocated quota of emissions permits.

The scheme, worth \$90 billion last year, is the EU's flagship weapon in its fight against climate change. Wednesday's preliminary data gave a first glance at the EU's industrial emissions for last year.

This is also the first time the scheme has registered a shortage of EUAs in its first four years, the preliminary data showed.

The EU handed out an excess of permits from 2005-07, undermining the scheme's goal of driving carbon cuts through creating a shortage of permits available to industry.

The scheme is supposed to force businesses to trim their contribution to climate change by becoming more energy efficient or switching from carbon-intensive coal to natural gas.

Excluding Poland and Hungary, which had not allocated any permits for 2008, the remaining raw data showed emissions of 1,768 million tonnes compared with an allocation of 1,659 million permits.

Analysts pointed out the allocation figures represent permits issued for free by the EU Commission, and may not include those auctioned or sold into the market by countries such as the UK and Germany.

Removing all incomplete entries showed 2008 emissions of 1,939.8 million tonnes versus 2,026.3 million tonnes in 2007 representing a reduction in emissions of 86.5 million tonnes from the 9,016 installations reporting complete data.

The raw data, on the other hand, accounted for 10,417, or 85.3 percent, of the 12,215 industrial installations covered under the scheme, the European Commission said. 1,798 did not report any 2008 emissions.

Carbon permits, or EU allowances (EUAs), under the EU's emissions trading traded up 63 cents or 5.4 percent at 12.38 euros a tonne following the data's release.

The Commission's data is keenly watched by analysts and traders who are trying to estimate the balance of supply and demand for EUAs in the EU ETS, and therefore the price.

"This data is in line with our expectations, a 4.3 percent reduction in emissions year-on-year and a short position of 40 million tonnes for the year," Barclays Capital analyst Trevor Sikorski said.

"It hasn't changed the outlook for the scheme in any way."

Societe Generale's Emmanuel Fages calculated the market was short by around 100 million tonnes.

New Carbon Finance estimated that 2008 emissions fell by around 3 percent, but did not provide exact figures.

"Emissions from the energy sector alone fell 4 percent and the industrial sector is also down compared to last year," said Olivier Lejeune, an analyst at New Carbon Finance.

Analysts said the state of the market in 2008 is the first indication of how carbon prices will fare through a recession which may impact EUA prices for several years.

It is likely that, as a result of falling industrial output and carbon emissions, the scheme will once again register an EUA surplus in 2009, analysts say, raising question marks over its effectiveness.

U.S. policymakers are watching the EU scheme closely as senators prepare to draft a climate bill, which is expected to be passed in the next two years.

http://communities.thomsonreuters.com/Carbon/267001?utm_source=20090406&utm_medium=email

New Zealand Predicted to have Kyoto Surplus – Government Cautious



New Zealand is now expected to exceed its Kyoto target by 9.6 million tonnes – a surplus worth an estimated \$241 million, Climate Change Minister Nick Smith announced on April 15th.

Dr Smith released the 2009 Net Position Report for the first commitment period of the Kyoto Protocol (2008-2012). The results for 2009 are in contrast to 2008 which projected a deficit of 21.7 million tonnes (an estimated cost of \$546 million).

The main reasons for the change are the drop in agriculture emissions caused by the drought in 2007/08 and improved information on carbon storage in forests.

“It is good news that we may exceed our Kyoto target but we need to be cautious of these projections given their volatility.

“It is difficult for the Government to make sound climate change policy when projections have ranged from a 55 million tonne surplus in 2002 to a 64 million tonne deficit in 2006 and when the figures over the past year have varied by 31 million tonnes equivalent to \$787 million.

“The 2009 projections will be independently reviewed and audited over the next few months to check they are as accurate as possible.”

The significant changes in projections include:

- Deforestation emissions down by 9.6 million tonnes (Mt) due to new data showing smaller trees being felled in land use changes
- Post-1989 (Kyoto) forests absorbing 8.2Mt more of carbon due to the trees not being thinned and being planted on better soils
- Drought conditions causing significant reductions of 10.3Mt in animal emissions due to fewer cattle, sheep and deer
- More accurate data on nitrous oxide agricultural emissions resulting in a 3.8Mt improvement

“There has been no significant change in emissions from the energy, transport and industrial sectors. There has been a minor reduction due to the recession in transport emissions but this has been offset by the reduction in the fuel price since the 2008 peak and the effect of the previous Government’s decision to defer entry to the ETS two years.

“These changes in projections highlight how difficult it is to measure natural processes like farm animal and forestry emissions which demonstrate the unique Kyoto challenges that New Zealand has.”

“There are two important factors to recognize in the latest projections. First, these figures do not signal any progress in abating New Zealand’s gross greenhouse gas emissions which are 23 percent above 1990 levels. We are just fortunate that more than 600,000 hectares of new forests were planted in the 1990s that are growing strongly and offsetting our continued growth in energy and transport emissions.

“Secondly, these projections are for New Zealand Incorporated and not the Government and it is highly unlikely the Crown will end up with any surplus. This is because post-1989 forest owners may choose to claim millions of tonnes of credits that their forests absorb between 2008 and 2012.

“These positive figures are to be welcomed but New Zealand still has a major challenge to reduce its gross greenhouse gas emissions. The Government will be continuing to advance pragmatic policies to ensure New Zealand contributes constructively to global efforts to address climate change.”

Points to Note:

The 2009 Net Position Report shows that New Zealand’s liability of \$481.6 million as at 31 January 2009 moves to being a projected asset of \$243 million, using the Treasury carbon price as at 31 January 2009 of \$25.31 per tonne. That is an improvement of \$787 million dollars since last year’s projection.

The Net Position Report uses best available information at the time of projection. The figures are produced by the Ministry for Agriculture and Forestry, the Ministry of Economic Development and the Ministry for the Environment. The Ministry for the Environment compiles the report across government.

The exact net position will not be known until 2015 after New Zealand’s national greenhouse gas inventory covering the first commitment period has been internationally reviewed and the review report accepted by the Enforcement Branch of the Compliance Committee of the Kyoto Protocol.

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

<http://www.mfe.govt.nz/issues/climate/about/qa-net-position.html>. It is an overview of emission projections across all industry sectors. Specific emissions data for each sector are reported by the agency responsible and included as appendices to the Ministry for the Environment report. Detailed questions on each sector should be answered by the agency responsible for that sector. For example,

energy and industry emissions are available from the Ministry for Economic Development.

Commentary

Whilst this is good news for New Zealand Inc, it does not change the fact that businesses will need to offset or reduce emissions according to the NZETS.

The Government is quite right to be cautious as we have seen these projections vary by tens of millions of tonnes seemingly with small changes to the assumptions.

Overall the surplus originates from Kyoto forestry and the surplus would have to be traded internationally. Early figures suggest however that few foresters are expected to opt in leaving businesses wanting to purchase credits without access to local NZU units.

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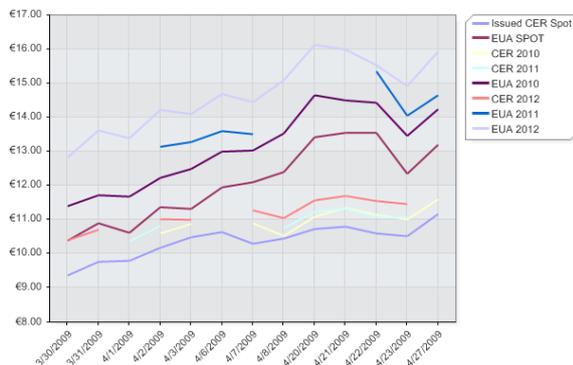
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EU Price Update

Allowance prices continued a general upwards trend with prices in NZD for CER units increasing to nearly \$32.50 NZ, the price prior to the recent financial uncertainty.

The auction of EUA by the UK appears not to have had much of an effect on the market.



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

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

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