Carbon Monitor

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Substantial Sale of New Zealand Forest AAU Announced

A European Buyer has purchased approximately 520,000 forestry AAUs from the New Zealand forestry company, Ernslaw One Limited.

The AAUs have been awarded under New Zealand's Emissions Trading Scheme (NZ ETS) where they were awarded as NZUs which have now been converted into AAUs.

While the Scheme is currently under review forestry owners have already received units and been part of the NZ ETS since 2008. With the domestic market in New Zealand in a state of uncertainty, forestry owners in New Zealand are starting to look offshore to monetise their forestry AAUs.

Ernslaw One Limited owns around 4% of New Zealand's Kyoto compliant forest, having undertaken afforestation projects to establish 27,780 stocked hectares of which approximately 11,000 hectares are planted in longer rotation Douglas-fir, the balance being in radiata pine. All the forests owned by Ernslaw One Ltd are certified by the Forest Stewardship Council (FSC) and independently audited.

Thomas Song, Managing Director of Ernslaw One Limited said "We are delighted to have been able to conclude this deal. This deal demonstrates that there is significant interest internationally in forestry AAUs from New Zealand. We see this as a great boost to the forestry industry in New Zealand and a cost-effective way to involve the forestry industry in climate change mitigation. We look forward to managing these forests for the benefit of the global environment.

The name of the buyer and the price of the sale of AAUs is undisclosed.

Commentary

These AAU units are not eligible for the European Emissions trading system so are likely to have been sold to a government rather than an entity participating in the EUETS.

Previously Japan is known to have been involved in purchasing AAU units for its anticipated emissions trading system.

Again we see lack of price disclosure indicating that the market for AAU units remains illiquid and immature.

Whilst this trade certainly indicates demand, the lack of open disclosure of price does nothing to achieve the objectives of Kyoto or the NZETS.

Rumours and discussions with unnamed parties indicate that the price was around 10 Euro or $21 NZD, or a 25% discount to the current price of a CER unit under the CDM.

Given the outright sale there appears to be little in the way of a risk management strategy in place should there be an event that affects the carbon sequestration sold.

Given the units are issued by the New Zealand Government there would appear to be little buyer side risk, more a seller risk in having to surrender NZU units in the event of an unexpected event leading to loss of forest and a deemed emission.

It would appear after discussing the issue with Earnslaw One executives in late 2008 that they would manage such a risk by using other forestry and are planning new plantations.

It was also rumoured that Earnslaw One was the forest owner in the first trade of 50,000 NZU units announced earlier in the year.

Forest Owners Guide to Carbon Trading well Received

Since its release last month the guide has received overwhelmingly positive feedback.

"Good stuff, nice and clear. I trust you won't mind me forwarding it on to my colleagues." Regards, Mark

We are also grateful to Gary Clancy of MAF for feedback and suggestions for the final document.

If you have forest that was pasture on the 31st December 1989 then this guide is essential reading.

The guide is available by emailing forestguide@eitg.co.nz

New Zealand Commerce Commissions Releases Guidelines

for Carbon Claims

Further to the draft guidelines issued for consultation the Commerce Commission has now released the final guidelines at http://www.comcom.govt.nz/FairTrading/DraftGuidelinesonCarbonClaims/Overview.aspx

Unfortunately despite our input into consultation Cocom requires an additionality test to be met prior to making carbon claims. In a Kyoto regulated market additionality is meaningless and we made this point in our submissions.

Those electricity suppliers and fossil fuel supplies for transport whilst required under the New Zealand Emissions Trading System to surrender permits equivalent to ALL carbon emissions won't be able to claim carbon neutrality under the guidelines.

Why? Even though such products will be carbon neutral (i.e. completely offset) they will not pass an additionality test and therefore in the view of Cocom any claim to the contrary will result in action under the Fair Trading Act.

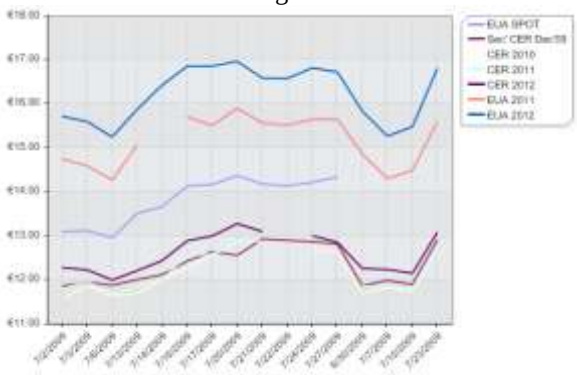
We wrote to Comcom asking for clarification of the above scenario. Their reply was that the matter had been referred to MFE as the issue was a matter of policy for MFE.

We will advise of the outcome of the enquiry to MFE. Meantime our view is that claims of carbon neutrality should be made only after receiving proper advice.

EU Price Update

Allowance prices spiked sharply upwards after a reasonably strong month overall.

2012 CER prices still support NZU prices of $28 or more at the current exchange rate of 0.46



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Bids for Ecosecurities Heat Up

UPDATE 3- LONDON, July 16 (Reuters) - EcoSecurities has dismissed a second bid from co-founder and former president Pedro Mora Costa as "inadequate" after he raised his offer for the British clean energy project developer by 28 percent, the company said on Thursday.

Shares in EcoSecurities, which develops carbon offsetting projects under the Kyoto Protocol's Clean Development Mechanism scheme, closed up 4.7 percent at 77 pence.

Rival bidder EDF Trading, said earlier on Thursday it had pulled out of the running after signing a deal with EcoSecurities co-founder Pedro Moura Costa's company Guanabara Holdings.

Costa made a 77 pence per share cash offer through his Guanabara joint venture for EcoSecurities, 17 pence above a previous bid, which he said values the company at approximately 91 million pounds ($149.3 million).

EcoSecurities' board again called the offer "wholly inadequate" and advised shareholders to take no action.

EDF Trading, a unit of French utility EDF <EDF.PA>, said if Costa's offer is successful it may exercise options to purchase a portion of EcoSecurities' pre-2012 Certified Emissions Reductions (CER) portfolio and enter a service deal with Guanabara.

As of April 30, EcoSecurities said it had a portfolio of 155 United Nations-registered projects in developing countries like China and India, expected to generate 40 million CERs by 2012.

Benchmark CERs, for delivery in December <CFI2Zc1>, settled up 1.6 percent at 13.02 euros a tonne.

Meanwhile Guanabara said in a statement: "The cash offer represents an opportunity for EcoSecurities shareholders to monetise their investment in EcoSecurities shares at a time of great market volatility and economic uncertainty, particularly in the carbon markets.

"Approximately 65 percent of EcoSecurities pre-2012 CER portfolio is not forward sold. This makes EcoSecurities overly dependent on future CER prices (which) have decreased 46 percent over the last 12 months."

A spokesman for EcoSecurities said Guanabara currently controls 12.1 percent of its shares.

"Guanabara's new bid for EcoSecurities remains far too low," said Mirabaud Securities analyst Agustin Hochschild.

"In effect, EDF Trading is subsidising Guanabara's bid in exchange for CERs ... it's a sensible way forward for those two parties, but not necessarily for EcoSecurities shareholders."

EDF Trading said on June 8 it was considering a cash offer of at least 75 pence per share, which would have valued EcoSecurities at 88.6 million pounds, trumping Guanabara's 60 pence offer made three days earlier.

EcoSecurities rebuffed the Guanabara approach and said it had also rejected an earlier 96 pence per share proposal from EDF.

EDF Trading said on Thursday it will not deal in EcoSecurities shares for the term of its agreement with Guanabara or until Guanabara's offer is declared unconditional.

Guanabara is a Dutch company owned half by Costa, and half by BTG Carbon Luxembourg, a subsidiary of BTG Investments LP.

Commentary

The turmoil which started back in 2007 continues with Ecosecurities.

After seeing substantial write downs in its carbon credit portfolio after overestimating the amount of credits it would receive under the United Nations Clean Development Mechanism the shares fell heavily to a recent low of 20p.

After leaving one of the founders has now bid for the company despite the value of its remaining credit portfolio dropping 46% in the last year.

If the bid is successful we expect radical changes at Ecosecurities.

Carbon Planet Denies Involvement in REDD credits from PNG

Papua New Guinea's carbon chief was recently suspended amid allegations of inappropriate trading of credits from PNG forest conservation projects.

It is reported by Economist that some 40 m tonnes of reduced emissions from deforestation and degradation so called 'REDD' credits had been or were about to be sold despite there being no legal framework in place for such a sale.

Carbon Planet an Australian company know for its emissions assessments denied involvement in a $1.2m AUD purchase of such credits according to Point Carbon saying it had paid no money.

Currently REDD projects are only permitted in the voluntary carbon markets and are not eligible for credits under the Clean Development Mechanism (CDM) of the Kyoto Protocol.

This is expected to change with the latest round of negotiations for emissions caps post 2012 with REDD becoming part of the Clean Development Mechanism or the CDM.

EITG view on REDD Opportunities

Given the only recent approval of a methodology (by TUV SUD) by a validator there is little established precedent as to the form of and what may be approved by a validator.

Moreover in the event of approval the credits that would be yielded are under the Voluntary Carbon Standard called VCU units.

The first sale of the VCU units created under the standard is reported to have occurred in March 2009[1] but omits a price.

Our market research with UK based carbon trading houses indicates the price range for VCU units being USD$1 with some 'projects' achieving up to USD$4.

Our view is the voluntary market is potentially likely to decline now the first commitment period has commenced (2008-2012) and the USA has announced a CAP and TRADE system aligned with Kyoto. Whilst the voluntary market has grown significantly in the last two years it is our view that it is a backstop to the compliance market i.e. Kyoto and is relatively small in comparison both in volume and price.

Our view is it would be better to make the additionality argument based on VCU income but not pursue VCU credits.

The preference would be that the REDD project is incorporated in the CDM. However recent CDM directives effective August 1st 2008 require projects to be advised to the CDM Board BEFORE the project commencement date to remain eligible for the CDM.

The issue in this case is there is no approved CDM methodology for REDD. The effect of advising in

[1] http://findarticles.com/p/articles/mi_m5CNK/is_2009_March_17/ai_n31459742/

like form to CDM current notification to preserve eligibility is not certain.

More on REDD as negotiations evolve and EITG efforts in this space progress.

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

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