Carbon Monitor

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Uncertainty Reins as CPRS Defeated and NZ ETS Review Delayed

After the recent defeat of the Australia CPRS in the senate, a similar process is playing out with New Zealand's Emissions Trading System and the support from the minority parties.

The ETS review was intended to be tabled before the end of August but intense lobbying has delayed the process as the Government is in 'intense negotiations' according to the Prime Minister.

Minority parties the Greens and Maori have all moved to reposition themselves including attempting to withdraw a minority report from the ETS review committee.

Seen as a way of moving to support a renegotiated or watered down ETS these moves represent the repositioning prior to the inevitable vote in Parliament.

The minority National Government still needs support to achieve a review of the existing legislation which it currently categorises as 'quite expensive' and would cause 'quite a number' of businesses to close down.

Meanwhile over the tasman, it is expected that the Rudd Labour Government will go to the polls on the issue of the CPRS. Political commentators see this as a move to strengthen Rudd's position as the opposition under Mr Turnbull are ill prepared for an election.

Majority Report from Select Committee on NZETS

The select committee majority report on the ETS was released late evening on the 31st August.

The recommendations are:

- An emission trading scheme rather than a broad based carbon tax
- Upstream points of obligation in fossil fuels and stationary energy
- Certain industries to receive allocations based on an emissions intensity basis
- Potential for a price cap on emissions units in the short term
- Agriculture in the ETS at a date other than the present planned 2013
- Direct regulation to be used alongside the ETS providing targeted response
- Further research and development to find solutions to the emissions problem

In the forestry sector the deforestation liability for pre 1990 forest will remain with the objective of negotiations in future commitment periods post 2012 to seek the ability to permit deforestation to a higher land use to be offset by corresponding reforestation at another location.

Alignment with the proposed Australian CPRS is also a priority by providing import and export rules to allow carbon permits to be transferred across the Tasman. Also having corresponding limits and price caps are seen as essential for the two systems to be aligned.

Overwhelming Response to Forest Owners Guide to Carbon Trading

Following a further mention in last months CM we have received literally hundreds of requests for the forest owners' carbon guide.

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

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

Commerce Commissions Guidelines for Carbon Claims Need Policy Decision

The Commerce Commission has now released the final guidelines at http://www.comcom.govt.nz/FairTrading/DraftGuidelinesonCarbonClaims/Overview.aspx

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.

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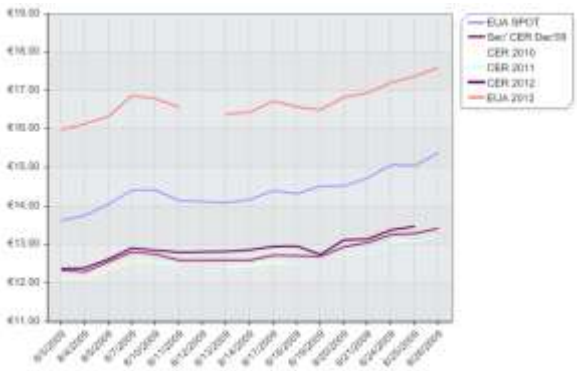
We wrote to Comcom asking for clarification of the above scenario. Their reply was that the matter had been referred to Ministry for the Environment as the issue was a matter of policy for MFE.

MFE has advised that policy has yet to be formed. Meantime our view is that claims of carbon neutrality should be made only after receiving proper advice.

EU Price Update

Allowance prices had a reasonable month without the recent volatility. Prices in Euro terms climbed and remained relatively steady in NZD terms.

2012 CER prices still support NZU prices of $28 or more at the current exchange rate of 0.475



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Bids for Ecosecurities Result in Conflicting Claims

Following a recent profit announcement by Ecosecurities Pedro Moura Costa, its former founder and man behind the take over offer said

"EcoSecurities' results illustrate the difficulties this company faces and why it needs a change of strategy. An operating profit of only €341,000 on significant sales volumes and after years of investment should give shareholders cause for concern. Our Offer represents the only certainty for shareholders at a time when both EcoSecurities and the carbon markets face significant uncertainty."

Guanabarra Holdings B.V. Moura Costa's take over vehicle then proceeded to dissect the interim result saying to the London Stock Exchange:

Guanabara notes the unaudited Interim Results for the six months ended 30 June 2009 ("Interim Results") announced by EcoSecurities on 4 August 2009 and the response circular dated 4 August 2009 in response to Guanabara's Offer.

Following careful analysis, Guanabara believes that the Interim Results serve to endorse its view that Guanabara's Cash Offer of 77 pence per share represents fair value for the Company. The main reasons for this conclusion are set out below.

(1) EcoSecurities reported another reduction in its contracted portfolio, following a reduction in 2008:

(a) the total contracted net amount of pre-2012 CERs reduced by circa 20 million tonnes to 124 million tonnes as at 30 June 2009; and

(b) there was a significant reduction in the growth rate of expected CER volumes from registered projects. From 31 December 2007 to 31 December 2008, there was an increase of 169% (from 13 million tonnes to 35 million tonnes) but, from 31 December 2008 to 30 June 2009, the increase was 14% (from 35 million tonnes to 40 million tonnes).

(2) The announced €1.06m profit before tax was predominantly derived from financial activities as opposed to operational results as it included net finance income of €0.72m. The Company achieved an operating profit of only €0.34m on sales of €60.0m. Sales were derived mainly from:

(a) the acceleration of deliveries of forward sales above the previously planned level;

(b) substantial trading activity, whereby the Company sold 4,274,000 CERs, 3,712,000 of which had been bought in the secondary market; and

(c) a significant reduction in the Company's inventory of CERs, from 1,710,000 CERs as at 31 December 2008 to just 263,000 as at 30 June 2009.

(3) Guanabara expects EcoSecurities' cash holdings to decrease in the short term as it funds the future development of carbon credits and as delays in registration, financing and construction continue to affect CER issuance. This is likely to be exacerbated by the reduction of the Company's CER inventory.

(4) EcoSecurities has not provided any guidance as to

profitability in the full financial year and beyond.

Guanabara believes that continuing uncertainties in the global economy in general and the carbon markets in particular create an environment in which the future financial performance of EcoSecurities is likely to fluctuate significantly.

Guanabara believes further that the performance of all carbon companies will continue to be adversely affected by complicated regulation and administrative delays, as evidenced by Unep
Risoe's recent reduction of the amount of CERs it expects to be generated by the end of 2012, because of increasing delays in the issuance of credits from projects that have been approved by the UN.

EcoSecurities' stock-exchange listed peers have recently reported write-downs in their contracted portfolios. Tricorona AB reported (23 July 2009) a reduction in its portfolio of carbon credits for delivery in the EU's second trading period 2008-2012 from circa 64 million tonnes to circa 55 million tonnes between 31 December 2008 and 30 June 2009. Camco International Limited announced (6 August 2009) a reduction in its risk adjusted contracted portfolio of JI and CDM projects from circa 94 million tonnes to circa 85 million tonnes between 31 March 2009 and 30 June 2009. Trading Emissions plc reported (11 August 2009) a reduction in its risk adjusted pre-2012 CER portfolio from circa 47 million tonnes to circa 43 million tonnes between 27 March 2009 and 11 August 2009.

The nature and scope of the carbon regulatory framework for the period following 2012 is as yet unknown. Recent press coverage from sources including Point Carbon, has highlighted that any agreement on the post-Kyoto period continues to be highly dependent on the political willingness of some of the world's largest countries and there continue to be many points which still require agreement. In particular, whilst there have been some developments in relation to potential new climate change regulations in the United States, there can be no certainty that a new regime will be agreed in the foreseeable future or that whatever regime does ultimately emerge will allow EcoSecurities to become active in the US market.

Guanabara's Offer is in cash and is the only offer currently available to EcoSecurities shareholders. In the event that Guanabara's Offer were to lapse and there was no alternative offer, the EcoSecurities share price would depend on the Company's trading performance and might not be maintained.

Guanabara would also like to highlight that all the parties which have given irrevocable undertakings not to accept Guanabara's Offer are connected in some way with the Company and its current management, either as directors, employees or, in the case of Credit Suisse International, have board representation. No independent shareholders have given any such undertakings.

The Offer price of 77 pence per share represents a substantial premium of approximately 141 per cent to 32 pence, the Volume Weighted Average Trading Price of an EcoSecurities Share over the six month period up to 5 June 2009, and a premium of approximately 69 per cent to the Closing Price of 45.5 pence per EcoSecurities' share on 4 June 2009, the last Business Day prior to the date of the announcement by Guanabara that it was considering an offer for EcoSecurities.

Commentary

Moura Costa is talking down the price of his former company indicating tough times ahead.

More interesting is the comment that the bid is the only way for shareholders to turn their shares into money.

An independent Director resigned late August citing that he had recently taken an appointment with an American regulator.

If other independent Directors resign it could be an indication Mora Costa is right.

EITG Web Site Makeover

Our web site has just been updated with the new 2009 EITG branding completing the first phase of our rebranding exercise.

We expect to release our completely new web site in October 2009 where we will have back issues of CM available to download along with other EITG publications.

Hits on the site are continuing to increase to record numbers.

Carbon Group Joins Our Consortium

Carbon Group provides a range of services to assist individuals and organisations understand, navigate and benefit from the emerging area of greenhouse gas awareness, its quantification, mitigation and offsetting.

The vision is to accelerate the move towards a low carbon future in two ways; by working with

organisations to reduce their carbon emissions, and to facilitate and commercialise clean technology.

The approach is based on helping organisations make the most of commercial opportunities provided in a carbon-constrained world. We form partnerships with environmental specialists and sustainability experts across many different industries. Once we understand your business, we gather these experts together to develop a compelling business case for change. We focus on bottom line results, backed by hard science and experience.

Carbon Group is a member of the New Zealand Business Council for Sustainable Development, under the auspices of parent company and leading environmental services consultancy, Andrew Stewart Limited.

Private companies in the tourism, television production, insurance, information technology, construction, finance, importing, healthcare and education sectors, have used our carbon services. Carbon Group also assists local government with public services and infrastructure projects.

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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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www.ghgemissionstrading.wordpress.com

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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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