Carbon Monitor

Volume 15 Issue 7 August 2010

NZETS Gains Momentum – Price Discovery Remains an Issue

Trades have been reported between $18.20 and $18.45 with volumes of 20,000 units being suggested to us.

Forest owners are quoting $17 net proceeds after brokerage for smaller lots. Such large commissions of over 7% don't make sense when considering these are commodity trades. The commissions should be comparable to simple exchange trades.

Westpac is reported to be buying large numbers of NZU units around $17 and holding them aggregating the parcels to sell for a profit. Their commodities team is very active.

Settlement however is not via exchange platforms. Typical exchange trades via accredited brokers carry a very low settlement or payment/delivery risk. This is typical for share trading where the brokerage houses guarantee settlement and the share delivery. At this stage the settlements are with 'large entities' and occur after the transfer of the NZU units is completed. It is only a matter of time before one of these transactions is disputed and there is non payment for NZU units already delivered.

The pre 1990 allocation plan was confirmed by Order in Council on the 5th July 2010. The first tranche of 38% the allocation of up to 60 NZU units per ha is to be issued on the 30th November 2011. Most recipients are expected to immediately sell their tax free allocation and the market price will correspondingly dip at least in the short term.

http://www.maf.govt.nz/sustainable-forestry/allocation/

EU Sets Caps for 2013-2020 at 20% below 1990 levels

Greenhouse gas emissions from heavy industry regulated under the European Union's Emissions Trading Scheme will be capped at 1,926,876,368 tonnes of carbon dioxide in 2013, the EU Commission stated recently.
Under the $100 billion EU scheme, climate-warming greenhouse gases from industry are capped and around 11,000 industrial installations are forced to surrender permits for every tonne of carbon dioxide equivalent they emit.

In the scheme's third phase, which runs from 2013-2020, the emissions cap will then be tightened at an annual rate of 1.74 percent of the average Phase 2 (2008-2012) cap of 2,032,998,912 tonnes, or by 35,374,181 tonnes per year, the Commission said on its website.

But the 2013 cap, 2.4 percent below an estimate of 1.974 billion made by the Commission in 2008, could be revised further if new entrants join or emissions reduction projects under the Kyoto Protocol do not yield the number of carbon offsets needed by installations.

"Final figures for the 2013 cap may thus not be available before 2013. In order to keep the public informed, the Commission will update the figures in 2011 or later," the Commission said on its website, adding that any changes should be marginal.

The cap is missing emissions from aviation and from new installations, new sectors like aluminium and new gases like nitrous oxide, which will be covered under the scheme from 2013. Carbon emissions from the aviation sector are due to be included in the scheme from 2012.

The linear reduction from 2013 will lead to a total cap of around 1.7 billion tonnes by 2020. The cap for 2013 and subsequent years could be reduced further if the EU decides to raise its bloc-wide 2020 emissions target to 30 percent below 1990 levels, up from 20 percent now, the Commission said.

The decision reflects the 20 percent reduction target (and) translates into a 21 percent cut in emissions from installations in the EU ETS by 2020 compared with 2005 levels.

Australian Election Called

The new Australian Prime Minister Julia Gillard has announced a general election for late August. Leading strongly in opinion polls she is expected to win.

With a new term secured the CPRS is expected to re emerge shortly after parliament resumes.

Not too soon as New Zealand's Climate Change Minister announced that there would be no continuation of the NZETS after 2012 if Australia does not move ahead with the CPRS

Of course NZ expects to link the NZETS and CPRS, an issue that was minuted in cabinet discussions the likely restriction prohibiting

off shore sale of NZ forest credits to countries outside of New Zealand and Australia

EITG REDD Projects Exceed the Size of New Zealand!

Targeted mainly at the European markets, Reduced Emissions from Degradation and Deforestation or REDD is starting to emerge as a major force in the voluntary carbon market and is expected to become part of the successor to the Kyoto Protocol post 2012.

So called REDD projects are supporting the voluntary markets. EITG and its partners are active in projects throughout Africa using proprietary mobile phone technology developed for the purposes of managing payments. Using this technology forest can be managed down to the 1 ha level with individuals paid for monitoring and managing the forest rather than burning it down and raising crops that ruin the soil.

Customers in supermarkets in Europe then use mobile technology to recognise and track the bar codes on product playing a video for the customer to show the forest conservation activity in action.

All of this is the precursor to REDD be accepted in the successor to the Kyoto Protocol post 2012 in part to allow countries to access cheap carbon offsets to compensate for increased emission reduction targets of 20 to 30% below 1990 levels.

The scale of these projects is massive, one EITG is currently in the early stages of working on is some 44 million ha. This is over 20 times the total exotic forest estate in New Zealand or 1.6 times the entire area of the country!

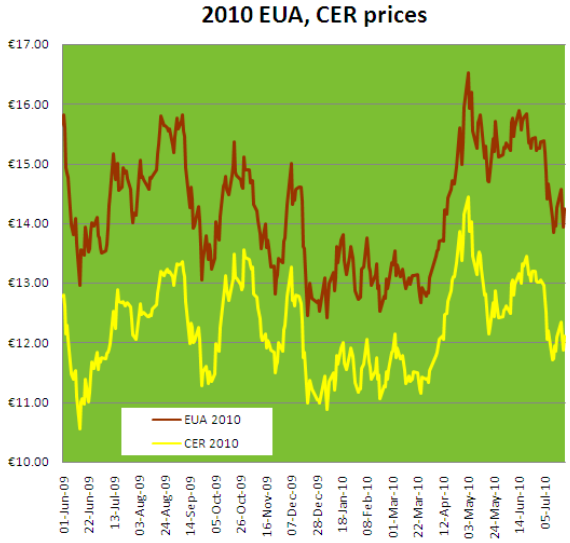
Currently REDD emissions reductions trade for between 5 and 8 USD per tonne of C02 avoided, or less than half the equivalent Kyoto credits. Prices have been steadily rising due to improved verification and understanding of the benefits by those purchasing the credits.

EU Price Update

Allowance prices softened with prices of EUA spread around 14Euro.

2010 CER prices suggest NZU prices of around $21.29 at the current exchange rate of 0.56.

Post 2012 remained around 17.50 Euro or $30.70 NZ for an EUA.



www.ideacarbon.com

Aviation in EUETS from 2012

Flights to and from EU airports will be subject to the EUETS from January 2012. A progressive cap will be introduced starting at 97% of 2012 levels dropping to 95% from 2013-2020. Savings are forecast of some 190mt of C02 annually from inclusion of Aviation.

Some 48% of worldwide aviation emissions are covered by the EUETS totalling 744mt of C02

Some 82% of the cap will be allocated to operators, with 15% allocation by Auction and 3% held in reserve for fast growing operators.

Kyoto instruments such as CDM credits called CER's and ERU, emissions reduction units both from projects in other developing and developed countries respectively are permitted to cover up to 50% of the reduction efforts. Some 1.3bn tonnes of these credits are expected to be sold in the EUTS from 2008-2012.

In real terms the emissions charge is expected to add between 5 and 40 Euro per ticket depending on the distance travelled.

Initiatives pioneered by the likes of Air New Zealand in flight profiles and advances in air traffic management are expected to be adopted to in part deal with these caps.

http://www.transport2012.org/bridging/ressources/documents/1/504,8_Dec_Inclusion_of_aviation_in_the_E.pdf

Auctioning Permits to Become the Norm in the EUETS

Initially in the period 2008-2012 permits were grand parented, that is given the emitters at no charge based on their past emissions. Some auctions have taken place but these are the exception rather than the rule.

It is said that the price collapse from around 30 Euro to less than 15 Euro today was predicated by companies liquidating their 'free' allowances to create liquid cash during the financial crisis. The need for short term cash provided a surplus of sellers in the market.

The recent trading directive from the EU now states auctioning will be the rule rather than the exception, and there will be no 'free' permits for electricity generation.

This action will align the EUETS more with the NZETS where (allowing for the 1 for 2 surrender) the principal is that ALL emissions attract a charge. So whilst there is a 'target' level of emissions in the EU and New Zealand, in effect all greenhouse gas emissions in the electricity sector as an example will incur a charge. These costs will be borne by consumers.

Half the money raised is planned to be used for fighting and adapting to climate change in the EU and in developing countries.

http://ec.europa.eu/environment/climat/emission/auctioning_en.htm

Treatment of Fire Losses in the NZETS Clarified

Earlier this year Carbon Monitor reported on a fire in New Zealand's South Island near Dunedin. Reported as post 1989 Kyoto Forest there was speculation as to what would happen to the loss of carbon on site if NZU units had been issued and sold.

The NZETS sets a rule for the decay of remaining timber on site post harvest as an arbitrary ten year term at 10% loss per year during the 10 years.

In the event the fire resulted in recovery of timber, the timber removed from the site would result in an immediate deemed emission and the balance of the carbon on site would be removed over the ten years on a straight line basis meaning the forest owner would have to surrender credits on the same basis.

Clearly a fire affects the decay process potentially 'sealing' the burned timber and arguably any carbonised timber would result in long term sequestering of the carbon.

This is another circumstance with the Kyoto Protocol where science and fact diverge with the 'rules'.

In any event it appears the forest that was lost was pre 1990 and under the protocol the loss is reversed by simply replanting the affected area.

Thanks to Clayton Wallwork of Greenco for his help in clarifying the situation. www.greenco.co.nz

Contact Details

Terry Quilty
ph 64 21 250 6789
fax 64 9 920 1093
skype terryquilty
email terry.quilty@eitg.co.nz

Richard Hayes
ph 64 9 920 1092
m: 64 21 310 301
fax 64 9 920 1093
skype richardshayes
email richard.hayes@eitg.co.nz

Simon Baillieu
ph 27 82 558 9616
skype sbaillieu
email simon.baillieu@eitg.co.nz

Martin Albrecht
ph 64 21 565 682
martin.albrecht@eitg.co.nz
skype goodground

Iain MacDonald
ph 64 27 438 2544
iain.macdonald@eitg.co.nz

'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

To subscribe email subscribe@eitg.co.nz with your full contact details.

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

Join twitter for updates from EITG www.twitter.com/eitg

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

www.eitg.co.nz