
Carbon Monitor

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NZETS Again Dominated by CER Price

Back in late 2010 the NZU price was effectively capped by the price of Certified Emissions Reductions or CER from projects in developing countries. These units were purchased by emitters to cover their NZETS obligations. An arbitrage opportunity arose when the price of a CER climbed above that of an NZU in early 2011 creating a windfall for emitters who sold CER and purchased NZU in effect swapping their compliance units.

CER can be used for compliance in the EUETS as well as the NZETS

Again the price of a CER has dropped to NZD\$19 according to Carbon Match, the new platform for selling and buying NZU units
www.carbonmatch.co.nz

CER prices dropped with market uncertainty as to future demand from the energy sector the main drivers of the EUETS where CER are regularly traded.

Look for this and the exchange fluctuations to create further opportunity for New Zealand emitters and perhaps the occasional forest owner to drive a margin between the two compliance unit prices.

European Markets Buoyant then in Freefall

European carbon markets have been strong as the fall out from the Japanese nuclear accidents have resulted in Germany committing to shut down its nuclear stations. Projections for summer electricity peak use (based on air conditioners) suggest that wind and solar can take up the slack as needed.

In France the pressure to import electricity is driven by the ability to use river water to cool nuclear reactors. A drought will curtail nuclear output and result in a requirement to import electricity.

Meantime the Italians voted to reject nuclear power.

Recently the Greek crisis along with a number of other factors resulted in a significant drop in EUA prices from 16 Euro down to 12 in a week. With CER falling only 2 Euro reducing the EUA CER spread.

NZETS Forest Measurement Regime Regulations Announced

In keeping with the consultation the final regulations have been issued for the compulsory field measurement for post 1989 forests.

These regulations apply to participants with more than 100ha of post 1989 forest. The definition of participant follows the associated persons rules modelled on the tax legislation.

That means an aggregate 100ha triggers the obligation to undertake compulsory field measurements once ever commitment period, and in this case before 2012.

MAF supplies details of the sample plots and the forest owner is required at their cost to supply the data. MAF then supplies a set of site specific look up tables to be used in calculating the NZU units for the forest.

Commentary

Post 1989 forest owners with over 100ha face significant risks, that the customised look up tables provides fewer NZU than those from the standard tables.

Had the forest owners sold their NZU allocation based on the standard tables from 2008-2011 they will be required to make an adjustment at their 2012 emissions return.

If the forest is patchy and not well managed the random sample plots allocated by MAF may significantly reduce the actual NZU issued requiring the forest owner to potentially purchase units on the market.

Public Opinion against Australian Carbon Tax, Mentions of Trans Tasman Trading

Reports of Trans Tasman Emission trading raise the spectre of a revived CPRS

In a meeting between the Prime Ministers of New Zealand and Australia it



has been reported that both prefer a trans tasman exchange of carbon credits.

Public opinion in Australia is against the proposed carbon tax mainly due to the excessive costs perceived by families. The understanding of the process and emissions trading per se was illustrated on television where the commentators questioned how a carbon charge would be imposed on running motor vehicles.

Clearly there is no understanding or appreciation as to where a charge may be applied and the practicalities of implementation of a scheme. It may be the public is thinking of how they can reduce emissions and see the need for being somehow personally accountable.

In the NZETS the carbon obligations are placed up stream with oil companies simply increasing the cost of fuel to reflect the cost of carbon. This would be the same for either the CPRS or a carbon tax. The proposed carbon tax however appears to focus on power generation only.

New Zealand advised that its NZETS is on track for an annual cost of about \$150 per family. This is substantially lower than Australian estimates of a carbon tax, albeit that the level of the tax has yet to be set but in any event is above that of the NZETS NZU price.

One wonders if the Carbon Tax has simply been a ruse to push acceptance of the CPRS and it will after these revelations be looked at again.

Following those statements a tax relief package was announced for families with incomes under \$150,000 AUD per annum to reduce the impact of the expected \$500 per annum in carbon taxes. The figure was calculated at \$20 AUD per tonne of CO₂

Meanwhile both New Zealand and Australia at a sovereign level are reportedly able to comply with their 2008-2012 commitments with no domestic response or need to purchase off shore credits.

New Zealand is reportedly on track for its forest credits having issued some 57 million NZU to represent forest carbon sequestration. Australia, whose Kyoto cap is 1990 + 7% which was successfully argued on the basis of the then extensive deforestation, has since almost curtailed deforestation and hence benefits from that extra 7% per year.

Camels Sacrificed for Carbon Credits

Meantime it has been reported that a camel cull of wild camels in northern Australia has been put forward under the carbon farming initiative.

Shooting wild camels from helicopters using licensed sharpshooters will reduce methane emissions whilst supplying the pet food markets with camel meat. Australia is a signatory party to the United Nations Convention on Biological Diversity (www.cbd.int). This was founded out of the same meeting the Kyoto Protocol came from; that is, the Rio Earth Summit in 1992.

Under its obligations to this agreement, Australia has committed to enacting the Convention. This includes the requirements of Article 8, In-situ Conservation, Paragraph (h) which states: "(...contracting parties are required to...) Prevent the introduction of, control or eradicate those alien species which threaten ecosystems, habitats or species". Feral Camel meets the requirements for control as an alien species under the CBD.

<http://www.cbd.int/convention/articles/?a=cbd-08>

Feral camels are having a massive impact on rare and endangered plants and animal species in the incredibly fragile Australian rangelands. Left unmanaged, the feral camel populations will double, with a doubling of all impacts by 2020, including rate of loss of endangered desert species and greenhouse gas emissions.

<http://feralscan.org.au/camelscan/default.aspx>

Apparently carbon credits will mean that using the camel meat becomes a more viable proposition for processing plants.

EU Moves to Close Registry Loopholes and Prevent Fraud

The EU Climate Change Committee backed proposals to enhance the integrity and the security of the EU ETS registry system submitted earlier by the European Commission. Support for the proposals is key to the security of the carbon market, which has become a priority as a result of the fraud with emission allowances and cyber attacks on registry accounts.

For a webinar on the subject go to www.environmental-finance.com/events

What is the Price of a Carbon Credit?

Several different markets exist: Kyoto Credits, Cap and Trade markets that are in some cases country implementations of the Kyoto Protocol that may permit Kyoto Credits as part of the compliance market, and Voluntary credits that generally are for marketing or 'greening' purposes by Corporations.

Prices and volumes vary based on the market and the markets are generally not linked and therefore it is difficult to see them as linked at all other than the Kyoto compliance markets.

Mandatory cap-and-trade systems						
Alberta-Based GHG Reduction Program	Alberta-based offset credit	Compliance entities in the province	metric ton	11	68 projects registered	n.d.
Australian Carbon Pollution Abatement Scheme	Under development	Under development. Expected to be compliance entities in the nation	metric ton	0	0	n.d.
Canada's Offset System for Greenhouse Gases	Offset credit	Compliance entities in the nation and/or for the voluntary market	metric ton	0	0	n.d.
European Union Emissions Trading Scheme	EU Allowances (EUA) and CERs and ERUs	Public and private entities within the jurisdiction of the EU-ETS	metric ton	163 million CERs/ERUs have been surrendered (2008 and 2009).	see CDM and JI	EUA 2008: US\$32.5 (€22.1) 2009: US\$18.7 (€14.0)† For offset prices, see CDM and JI
Midwest Greenhouse Gas Reduction Accord	Under development	Under development. Expected to be compliance entities in the region	Not yet specified	0	0	n.d.
New South Wales Greenhouse Gas Reduction Scheme	NSW GHG Abatement Certificates (NGACs)	Compliance and elective entities in the state	metric ton	118.5	n.d.	Prices declined from AUD 7-8 fall 08 to AUD 3 spring 09†
Regional Greenhouse Gas Initiative	RGGI Allowances (RGGA) and CO2 Offset Allowances	Compliance entities in the RGGI regions	short ton	0	0	RGGA: US\$3.90 per short tCO2e† n.d. for offset prices
Western Climate Initiative	Under development	Under development. Expected to be compliance entities in the region	Not yet specified	0	0	n.d.

Voluntary Markets

Plan Vivo	Plan Vivo Certificates	Individuals, nonprofit organizations, and businesses.	metric ton	~ 1 million ex-ante credits	6	2010: USD 6-15, according to Plan Vivo
Social Carbon Methodology		Individuals, nonprofit organizations, and businesses.	metric ton	n.d.	43	2010 average US\$7.6††
VER+	VER	Voluntary offset retailers and providers, organizations and businesses.	metric ton	n.d.	n.d.	2008 average: US\$5.8†† 4/09 price VER+: €3.25 (07/08 vintage)†
Voluntary Carbon Standard	Voluntary Carbon Unit (VCU)	Voluntary offset retailers and providers, individuals, organizations and businesses.	metric ton	42.8	357 projects registered	2010 average US\$4.7††

Kyoto Offset Credits

Kyoto offset mechanisms						
Clean Development Mechanism	Certified Emissions Reduction (CER)	Public and private entities in Annex-1 countries; other entities may use/retire them under voluntary offset programs	metric ton	496	5760 in pipeline; 2703 registered of these 844 w/ issued CERs	secondary CERs: 2008: USD 24.5 (€16.8) 2009: USD 16.6 (€11.9)
Joint Implementation	Emissions Reduction Unit (ERU)	Same as CDM	metric ton	25	379 (179 track 1; 196 track 2 projects)	2008: USD 14.56 2009: USD 13.6

Full details are at <http://www.co2offsetresearch.org/policy/ComparisonTableMarketSize.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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This blog is designed to discuss all aspects of emissions trading and GHG as well as the Kyoto Protocol

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