Carbon Monitor

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Australian Carbon Scheme Details Announced

A price on carbon pollution creates incentives for businesses to reduce pollution and invest in clean technologies and clean energy generation. The claim is a market based approach ensures that pollution is reduced at the lowest cost to the economy.

Under the pricing mechanism, around 500 of the country's biggest polluters will be required to pay for each tonne of CO2 they emit into the atmosphere. Modelling by the Australian Government suggests that this will create economic incentives to reduce pollution in the cheapest possible way. The carbon charge will be revenue recycled into industries at risk, low income families (less than AUD$150,000) and clean energy initiatives. This is intended to transform not only the tax system but the Australian economy triggering a 'clean energy future'.

Australian Minister for Climate Change and Energy Efficiency, Greg Combet, stated the four key components of Australia's policy to combat global warming:

- Establishment of a carbon price;
- Support for renewable Energy;
- Support improvements in energy efficiency; and
- Store carbon through changed land-use practices.

Key elements of the Australian Carbon Pricing Mechanism

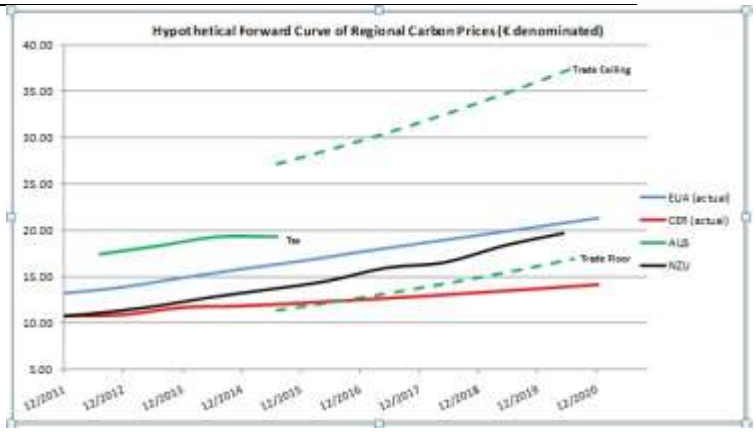
Price

The carbon pricing mechanism will commence on 1 July 2012 with a price that will start at AUD$23 per tonne indexed to increase at 2.5% per annum.

The carbon tax will transition to an emissions trading scheme, with the price determined by the market.

There will be a price cap and floor that will apply for the first three years of the flexible price period. The price cap will be set at AUD$20 above the expected international price and will rise by 5% each year. The price floor will be AUD$15 rising annually by 4%. ($15 AUD is around $19NZD cf NZU price of $17?)

The Australian scheme pricing pricing based on forward EUA and CER prices on July 11th 2011 may look like this



Source ideacarbon.com

Coverage

There will be broad coverage from the commencement of the program encompassing approximately 60% of Australia's emissions (360mt per annum) in the stationary energy sector, transport, industrial processes, non-legacy waste and fugitive emissions.

International Linking

There will be international linking to credible international carbon markets and emissions trading schemes from the commencement of the flexible price period (i.e. 2015). At least 50% of a liable party's compliance obligation must be met through the use of domestic permits or credits (i.e. Australian Carbon Credit Units – ACCUs).

Carbon Farming Initiative - CFI

Subject to a 5% limit during the fixed price period Kyoto-compliant Australian Carbon Credit Units (ACCUs) created under the CFI can be used to meet a compliance obligation under the carbon pricing mechanism.

At this stage commercial forestry appears to be excluded from the CFI. Projects must meet additionality criteria (including not to have been business as usual 'BAU' in the absence of the carbon scheme)

For more details see our live tweets on www.twitter.com/eitg direct from the briefing. Extensive youtube videos of the briefing are on the eitg web site www.eitg.co.nz

Commentary – Linking to the NZETS

Forest carbon credits in the NZETS, the predominant source of 'excess' and therefore tradeable credits are not subject to an

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additionality test. The principal reason is that the forest owner remains liable for the loss of carbon at harvest, and eligible forests had to be non forest land as at the 31/12/89 meaning that from a Kyoto perspective they constituted additional carbon removed from the atmosphere.

The question is if the NZETS and the AUETS (or CPRS) are linked, and everyone is mooting this as likely then what instruments can trade across the Tasman. Certainly ACCU will be eligible in the NZETS, we don't see a problem with that. However the other way around seems fraught.

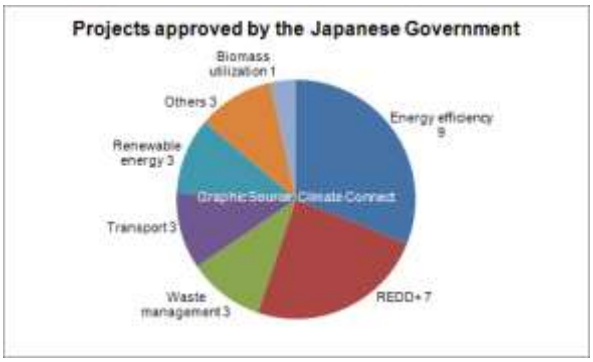
However the other 'gorilla in the room' is that around 2020 New Zealand harvest of Kyoto Forest will create the 'wall of wood' has the potential to turn the forest industry into one of the single largest emitters. This will leave the Government (given many foresters have yet to opt in) with the liability to surrender credits to allow forest owners to harvest. The credits received from these forests (2008-) will have long been used for compliance and will be in effect cancelled.

So does linking to the AUETS (CPRS) help New Zealand post 2015 and when the wall of wood arrives? To early to call.

Japan Looks beyond Kyoto and Approves 29 Projects

With no treaty in place post 2012 Japan has approved 29 projects under an alternative mechanism to the Kyoto Protocol. The alternative mechanism involves bilateral cooperation with developing countries for technology transfer and easy finance.

Out of the 29 projects in the alternative mechanism nine projects are for energy efficiency, seven for REDD+, three each for transport, renewable energy, waste management and others and one for biomass utilization. The developing countries where the projects are located are Vietnam, Malaysia, Laos, Sri Lanka, Mongolia, India, Mexico, South Africa, Indonesia, Cambodia, Brazil, Angola, Thailand, China and Russia.



These projects are will be managed and implemented by Japan based entities such as Mitsubishi Research Institute Co., Ltd., Ichikawa Environmental Engineering Inc., Katahira Engineering Inc., Shimizu Corporation, Inc. Recycle One, Konsabesho International, Tepia Japan, Ltd., Mizuho Information & Research, Inc.

www.climate-connect.co.uk

Carbon Positive Comments on Australian Carbon Scheme

Early estimates suggest Australia's carbon tax rules provide potential demand for more than 50 million tonnes of forestry and farming offsets over its first three years. Canberra announced over the weekend a carbon tax of $A23 a tonne ($US24.65, €17.30) to apply to 60 per cent of the country's greenhouse-gas emissions base (carbon dioxide, methane, nitrous oxide and perfluorocarbons) from July 2012. The tax will rise by 2.5 per cent plus inflation each year to a level around $25.50 by 2015.

The tax is a transitionary arrangement for three years after which an emissions trading scheme (ETS) will apply from mid-2015. Together the hybrid approach is designed to deliver 160 million tonnes of emissions reductions to meet the country's target of a 5 per cent reduction in emission below 2000 levels by 2020. The carbon tax system and the ETS won't cover agriculture but will recognise forestry and other land-based activity generated under the Carbon Farming Initiative (CFI) offsets scheme, a separate piece of legislation set to pass Parliament.

The carbon tax will apply directly to 500 large emitters in sectors responsible for around 350 million tonnes of CO2e emissions annually. These include the power generation, steel, aluminium, zinc, paper & packaging and waste industries, as well as the fugitive emissions from mining. Blanket coverage of transport fuels was dropped from plans late in the process but rail, domestic aviation and shipping remain included. Up to 5 per cent of any emitter's obligation can be covered with offsets. No CERs or other international carbon instruments will be eligible in the carbon tax period, but the government has promised wide eligibility under the ensuing ETS.

The carbon tax needs the approval of the nation's Parliament but this appears a near certainty, despite a fierce campaign against it by the opposition. A cross-party committee consisting of key non-government MPs and Senators – the Green Party and two conservative independents - required to pass the bill in both houses of Parliament has signed off on the plan after being deeply involved in it development. Another independent has signalled support, giving the

government the numbers. Winning their approval required significant compensation payments for emissions-intensive industry and households already suffering sharply rising electricity prices. The government wants the carbon price legislation passed by September or October.

Offsets boost

The CFI bill has already passed through the lower house of Parliament and is expected to pass through the Senate in coming weeks. The CFI allows a range of activities of which only some are recognised under the Kyoto Protocol. Kyoto-compliant activities include reforestation, savannah fire management, livestock methane & manure management, landfill waste and fertiliser emissions. Non-Kyoto activities in CFI are avoided deforestation, soil carbon sequestration, burning of stubble/crop residue and rice cultivation management. CFI offsets eligible for use by emitters to reduce carbon tax obligations must be Kyoto-compliant. Non-Kyoto offsets can be sold to the voluntary market and won't be counted towards the nation's reduction target, providing additional, beyond-target abatement that will appeal to voluntary buyers.

With the CFI scheme only in its infancy, and the long lead times need to generate land-based offsets, supply is likely to fall well short of potential demand, at least in the first year or two of the carbon tax. Overall, however, there are significant incentives for investment in offsets supply. At a fixed carbon price level of AUD$23-25 a tonne, there is significant room for project developers in forestry and other land-use activity to deliver offsets at well below the tax price. The government has also announced it will spend AUD$250 million buying non-Kyoto CFI offsets over six years to help kick-start the voluntary side of the offsets market. The government will also facilitate the sale of Kyoto-compliant offsets overseas.

www.carbonpositive.net

New Zealand Pre1990 Forest Carbon makes offer to Market

New Zealand Pre 1990 forest carbon is offering to buy pre 1990 forest owners carbon credits. www.NZPre1990ForestCarbon.co.nz

These credits are issued to land owners in compensation for the lack of ability to change land use. The NZETS makes forest owners of pre 1990 forest liable to surrender credits for the total carbon content of their forest (some 800 units per ha) unless they reforest. Hence changing land use is economically no longer feasible.

The offer is $100 up front and another $225 at the end of 2011. This offer of $325 per ha values an NZU unit at $14 given the compensation maximum allocation of 60 units per ha 23 by end of 2011 (the balance of 37 for $425 in 2013)

The market opened at around $17 and has traded as high as $22 according to information supplied by Westpac.

The promoters of the scheme offer all the benefits of the pre 1990 allocation of 60 units such as tax free status on the basis of the forest owner extending credit to the scheme.

Unfortunately Carbon Monitor has to ask is this offer along the lines of low ball offers in the share market made to ill informed investors? The offer is at least 30% below what is generally accepted as a reasonable price for an NZU.

The promoters suggest they are taking the risk of the NZU price but supply no guarantees of payment. Westpac Bank is noted as their carbon trading partner.

The company itself has only1000 shares.

Clean Development Mechanism Update

The CDM is a component of the Kyoto Protocol where developed countries can sponsor projects in developing countries that would not normally go ahead. These projects receive carbon credits in the form of Certified Emissions reductions or CER.

Business as usual or BAU meaning a project would go ahead without carbon credits fails what is called the additionality test of the CDM and would generally not receive credits. It is important not to make conclusions in this area without specialist advice.

Meanwhile the CDM RISO web site reported in their regular CDM update that in June 169 new CDM projects entered the Pipeline. We only saw higher values in the two months July 2007 and October 2008!

The average time delay from the start comment date to the registration date has decrease from 700 days in 2008 to about 230 days now. The average for all registered projects is 533 days.

The issuance of CERs in May was again high: 22.6 MCERs. Our projection for the number of CERs issued until the end of 2012 is almost the same as last month: 1090 MCERs compared to 1080 a month ago. The increase is caused by not using an earlier date for registration than the date of registration action for

some projects. The amount of CERs issued is now 647 MCERs. The average issuance success is 94.1%.

The CDM Pipeline now contains 6416 CDM projects after subtracting the 935 CDM projects where the DOEs terminated validation, the 179 where the DOEs (designated operational entities the validators and verifiers of the CDM) gave a negative validation, the 198 projects rejected by the EB, and the 52 withdrawn projects. 184 are in the registration process.

North Korea is new to the CDM Pipeline with three 10 MW and one 20 MW hydro power projects.

The monthly number of new PoAs (program of activities) is again high. In June five new PoAs entered the Pipeline. The number of PoAs in Africa is now 22 or 23% of the 97 existing PoAs. This is a much higher percentage than Africa's 2.6% of all normal CDM projects. In July 7 new CDM projects were submitted from Africa, only May 2009 was higher.

To new methodologies using baseline benchmarks were approved at EB61:

AM91: "Energy efficiency technologies and fuel switching in new buildings"

This is the first approved methodology that includes efficient thermal envelopes with efficient lighting, HVAC etc for new buildings (residential, commercial, and institutions).

ACM19: "N2O abatement from nitric acid production" with a benchmark decreasing from 5.1 kgN2O/tHNO3 in 2005 to 2.5kgN2O/tHNO3 in 2020.

There are now also an approved large scale methodology for mangroves:

AR-AM14: "Afforestation and reforestation of degraded mangrove habitats"

What is the Price of a Carbon Credit?

Much has been made about price in the "market". The reality is there are many carbon credit markets, the EUETS, the NZETS and voluntary markets to name a few.

The Kyoto Protocol, administered by the United Nations issues assigned amount units or AAU units to participating countries in respect of their 'cap' from 2008-2012. New Zealand received some 394 million AAU units. The Kyoto mechanisms Joint Implementation (JI) and Clean Development Mechanism (CDM) projects create ERU and CER respectively, both of which are recognised by the UN for compliance with Kyoto.

So the NZETS and the Australian CFI offer the option to convert an NZU from forestry into an AAU or the CFI will issue AAU directly. Only New Zealand post 1989 credits from forestry either NZU or the PFSI are permitted to receive an AAU. The commitment period reserve of a country also restricts how many AAU can be transferred to another country.

So an AAU appears to be the best unit for Kyoto – right? Simply the answer is NO. The AAU is only useful for a country to comply with its obligations and has little use internally in an ETS like the NZETS or the EUETS.

The AAU market is thin and as a result there is little information. The first real Kyoto trade in the NZETS was for around 1 million AAU at around 11 Euro to Norway. Since then a few NZ AAU from forest went to Japan (certainly thousands at the outside) A number of others from European or former Soviet Union (FSU) went into Japan – this time by the million.

Early in 2009 optimism (not real market data) lead to estimates an AAU would fetch over $25NZD and forest owners clamoured to understand how to get an AAU.

Since that time however there has been little to no activity other than that noted above. In fact the BNZ Bank recently reported in its June 2011 Carbon Markets monthly that Lithuania sold some 30million AAU then reported in July it received some 150million Euro or 5 Euro per AAU. A further 20million are reportedly on offer.

So the reality is that an AAU is a poor cousin to compliance units such as an NZU, EUA or CER arguably fetching half to a third of their value or less.

Why? There is a substantial oversupply of AAU due to the collapse of the economies of the FSU post 1990 leaving their emissions significantly below 1990 levels and therefore lots of AAU.

This so called 'hot air' has been the root of many of the market design challenges for the EUETS and NZETS.

Countries looking to comply with Kyoto (such as Spain) are however ready to buy these AAU units. Meantime within their borders the EUETS operates to regulate local emitters.

Deadlines Loom for pre 1990 Forest Owners

Those with less than 50ha of pre 1990 forest must apply for an exemption from the NZETS before 30th September 2011 according to MAF

Those wishing to receive their free allocation of NZU units as compensation for loss of ability to change land use must apply before 30th November 2011

www.maf.govt.nz

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EITG Carbon Pool provides forest owners with a robust platform to access 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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