Carbon Monitor

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Forestry in the New Zealand Emissions Trading Scheme – Field Measurement

All *registered* post-1989 ETS participants who have 100 or more hectares in the scheme are subject to the FMA. The FMA regulatory and implementation requirements can be found on the MAF website on the FMA page at

www.maf.govt.nz/forestry/forestry-in-the-ets/post-1989-forest-land-voluntary-participation/field-measurement-approach

FMA Information Standard

The FMA Information Standard was published on the MAF website, 23 December 2011. The Standard addresses requirements for data submission to MAF, including how to submit data electronically. It also provides tables of the species codes that must be recorded when participants are required to identify tree species in the field.

Parties interested in developing software for electronic submission of FMA information as set out in the FMA Information Standard should register their interest, by sending an email to **climatechange@maf.govt.nz**, with "FMA Data Capture" in the subject line.

Once registered you will receive any specialist technical updates on electronic data capture and submission. You will also be able to request an electronic copy of the file format specification (as an XML file XSD).

FMA Checklist

Don't forget that MAF has created an FMA Information Checklist to assist forest owners and forest inventory crews undertaking measurements for the FMA. The checklist summarises all key details that must be recorded when collecting FMA information, and should be used as a reference by inventory crews.

This Checklist can be found on the MAF website on the FMA Process page at:

http://www.maf.govt.nz/forestry/forestry-in-the-ets/post-1989-forest-land-voluntary-participation/field-measurement-approach/field-measurement-approach-process

See the link under step 4: Collect FMA Information

Those who are subject to the FMA have exposed themselves to risk by selling NZU previously. The risk, identified in prior editions of the Carbon Monitor, is that the NZU have been over allocated using the look up tables. Such an over allocation requires participants to 'square up' their accounts by the end of 2012. The good news is they can purchase NZU at a fraction of what they may have sold them for. However the taxation implications, that is they have paid tax on something that the never should have had to sell, are interesting and worthy of asking for specialist advice. After all should there not be an adjustment to the income return for the period that over allocated credits were sold in? Or will they simply claim a deduction for the purchase of replacements? The odd tax structures surrounding forestry suggest that will not benefit or make good the fine tuning of the ETS for forest owners that have over sold credits.

Perhaps the simple argument is the FMA was expected and that an accrual should have been made at the time of sale in the income for potential liabilities. For those tardy with their tax returns it may be hindsight can help them?

Recommendation: please see our website terms and conditions. Consult an appropriately qualified tax professional for taxation advice.

Proposed Changes to See NZU Auctioned by Government

Part of the proposal to review the NZETS post 2012 includes the Government being able to auction NZU units. These proposals are somewhat murky given the principals on which the ETS is based.

NZU units are either created from an allocation being the CAP imposed by Kyoto, currently some 390mt (2008-2012) or from forest growth over the same period. At one time this was estimated as high as 90m units. The expected planting has not gone ahead so this may be as low as 50m.

On the other hand relatively few post 1989 foresters have opted into the NZETS leaving the Government flush with those forester owners NZU on the promise that some time in the future the Government will cover their harvest liability. These liabilities are expected to come home to roost when the 'wall of wood' is harvested around 2020. Recall this 'wall' arose from abnormally high planting rates in the early 1990's which have tailed off since then even with the potential for carbon credit income.

So the Government has on hand quite a large volume of NZU units that it can use for its Kyoto obligations. There is nothing to stop the same units being

Unit 10, 114 St. Georges Bay Road,
P.O. Box 9185, Newmarket, Auckland, New Zealand 1149
p: 64 9 9201092 f: 64 9 9201093 www.eitg.co.nz

exchanged for cash from some emitter.

So it this a carbon tax in disguise? And will the funds be targeted at developing renewable energy or is this simply a way of raising money for the consolidated fund? In any case the Government needs to put a sound argument forward that its not mortgaging the forest industry's future to insulate New Zealand against the implication of not reaching its targets?

Confused – don't be surprised – We would like to hear the explanation why auctioning is a functional development in the NZETS.

Or is it simply a reform following overseas examples – like the EUETS – which seems to have failed to judge its allocations yet continued to auction credits to raise revenue?

Changing the EUETS to Drive Prices Upwards

There seems to be no end to the prevarication and posturing around the EU attempts to save the EUETS by countering the changes in the carbon emissions that originally led to the allocation of EUA to emitters. The so called set aside has now suffered another set back with the Polish Government blocking moves to implement the policy and ultimately a 2020 target of minus 30%.

Pundits point to Poland's extensive reliance on Brown Coal generation, something that is particularly carbon intensive.

Machinations continue whilst carbon sagged again on news of lower than expected emissions in 2011.

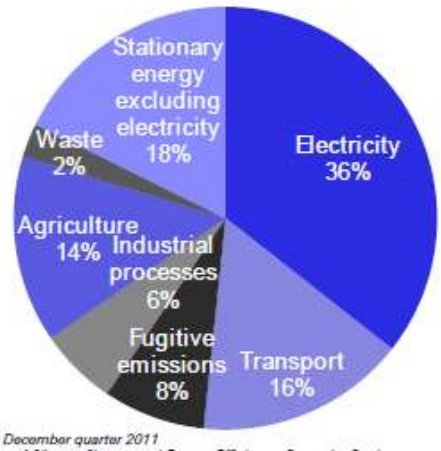
Some traders are said to be renegotiating their forward contracts that are seriously underwater. The market has been said to be long on carbon and much of the slide in prices can be attributed to stop loss orders.

The EU generally remains bullish on its carbon market and in a process of almost continuous redesign in recent times will close trading to establish a single registry for the EU trading. This registry has been established to counter cross border fraud that emerged with state registries.

Clean Energy fund Launched in Australia

A substantial component of Australia's carbon tax scheduled to be applied from July 2012 is targeted towards developing renewable energy to replace fossil fuels predominantly coal

Some 36% of the Australian carbon emission comes from electricity generators



Note: Emissions to December quarter 2011
Source: Department of Climate Change and Energy Efficiency, Deutsche Bank

The $10 billion Clean Energy Finance Corporation should apply capital to the clean energy sector 'through a commercial filter', according to the recommendations of an expert panel appointed by the Australian government released this month.

The Clean Energy Finance Corporation, to be chaired by Reserve Bank board member Jillian Broadbent, will have $2 billion to invest each year for five years from 2013-14.

The fund will largely co-finance investments and may direct some of its capital through intermediaries and pooled funds. The CEFC is expected to maintain the value of its $10 billion capital and to earn a positive return 'over time'. The fund will not target demonstration projects, but will focus on technologies and projects 'at the later stage of development'. During its early stages the CEFC is expected to invest via loans rather than equity. It will begin investment operations on 1July 2013.

Clean Energy Finance Corporation, Report of the Expert Review Panel (April 2012)
http://www.cefcexpertreview.gov.au

Has South Africa Missed the Boat on Carbon Credits?

According to the Department of Energy, the South African Designated National Authority South Africa has registered 21 Clean Development Mechanism (CDM) projects, and is processing 44 project proposals, ahead of the December 2012 European Union cut-off date for this kind of carbon trade with all but "least developed countries".

Looking their web site however it is clear that many projects registered as a PIN are unlikely to proceed further. Moreover the lack availability of validators for projects also make it difficult to advance projects.

According to Imbewu Sustainability Legal Specialists director Andrew Gilder, if the global carbon price was not so low because of the financial crisis, the push from South African firms to register CDM projects and programmes might have been harder. However it is CM experience that the CDM has been viewed with significant suspicion from many in South Africa's business ranks the upshot being they have been too slow to capitalise on the opportunity.

Recent spot prices for carbon credits from so called Non Annex B or developing countries such as South Africa are around €4.05 per CER or certified emissions reduction. Robbie Louw, director of Promethium Carbon was reported as saying before the financial crisis projections were that the price of a CER was expected to range from €30-€40 by 2030. The climate-change advisory firm is developing seven CDM energy-efficiency projects for Nedbank , and has sent the paper work to UN-designated project auditors for the proposed projects to be validated. This will boost SA's complement of CDM projects — last year the country had 20 registered projects and programmes and held about 30% of Africa's share of the global CDM market.

Thompson Reuters Point Carbon reported in January the global carbon market was worth €96bn, with about 8.4-billion tons of carbon dioxide equivalent traded last year — a 4% increase in value over the previous year, and a 19% rise in traded carbon dioxide equivalent over the same period. EcoMetrix Africa MD Henk Sa was reported as saying Most of South Africa's competition came from Kenya, Nigeria and Egypt.

On a more positive note the emergence of Carbon Check Africa's only accredited UN validator has boosted the chance of projects being successfully registered. Carbon Check has an on ground team that is experienced in African operations. www.carboncheck.co.za

Contact Details

Terry Quilty p: 64 21 250 6789
f: 64 9 920 1093
skype terryquilty
e: terry.quilty@eitg.co.nz

Richard Hayes p: 64 9 920 1092
m: 64 21 310 301
m: 61 452 230 232 (Australia)
f: 64 9 920 1093
skype richardshayes
e: richard.hayes@eitg.co.nz

Simon Baillieu p: 27 82 558 9616
skype sbaillieu
e: simon.baillieu@eitg.co.nz

Martin Albrecht m: 64 21 565 682
e: martin.albrecht@eitg.co.nz
skype goodground

Iain MacDonald m: 64 27 438 2544
e: iain.macdonald@eitg.co.nz

Royden Shotter m: 64 21 279 9898
e: royden.shotter@eitg.co.nz

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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 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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