

# Carbon Monitor

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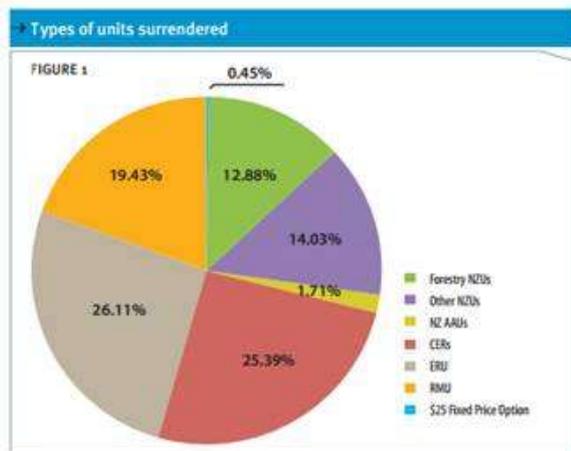
## Imported Credits Dominate NZETS

On August 3rd the EPA released *'the NZ ETS 2011- Facts and Figures'* report which shows what we already knew. That foreign carbon was the credit of choice for emitters in 2011.

International credits comprised a *whopping 71%* of all units surrendered for compliance within the NZ ETS in 2011, up from 1.6% the previous year. In contrast NZUs from post 1989 forests only accounted for 13% of units surrendered down from 64% in 2010. NZ AAUs and other NZUs remained relatively unchanged.

Worryingly, the cheapest international units were used in abundance. ERUs and RMUs trade at a discount to CERs and accounted for over 44% of all units retired.

The NZ ETS is the only trading scheme in the world to accept RMUs and last year around 3.1 million RMUs were surrendered for compliance. So far only 3.9 million RMUs have been issued by Hungary and NZ looks to be the home for most of them



Source: *NZ ETS 2011- Facts and Figures* (EPA)

In our view the outlook for domestic carbon market will worsen unless the NZ Government intervenes to limit international units into the NZETS.

To read the full EPA report [click here](#)

Source permanent forests international

## Australian Scheme Loses Floor and Links to EU Scheme

The Australian government announced that it will abandon its planned \$15 carbon price floor and allow firms to meet up to 50% of their carbon liabilities using EU allowances from 2015. The move will align Australia's price to the EU carbon price, with EU allowances meeting the marginal demand for Australian liable companies once the Australian emissions cap is exhausted. The forward price for December 2015 EUAs is currently EUR9.73 (AUD11.72) and Deutsche Bank's EU carbon analysts central forecast is for EUAs to rise EUR11 (AUD13.25) in 2015.

This change splits the allowance to meet carbon liabilities post 2015 into two, with companies permitted to meet 12.5% of their liabilities with international units from the clean development mechanism or CDM. Certified emissions reductions from the CDM currently trade below the EUA allowance prices. CER are similarly limited in their use in the EUETS.

The currently oversupply of allowances in the EU emissions trading scheme for the next EU-ETS phase (2013-2020) has been the subject of focus for policy makers for several months now. The first step a 'set aside' which attempted to restrict allowances issued by some 1bn has struggled to get support. The set aside is a precursor to the EU introducing a 2020 target of 30% below the 1990 levels as opposed to the current 20% target. If implemented this was expected to produce a carbon price of 20-25 Euro per EU allowance, a level cited to encourage investment in carbon reduction technologies.

Australia's carbon scheme has been strongly criticised by the opposition stating it is out of touch with international carbon markets. The opposition has created significant uncertainty by pledging to repeal the scheme if they win the next election. Aligning the Australian price with EU market is an attempt to negate this argument. However it does significantly reduce the potential revenue streams for Australian carbon project developers under the CFI.

The Government indicated that Australia could import as many as 350 million international units between 2015 and 2020. Firms will be able to use Kyoto certified emission reductions (CERs) to meet up to 12.5% of their compliance liabilities, and if CERs remain cheaper than EUAs, firms would be expected to use their full CER quota of around 250 million units over 2015-2020. Firms



could import as many as 100 million EUAs over 2015-2020 to meet their residual demand.

This policy change does not affect the first three years of the carbon price and does not materially change the short-term carbon price impact for Australian firms. Beyond 2015, European policymakers will arguably determine the Australian carbon price level, though cost pass-through and assistance arrangements will continue to insulate most large listed emitters from the full impact of the price.

## Carbon Match Update on the NZETS

### Pricing of NZUs Down, Volumes Up

Carbon Match has had good volume recently, perhaps reflecting the greater level of certainty that has existed since MFE's most recent announcements on the ETS on 2 July. Since then, volumes have increased but prices have fallen from \$7.05 to the Carbon Match low last week of \$4.92 and have traded lower than that elsewhere this week.

### EU Plans Unlikely to Change Prices Dramatically....

As more details about the way in which the European Commission might seek to intervene in the carbon market have emerged, a new report by Barclays Commodities Research has suggested that prices for European Union allowances could average just €6.50 across the period from 2013 - 2020 if the number of credits temporarily withheld from the scheme is at the lower level suggested. Yesterday, analysts from Point Carbon suggested that without intervention EUA prices could sink as low as €4 next year.

A fortnight ago the Commission released a proposal which was accompanied by 3 scenarios; specifically the withholding in 2013-2015 of either 400m, 900m or 1.2 billion credits, which would then be re-released to the market in the last few years of the phase. Many commentators note that political appetite for the upper end of this range appears to be weak.

### ... And NZ ETS Prices Only About Half of EU Prices Anyway

What's important for us to note here in New Zealand is that, even if the upper end of 1.2 billion were withdrawn and prices of EUAs were to rise to the €13.50 suggested by Barclays, this would **not** translate to similar prices in the NZ ETS.

Current prices of eligible units in the NZ scheme (CERs and ERUs) are less than half the cost of European Union Allowances, making EUAs an incorrect reference point for those who are trying to pinpoint the likely cost of our scheme over the next few years.

The spread between CERs and EUAs has widened steadily this year as record issuance of offsets (CERs/ERUs) has occurred and as it has become clear that limited demand for these will exist in the EU ETS post 2015.

With emerging emissions trading schemes such as the Korean scheme unlikely to result in demand for CERs before 2020, New Zealand and Australia, assuming it stays on track, provide a beacon to CER portfolio owners and project developers.

New Zealand is particularly attractive as unlike any other scheme, no limits on the use of imports apply. (There is no requirement that any of the emissions reductions New Zealand pays for will actually have to take place within New Zealand.)

### Russian and Ukrainian ERUs Pose Ongoing Risk to NZ Carbon Farming...

ERU supply has also increased dramatically this year, with most new supply coming from Russia and the Ukraine. While CERs from industrial gas projects were banned in the NZ scheme in December

2011, no such ban is proposed from arguably questionable ERUs from similar projects; an apparent oversight whose full effect on the NZ scheme will be felt in the next 2 years.

Against this backdrop, we think the outlook for carbon forestry in New Zealand remains poor, and that this will reflect in lower levels of planting next year, as a lag applies given the time taken to option up land and grow seedlings.

### But Now Could Be The Time to Convert to Dairy

However, for landowners with specific opportunities around dairy conversions or other land use change, the low prices of eligible international offsets present an opportunity to put your plans into action. Call us if you would like help with this.

[www.carbonmatch.co.nz](http://www.carbonmatch.co.nz)

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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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