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# Carbon Monitor

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## New Zealand Policy Flounders amidst Escalating Liabilities

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Murray Ward of [www.GtrippleC.co.nz](http://www.GtrippleC.co.nz) recently supplied submissions on the proposed New Zealand government policies on responding to Kyoto.

### Effects on taxpayers of delaying efficient and effective policies

These are real and large. By not talking about this, which the energy related documents in particular have chosen not to do, stakeholders from whom the government is seeking input are denied the understanding of the scale of looming costs.

To summarise:

- The net Kyoto deficit in units that is expected based on emissions trends (before additional new measures) is about 60 million units. This figure works from the numbers in the document on the MfE website, dated May 2006. However the deficit figure there of about 41 million units used an amount of projected deforestation emissions of 21 million tonnes. But this was just a proposed cap, so is somewhat misleading. As has subsequently been made clear by MAF the projected deforestation emissions is around 38 million tonnes or more (e.g. 50,000 hectares at about 800 tonnes per hectare).
- A reasonable estimate for the Kyoto international price of carbon during Kyoto's first commitment period is NZ\$30/tonne CO<sub>2</sub>e. This is based on €16/tonne, which is the current forward price of EU ETS Phase 2 allowances. The price used throughout the government documents is only about half this (i.e. around NZ\$15/tonne) and is based on old information. Indeed when these documents were published the €16/tonne figure was already published on Point Carbon, the "go to" expert carbon market website.
- 60 million units times NZ\$30/unit equals **\$1.8 billion over 5 years**, or \$360 million per year on average. Taxpayers deserve to understand this point. And be shocked.

Efficient and effective policies will not reduce this amount to zero, but they could take a very large bite out of it.

### Efficient and effective policies in the energy sector

The key issue is getting the international price of carbon into energy prices as soon as possible. I expect that this general point will be supported by many submitters. The issue then is how best to achieve this. The "how to" issue is largely the topic of the policy proposals set out in my *Ten Point Guide* paper, appended below.

I am gratified that the core idea of my proposal has been picked up by others and included in their submissions, e.g. by the New Zealand Green Party and the Environmental Defence Society.

One thing I'd like to draw out in terms of my overall thinking about the energy sector, is that it approached from three directions the objective of very much reduced emissions:

1. A top down price signal, i.e. the international price of carbon included in energy prices
2. Use of some of the derived government revenues to explicitly address market barriers that may prevent the price signal from being fully effective (e.g. a major "train an energy efficiency sector trades" programme and investments in public transport to provide feasible alternatives to vehicle use); and
3. A very proactive enhanced PRE-like domestic projects scheme that in particular digs into opportunities for energy efficiency and distributed generation.

In my view, two things make the proposal I have put forward to be entirely feasible, politically. First, it explicitly addresses the concerns that New Zealand's major international competitiveness at risk (ICAR) firms will justifiably have about increased energy prices. Second, it stresses the importance of full revenue recycling and that some of the elements of a "smart revenue recycling package" must address the situations of any New Zealanders who are disproportionately affected by increases in energy prices, e.g. those on low fixed incomes (sometimes called the "energy poor").

### What to do about agriculture and forestry?

This is the entire subject of one of the appended papers. But I'd like to stress one further point. In my view it is critical for New Zealand to take a "Team New Zealand" approach to addressing climate change. Without doubt, New Zealand will be called upon by its industrialised country peers to take on the responsibility of much deeper emission reductions in the international 'post-2012' framework that follows Kyoto's first commitment period. And the international price of carbon can be expected to be much higher.

If New Zealand's emissions are still trending upward, the gap between our emissions and our responsibility target can become very large. Coupled with the higher price to 'buy' units internationally, this gap can have a very serious hit on our economy, far beyond the \$2 billion figure facing us for the first Kyoto commitment period. And the alternative of choosing to 'thumb our nose' and not be part of this international agreement would be even more costly. New Zealand's economy is still largely based on exporting, mostly agricultural, products to markets where customers are becoming more and more discerning about "carbon footprints". And our competitors will be ready to savage us if we don't pull our weight on climate change. Our very "New Zealand brand" is at stake. And this affects every part of our economy, not just the agriculture sector. Others, such as the CEO of Air New Zealand, have recently spoken on this point.

We can not have a "Team NZ" approach if the rural sector is not on board. So we need to be pragmatic here. We must not allow bitter divisions with the rural sector to undermine the ability for the country to move forward efficiently in the energy sector, which I fear would be the case if such divisions persist. This is why I have proposed taking a more positive incentives approach to the agriculture and forestry sector, at least in the next few years. Let's see how far we can get with carrots before we resort to sticks.

But also, it is not feasible to just try and have one policy approach fit all situations. We need a smart "horses for courses" approach. For example, I can not see just one approach to avoiding deforestation being applied to the patently very different circumstances of (1) very, very large corporate owners who have only recently purchased their forests and now plan significant land-use conversions, (2) Maori who have been given forests in Treaty settlements in compensation for past injustices, and (3) small farm foresters who have grown forests for a retirement fund and may now have reached this point and want to sell their farms for the highest possible value.

### The role of carbon markets



Environmental Intermediaries & Trading Group Limited

Anyone who spends any time looking into how climate change policy is being implemented in other countries and how it is expected to evolve over time, will know that carbon market-based policies such as emissions trading and project-based offset schemes are "where it is at". This is because these have the dual attributes of helping emitters meet commitments at least cost and the proven ability to unleash billions of dollars from the capital finance market for investment in low carbon technologies and practices. New Zealand needs to get engaged. This need for New Zealand to not be "asleep at the switch" at this crucial time is a central driver to the policies I propose.

### Permanent Forest Sinks Initiative Discussion Papers Released

MAF recently released a consultation document on the PFSI initiative.

In it the document discusses the NZ Governments decision to account for CPI on a five year basis.

It then goes on to discuss the issue of RMU units or maybe 'some' AAU units to the PFSI participants around 2104. It then goes on to mention that some growers may 'sell forward'

It is our view without the actual issue of RMU or AAU units there will be no liquid market in PFSI credits and owners of such credits will not have the currency to trade on the international market. As RMU cannot be banked over commitment periods the PFSI participants will only have one customer, the entity issuing the RMU or AAU's long after CPI is over.

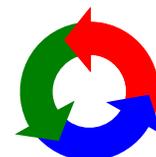
MAF also intends to levy a 5% factor for the 'risk' assumed by the Government in issuing such credits in the event that they are lost due to some event such as fire. Despite this requirement risk is still devolved to the grower.

Full details of the consultation document can be found at: <http://www.maf.govt.nz/forestry/pfsi/consultation-document/index.htm>

### Fight Global Warming from your Desktop

CM wants to share some advice from an organisation whose aims are supported by EITG.

Plant a tree today ( PATT) foundation is joining the global **LocalCooling** campaign to bring together our friends, partners, staff, and schools in an effort to combat climate change by reducing our PC power



consumption.

LocalCooling makes that EASY! Download the 100% FREE LocalCooling Application and automatically optimize your PC's power consumption. From the Local Cooling Application you are directly presented with detailed information on how much power your PC is consuming. You even have the chance to see how much CO2 you are saving in terms of trees, oil, and kwh! of electricity!

#### How To Join:

Create an Account: Visit [LocalCooling.com](http://LocalCooling.com) - [Fight Global Warming From Your Desktop](#). Create an account and download the application to your PC.

Join the PATT Group: Log in to your account, scroll to the bottom where you can see Join a Group. In the box, type **Plantatreetoday** (in the exact format you see it here - Upper case 'P', then all lower case. No spaces.)

**It's important you join the Plantatreetoday group!**

The programme starts working immediately. It only takes a minute to download and uses just 2.5MB.

You can find out more about PATT at [www.plant-a-tree-today.org](http://www.plant-a-tree-today.org)

## EU Price Update

Recent 2007 trading has seen fluctuations around historical lows while 2008 allowances remain strong.



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 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 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, USA and South Africa

To subscribe email Richard Hayes with your full contact details.

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