Carbon Monitor

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Beware the Carbon Cowboys

The Wild West is here again as we see all those with some half interest in climate change jumping on the band wagon and opening advisory businesses for climate change.

Warnings in the National Business Review of November 16th called for a regulator in this sector.

It's unfortunate but true that the regulations for the market are going to arrive in mid 2008. By then some serious mistakes will be made from questionable advice.

So how do you choose an advisor? It's our experience that the major accounting firms have invested considerable time and resources in this segment over a number of years. Those with international affiliations can access work done by other offices worldwide.

Before becoming involved with an advisor consider that the liabilities you may incur could be many times the potential income. Look for structures and or insurance and the methodology to protect your assets first.

http://www.eitg.co.nz/testimonials.htm

Questionable Quote of the Week

'when quoting the price for forest carbon credits that USD $2.00 should be used based on the CCX (Chicago Climate Change) price for carbon credits'

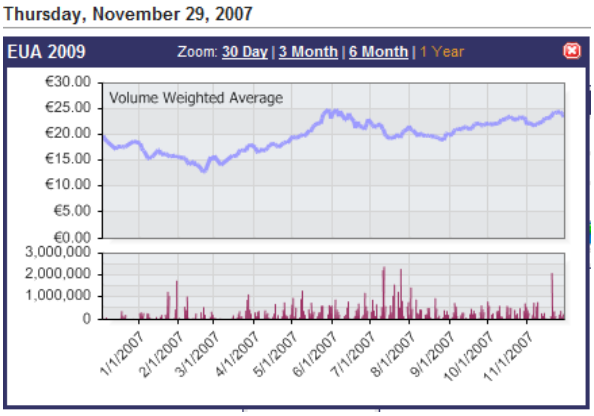
The organization making this statement must have been asleep at the wheel during the Government briefings where they clearly stated:

- One NZU will be issued per tonne of CO2 removed by a forest sink
- That treasury has modeled the price of an NZU and $15.20 was suggested as a number one could expect.

EU Price Update

The Dec08 firmed over the 23 Euro mark in recent trading. This compares with the projected value of the New Zealand Unit (NZU) at less than 8 Euro!

Forward prices for 2009 are 23.85 Euro and for 2012 are 25 Euro!



www.cantorco2e.com

Risks of Climate Change Bill

The Greenhouse Policy Coalition says many of the risks to the New Zealand economy identified in the Castalia Report (Nov 2007) have not been resolved in the Climate Change (Emissions Trading and Renewable Preference) Bill (the Bill).

Executive Director of the Greenhouse Policy Coalition, Catherine Beard, says if the Bill is passed in its current form, New Zealand will be the first country in the world to expose its total economy to an emergent and politically driven market for emissions trading.

"While there are some advantages to being the first to do things there are also considerable risks, and we are not convinced the government has undertaken sufficient economic analysis to properly understand the risks of exposing the economy to a volatile price of carbon", she said.

Catherine Beard said the main issue with the Bill was that it was setting New Zealand up for an emissions trading scheme that was likely to be a lot tougher than other countries would be prepared to adopt in the future. This would mean that the cost of living and doing business in New Zealand would be higher than in other countries that we compete with for trade and skilled labour, leading to plant closures and job losses.

Issues that were identified in the Castalia report that need to be resolved to maintain New Zealand's slim competitive advantages internationally include;

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- Adopting a more realistic timeframe for transitioning to a lower carbon economy, in keeping with our trading competitors
- Setting emission caps that reflect our emissions profile and limited abatement opportunities
- Introducing a price safety valve to avoid volatility and exposure to high carbon prices that would cause economic damage
- Using intensity based rather than absolute emissions targets for firms – so that NZ firms are judged on world's best practice benchmarks and can continue to grow as long as they are at world's best practice.
- Retain a focus on protecting competitiveness and limiting carbon leakage
- Establish a new entrant reserve of free allocation to industry; otherwise New Zealand will fail to get any new investment in our most important income earning sectors.

Germany Shows Contradictions on Climate Change

By Erik Kirschbaum

BERLIN (Reuters) - Germany is the world's sixth largest emitter of greenhouses gases, builds some of the fastest and most polluting cars on the road, rejects speed limits to cut CO2 and is replacing its nuclear power with coal-burning plants.

Yet the world's third largest industrial nation nevertheless enjoys an improbable reputation as a leader in the fight against climate change -- and will be a key, if controversial, player at the U.N. Climate Conference in Bali starting on Monday.

Despite the contradictions, Germany's pioneering renewable energy laws have been widely copied and more half the world's solar power is produced in the northern European country of 82 million even though it is often covered by thick clouds.

So is Germany doing enough to fight climate change?

"No, in face of the threat, it's clear you can never really be doing enough to fight climate change," Foreign Minister Frank-Walter Steinmeier said in an interview with Reuters.

"But political leaders have to come up with a realistic implementation plan to protect the environment and cut CO2 -- and not just stand back and paint horror scenarios. I think in Germany we are still quite ambitious about that."

Chancellor Angela Merkel and Steinmeier, now Vice Chancellor, made climate change a focal point of Germany's G8 presidency in 2007. They strongly back efforts in Bali to agree a successor to the Kyoto Protocol to combat global warming.

At Germany's prodding at a G8 summit in Heiligendamm, the United States and other industrial allies agreed on the need for "substantial" cuts in emissions as a step towards slowing global warming after the United States blocked European hopes of agreeing a target of 50 percent cuts from 1990 to 2050.

Time is running short...everyone has to make a contribution," Merkel said in a weekly podcast on Saturday.

"It's up to each country to take action," added Merkel, sometimes called the "Klimakanzerlin" (Climate Chancellor) in German media. "In Germany, we want to set a good example."

Kyoto – The End Game

Before loosing sight of the objectives and criticising the Kyoto Protocol for its flaws lets remind ourselves of why we are placing a price for emitting carbon in on the market.

Global warming is a generally acknowledged to be a real threat to humanity, and C02 emissions are increasing.

The Kyoto Protocol will place a price on these emissions. From this pricing it is expected that within 40 years C02 levels in the atmosphere will be being reduced back to pre industrial revolution times.

This result will come from technological innovations such as C02 scrubbers. Such technology exists now at $45 USD per tonne pricing and when the carbon price nears this level coal fired stations will look at investing in the technology. When they install the technology it will dramatically reduce their emissions. Not just a 10% reduction more like 90%+.

Using the example of SO2 (sulphur dioxide) in the US market prices will rapidly decline.

The dirty factories closed selling their credits and making more profit than they did from their dirty plants. Rather than paying the price of emissions those plants that continued producing invested in technology. They justified their investment on the basis of the cost of emitting.

Once SO2 scrubbing technology proved itself the costs of manufacture reduced from prototype levels to production line pricing. This in turn resulted in more scrubbers selling and removing more S02. That dragged down emissions and the price of S02 in the market.

Learning from this model it is expected carbon credits will reduce in value to nearly zero during over the 40 years.

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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, USA and South Africa

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