Carbon Monitor

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NZETS Suffers as Policy Changes Water Down the Effects

In its interim report the Finance & Expenditure Committee has made some significant changes to the Climate Change (Emissions Trading & Renewables Preference) Bill before the New Zealand Parliament.

In support of these recommendations http://www.parliament.nz/en-NZ/SC/Reports/f/4/b/48DBSCH_SCR4057_1-Interim-report-on-the-Climate-Change-Emissions-Trading.htm was included a letter from the Prime Minister and a report from Treasury.

In essence fossil fuels will come into the ETS in 2011 instead of 2009 and the phase out of allocations will start in 2018 instead of 2013 with allocations dropping to zero in 2030 instead of 2025.

Cited as support for these conclusions were:

1. The re estimate of the CP1 deficit down 53% from 45mt to 21mt
2. The impact of recent price rises in fossil fuels being deemed to send the same 'signal' to the markets as expected by the emissions charge

There has been significant reported feedback on the ETS from 'industries at risk' all seeking to water down or delay the ETS.

Carter Holt Harvey and other forest organizations are complaining that forestry remains in the ETS and Carter's note the diminution of value of real estate subject to the deforestation charges (pre 1990 forest) amounting to some $75m with up to $400m in losses.

Commentary

While the reduction in projected emission shortfall could be an indication behavior is or has changed. Given the past history of carbon accounting, our view is that some basis of the accounting has changed. We are skeptical that the reduction is real for two reasons, firstly the forest contribution to the ETS was predicated on increased levels of planting (something that's not about to happen) and reasonable business as usual projections.

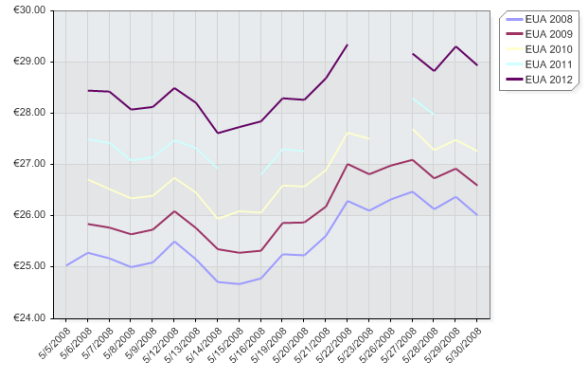
Recalling that the original accounting from 2002 showed somewhat of a 50mt surplus valued at $2bn (and no doubt the best reason ever to hastily ratify – ed) its not hard to distrust the latest set of figures.

Given the figures it would appear the Government (read taxpayer) has avoided purchasing 24mt of credits that using CER prices of $36 per tonne (18 Euro) would be $864m NZD.

On the subject of loss of value of forest land there has been a clear signal since 2002 when New Zealand ratified that deforestation would be severely restricted. This risk has been a factor in the value of the underlying land for forestry for some time. It's surprising professional valuers did not account for this in their estimates of value.

EU Price Update

All allowances continued to firm in the last month as 2012 prices headed above 29 Euro before easing.



www.cantorco2e.com

Australian Carbon Trading Expo

EITG attended the Australian Carbon Trading Expo www.actexpo.com.au in Melbourne in May. Giving a keynote speech at the invitation of Mtech www.moletech.us

In the presentation EITG emphasized the disparate carbon markets and the precursors necessary to enter each of the markets.

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With the National Greenhouse Emissions Register (NGER) legislation coming into effect in Australia shortly, most Australian companies are still grappling with the fundamentals of emissions reporting and trading.

Notably the planned AUETS the Australian Emissions Trading System differs from the NZETS as follows

1. Auction of permits with a minimum bid of $25 AUD
2. A cap at $35 AUD on the cost of permits
3. Revenue and credit recycling for 'industries at risk'
4. Those with 20,000 t C02e emissions must participate in the ETS

Commentary

The announcements suggest the AUETS and NZETS are to be linked. Clearly the base price of $25 AUD at auction suggests that the NZU price would be $30 NZD at a minimum. The strategy to open the emission markets to all sectors at the once gives the sectors experience of emissions trading while the revenue and credit recycling gives protection to those at risk.

All entities participating (and the 20kt level will ensure many participants – i.e. points of obligation) will aid in liquidity and a properly functioning market.

EBEX21 Update Newsletter

The New Zealand Government policies and operational detail to provide a regulatory framework for creation of Kyoto carbon credits from natural forest regeneration continue to develop. Whilst the PFSI scheme is operational, in theory, there are a number of details and risk impacts that are still in development resulting in no commercial transactions occurring from forest credits to date, including natural regeneration.

MAF has recently released the Emission Trading Scheme (ETS) draft regulations for forestry that are proposed for implementation later this year. The draft regulations have a number of major negative implications for owners of regenerating indigenous forests that can be addressed.

EBEX 21 Update

EBEX21 has been working with MAF to determine the difference between the PFSI and ETS schemes for landowners wanting to create carbon credits from natural forest regeneration. At the same time we are actively working with MAF to ensure that the schemes are credible and create the greatest possible value for landowners.

Since both schemes still have operational details in development this remains a very detailed and on-going process. At present, landowners are only able to sign up to the PFSI scheme but will have the option to migrate to the ETS scheme in time.

We have also been working closely with MAF to take a pilot sample of existing landowners through the PFSI programme to road-test and lead the development of outstanding operational details and risks. As the operational details have developed, these increasingly mirror the proven processes and systems of the EBEX21 programme.

In the meantime, the EBEX21 programme has continued to work with landowners, certifying and brokering the sale of units for carbon sequestered prior to 2008.

Draft ETS regulations released

On May 6 the draft regulations for forestry in the Emissions Trading Scheme were released. These can be viewed at: www.maf.govt.nz/climatechange/legislation. For more information on making a submission visit: www.maf.govt.nz/climatechange/legislation/regulations/page10.htm

MAF has indicated that fees and levies and measurement methodologies will in turn be passed in to the PFSI to ensure comparability across the mechanisms. To this end there are some significant issues for owners of indigenous forests, whether planted or regenerating. Issues fall into three major areas:

a. **Proposed Cost Structure**
Registration for the PFSI currently incurs a modest fixed fee which we believe is workable and reasonable. It is our experience that the actual costs of registering land, determining eligibility and measuring carbon are similar regardless of size of land holding. The draft ETS regulations, however, propose a per hectare fee, albeit on a sliding scale, both for registration and then for "filing" emissions returns. This means that owners of indigenous forests will pay higher fees for a given amount of sequestration than their exotic counterparts. The ideal fee structure is one that levies costs on the size of the value created, i.e., per tonne of CO2 sequestered. This brings the structure into line with other MAF levies which are charged on the amount of product generated and not the size of boat/packing shed/farm used to produce the goods.

b. **Size of costs**
Most EBEX landowners possess holdings of 100-2,000 hectares. Registration costs for this amount of land will be either $2411 or $6412

(areas over 500 ha), an increase of 400% or 1200% on the current PFSI costs of $500. They will then be subjected to on-going administration costs ($1358 or $5824 for areas over 500 ha). Most of our landowners will want to claim credits (*i.e.*, get paid) every year! Just what is the owner of an indigenous forest going to get for a "filing fee"? Filing fees are purported to cover "emission return audits". If owners of indigenous forests have no option but to accept a default value why should they then be subjected to an emission return audit?

c. **Default value for indigenous forest sequestration with no option to measure the actual rate.** While owners of exotic forests will be able to choose whether they accept actual modelled values for carbon sequestration of their stand from region-specific look-up tables or have independently verified assessments, owners of indigenous forests will need to accept a low conservative value without an option to measure the actual sequestration rate. Accepting a default value is expected to be a good option for landowners with less than 100 ha of regenerating forest, or those in sites of low fertility and rainfall. In most other instances, the costs of measurement will be more than offset by the increased revenue resulting from proof that the land is sequestering carbon at a higher rate. Landowners need to lobby the Government to allow indigenous forests the same option of having land assessed rather than accepting what will be a conservative modelled number.

Key differences between ETS and PFSI as at May 8, 2008

The following table has been produced by the EBEX team with a summary view of the implications for landowners with regenerating indigenous forests.

Factor	PFSI	ETS
Covenant	PFSI Covenant required; can opt out after 50 years if pay all claimed credits back. PFSI Covenants are carbon-specific. Owners can get out of covenant if transfer to ETS within 18 months of ETS legislation being passed.	Land use can be changed if pay all credits back. However, EBEX would require a QEII or Conservation Covenant in addition to ETS registration plus additional contracts with EBEX to cover carbon issues.
Costs	Cheaper for 2008 (c. $500)	Unknown but eventually the same as PFSI, and indicated much higher than present.
Timing	Available now	Not before 2009
Payments available	As soon as PFSI Covenant is in place EBEX could consider promissory sales under contract.	Not before 2009, and more likely to be at least a year for legislation to be passed and regulations to be completed.
AAUs	Guaranteed, available 2009.	Likely, available 2009 in the form of NZUs that can be converted. Would only **not** be available if there was huge forestry sign-up to ETS.
Audit requirements	Some audit likely – costs still unknown.	Some audit likely – indicated costs are high.
Reporting	Annual or once a commitment period– landowner to choose. Fees likely the same as ETS.	Annual or once per commitment period – landowner to choose but fees charged each time.
Infringement penalties	Pay back credits at a high compounding rate.	Pay back credits plus criminal liabilities.
Measurement	Only a default value available at this stage. EBEX and landowners need to lobby for optional measurement, especially in cases where growth likely to exceed default.	Only a default value available at this stage. EBEX and landowners need to lobby for optional measurement, especially in cases where growth likely to exceed default.

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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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