Carbon Monitor

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Voluntary Market Credits Must Comply to Accepted Standard to Avoid Seller Risk

VER or Voluntary Emissions Reductions (not Verified Emissions Reductions as some tend to use – see www.buddlefindlay.com/upload/Carbon_offsets_-_buyer_beware.pdf)

Those wanting to rush in headlong into the voluntary market should take great care when selecting a standard.

Why? I am not talking about a $200 paid for some credits on trademe see http://www.trademe.co.nz/Business-farming-industry/Carbon-credits/mcat-0010-6327-.htm

Rather with volumes in excess of 200kt the purchaser is likely a significant corporate entity that will be required to report financially and environmentally. Such reports in the USA and with US overseas subsidiaries are subject to US laws passed after the Enron collapse. Executives and auditors face criminal prosecution for misleading reporting.

Those using a VER that is not certified under an accepted standard take the risk of an adverse reaction from stakeholders, an auditor may be inclined to comment on the value used, or a range of actions available to disgruntled shareholders in the event of valuations not bearing out. There is a real risk they the Auditors tag the reports or worse shareholder class actions.

Most standards, particularly those addressing forestry require a retention/buffers or 'insurance' amount of up to 20% held back from sale in the event of a fire or other loss. With forestry the carbon values are statistical models and these are intrinsically subject to error, or confidence levels.

Any such actions are likely to be mirrored right back to the suppliers and the verifiers. The credibility of the verifier will be of particular importance in maintaining the value of the credit and the reputation of the parties creating or selling the resultant credits. Short term gains are not a good trade off for the potentially damaging long term effects of suspect credits or "greenwashing". The extent of potential damages in court actions can only be speculated on, reinforcing the need for particular diligence in sourcing of verifiers and using an accepted standard. Particularly if the verifiers are not accredited and really don't have the environmental credentials. With punitive damages available to plaintiffs there will be forest owner and verifiers no doubt running the risk of losing everything even just from litigation costs.

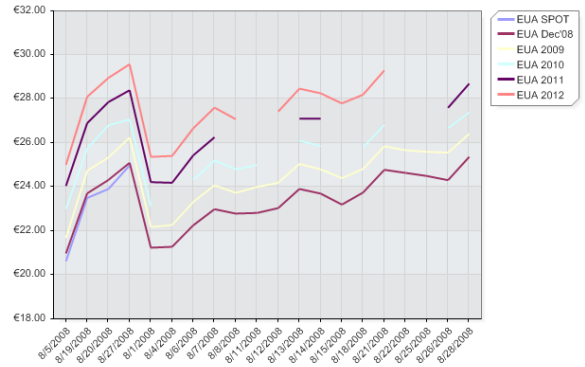
As Steve Wilton of Forest Enterprises recently cautioned, do not get involved into schemes you do not understand, and in our view those that do not comply with an internationally accepted standard and without an accepted verifier.

Finally, the PFSI and the yet to be enacted NZETS standards are **not recognised** internationally as standards for any voluntary market. They do not require and retention or 'buffer' as losses are required to be made up by the forester.

Also these are New Zealand Government standards for the period 2008-2012 only and not accepted by accredited verifiers as voluntary standards and don't apply before 2008. Parties considering credits which have a potential or implicit effect in both VER and Kyoto markets should also be aware of the implications of "double dipping" post 2008.

EU Price Update

All allowances peaked in the last month, fell with falling oil prices and then regained strength.



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NZ Emissions Trading will Hurt

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News that the Green Party has pledged its support for the controversial emissions trading legislation should be ringing alarm bells amongst all consumers of energy, according to the Greenhouse Policy Coalition.

Catherine Beard, executive director of the Greenhouse Policy Coalition says the emissions trading legislation before Parliament, due to its comprehensive coverage and lack of price safety valves, will be the highest cost scheme in the world.

“Unless the scheme is modified to allow for a more gradual exposure to the price of carbon in the economy, it is hard to see how the legislation will survive once the price shock flows through to consumers.”

“The Green Party is claiming they have made the scheme even tougher than it was previously, which should ring alarm bells for the public.”

“While Minister David Parker promoted the emissions trading scheme as being affordable at a price of $15/tonne of carbon, the international price of carbon has long since gone into the stratosphere and is now in the $40-50/tonne region – making this a high price to pay once those costs are passed through to every tonne of carbon associated with fuel and electricity.”

Catherine Beard says while the Green Party claim there will be concessions in the form of making homes more energy efficient, it is hard to see how lagging hot water cylinders and token support for solar hot water heating is going to offset the average price increase of around $600 per annum per household, once all the costs of increases of electricity, fuel and biofuel are added together.

Catherine Beard says it is hard to imagine any other country introducing a scheme which will increase the price of energy to businesses, households and food producers, with so little concern about the impact it will have on the basic cost of living or the number of jobs that will be lost.

“This is a major economic reform, and the time should be taken to make sure the end result for New Zealand is not just a loss of business to other countries that fail to tackle this issue with similar stringency to New Zealand.”

As a footnote, so called ‘hot air’ AAU units are to be excluded from the NZETS according to submissions filed by the Green Party on the Emissions Trading Legislation.

Such AAU’s from Eastern Europe and the Former Soviet Union are for sale due to the collapse in the economies of these countries and the subsequent reduction in emissions. The submissions suggest that such credits must be subject to ‘greening’ prior to their acceptance in the NZETS. In effect the funds from the sale of the AAU’s is to be targeted to fund projects that actually reduce emissions. While this may be a disappointment to those seeking low cost credits, the use of credits lacking the perceived environmental integrity could only damage New Zealand reputation and the ability of the ETS and other measures in maintaining NZ access to markets increasingly driven by the carbon footprint of the imported products.

No-Till ‘Anyway’Credits

The largest U.S. greenhouse gas emissions market has paid farmers millions of dollars in the name of fighting climate change, but the money may have done little, if anything, to slow global warming.

The National Farmers Union said this month that some of its members had been paid a total of $8 million since 2006 by the Chicago Climate Exchange for taking voluntary actions such as no-till farming. The technique arguably cuts emissions by leaving crop waste undisturbed to decay under the soil.

But many farmers began practicing no-till years before members signed agreements with the CCX, and that is where the problem lies.

Liz Friedlander, a spokeswoman for the NFU, said many of the farmers who received the payments had made no recent changes in the way they farm. "It's not really a huge sacrifice on their part to do it," she said.

Carbon market traders have coined such credits "anyway tonnes" -- meaning they represent emissions reductions that would have happened anyway, even if the exchange did not exist. Many companies looking to offset their emissions avoid these tonnes altogether, fearing they may damage their image.

The CCX, which is run by Britain's Climate Exchange Plc <CLIE.L>, boasts a member base of over 350 members including companies, nonprofit organizations and cities, all of which voluntarily sign a legally-binding pledge to cut emissions. If members can't do so they must buy credits over the exchange, such as the no-till credits, that profess to represent emissions reductions.

The CCX would not comment for this story. It does not reveal what percentage of its credits come from no-till farming or how much the farmers get paid compared to how much the credits sell for on the exchange. Since its inception credits representing about 86 million tonnes of emissions reductions have been traded on the CCX.

Players in the more mature European emissions markets, where heavy industry is forced to buy permits to pollute, slam "anyway" credits as being harmful to the market's reputation.

"I might as well sell an offset for when I turn my

bedroom light off at night," said Emmanuel Fages, an emissions analyst at French investment bank Societe Generale.

And the Chicago credits trade at only a fraction of those in Europe. CCX credits were trading below $4 a tonne on Thursday compared to about $35 dollars in Europe, where emissions trading was launched in 2005.

http://www.reutersinteractive.com/Carbon/104578?utm_source=20080826&utm_medium=email

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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.

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