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# Carbon Monitor

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## New Zealand ETS Review Confirmed as Deal Cut with Maori Party

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The ETS amendments hammered out with the Maori Party have the following key elements:

- For the first three years of its operation to January 1, 2013, the new scheme will only impose a carbon cost on half the emissions originally intended to be covered in the industrial processes, energy, and liquid fuels sectors. This will limit the impact on households of electricity and petrol price rises caused by pricing carbon to around a 5% rise in electricity prices and a 3.5 cents per litre increase in petrol prices;
- A transitional \$25 top price for carbon will be imposed until January 1, 2013 to limit the impact of possible global carbon price volatility on industries needing cost certainty;
- Agriculture will formally enter the scheme in 2015, two years later than planned, coinciding with Australia's timetable;
- Forest owners will be able to trade their carbon credits internationally, potentially removing one of the biggest barriers to increased forestry planting, which is essential to limiting the cost of New Zealand's carbon liabilities into the future;
- The stationary energy and industrial processes sectors - covering big emitters like electricity generators, steel, aluminium, cement, and milk processing - will now enter the scheme six months later than planned, on 1 July next year, to give time for implementation of the ETS following delays this year;
- Liquid fuels - mainly petrol and diesel - will come into the scheme at the same time as stationary energy, six months' earlier than planned;
- Assistance with transition will reduce at a rate of 1.3% a year, consistent with National's goal of reducing carbon emissions by 50% from 1990 levels by 2050;
- The fishing industry will receive 90% rather than 50% transitional support through to 2013.

The Government's aim is to have the Bill passed into law in time for the global climate change summit in Copenhagen in December.

The bill passed its first reading during the week ending 25<sup>th</sup> September and has been referred back to select committee.

A new round of submissions start albeit with a very tight timetable.

### Potential for Gaming and Exploiting the NZETS

With the revised New Zealand Emissions Trading System (NZETS) there exists a cap on price. The CAP consists of a seller, the New Zealand Government selling New Zealand Units (NZU) to all purchasers at \$25.

For those industries who have the 'oh my god moments' and need urgent supplies of NZU units on a temporary or even long term basis, the fixed price will allow them to exploit business opportunities they otherwise would have been exposed to the true price of units. This is in our view an omission as the result will be no restriction on behaviour in terms of emissions.

Forest owners remain free to transfer their NZU units to international AAU units (Assigned Amount Units the inter country currency of the kyoto protocol) and then sell them at international market price.

The opportunities for either selling or buying AAU units abound when the price of an NZU is fixed at \$25 and you can purchase as many units as you want.

However there are restrictions on what NZU units can be converted to AAU units stopping the simple selling of free NZU allocations off shore.

It remains unclear given the industry allocation program around averaging how permits will be granted in the case of those companies that are either side of the average value. The intensity based allocation also allows for gaming strategies to be employed.

### California Forest Carbon Credit Standards go



The board of the California-based [Climate Action Reserve](#) (CAR) voted for the final adoption of Version 3.0 of its Forest Project Protocol, which paves the way for national application of the standard, and helps improve the environmental integrity of carbon credits in the U.S., reports [Carbon Positive](#). Germany's CarbonFix Standard also released the latest version of its protocol for afforestation and reforestation activities.

Until now, the Chicago Climate Exchange (CCX) voluntary carbon trading regime has been the primary market for forest owners to participate in for preserving or sustainably managing their trees, reports Carbon Positive.

Offering forest project developers independent verification of carbon sequestration in their projects, the protocol covers activities that avoid conversion of forest land to other uses, improved forest management and reforestation of previously-cleared land, said Carbon Positive. It also requires sustainable harvest operators to account for what happens to the carbon in harvested wood products.

As the official carbon offset standard used by the California state government, CAR's protocol was included in the House's Waxman-Markey emissions trading bill, the American Clean Energy and Security Act, reports Carbon Positive.

However, the Pacific Forest Trust (PFT) has criticized the protocol for its weak protection of mature forests, reports Carbon Positive. PFT said the baseline measurement for avoided conversion projects is set too high, reducing the volume of carbon credits paid for carbon-rich forest well above that benchmark, and the financial incentives for owners to conserve these forests, according to Carbon Positive.

American Forests [supports](#) the Climate Action Reserve for its approval of the revised Forest Project Protocol, which expands the participation of forest landowners in carbon offset markets. The conservation group said it also enhances the legitimacy of forest-sector carbon offset projects by establishing a model for environmental credibility that can be applied to state, county, municipal, and private forest lands nationwide.

American Forests said it is coordinating the first public lands reforestation project to seek approval under the Climate Action Reserve's Forest Project Protocol. American Forests, together with Conoco Phillips and the California Department of Parks and Recreation, will provide conifer reforestation to 2,500

acres of the Cuyamaca Rancho State Park, which was devastated by the 2003 cedar fire. This project will generate more than 500,000 metric tons of carbon offsets.

At the same time, the CarbonFix Standard, a German-based carbon project verification protocol, has launched the third version of its standards for afforestation and reforestation activities, reports [Carbon Positive](#).

These standards offer credibility to verified emission reduction (VER) carbon credits generated for sale in the voluntary carbon market, which has grown to \$700 million worldwide in 2008, according to Carbon Positive.

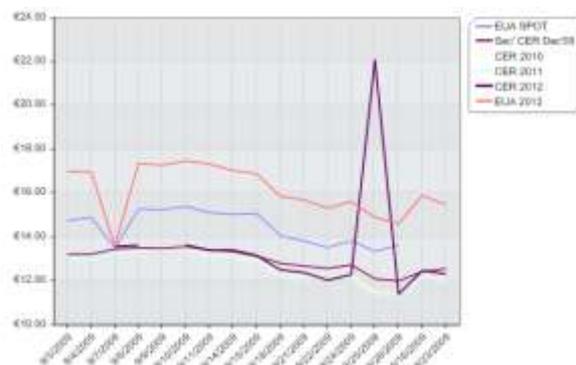
CarbonFix v3.0 offers more flexibility to project developers in how and when carbon credits are generated and streamlines processes for those seeking dual certification with other land-use standards, according to Carbon Positive. It also formally offers ex-post crediting as well, which Carbon Positive said is more attractive to carbon credit buyers who want to know they are paying for emissions reductions that have already taken place.

The new version also formalizes the recognition of the certification schemes of the Forest Stewardship Council (FSC) and the Climate Community and Biodiversity (CCB) Standard.

## EU Price Update

Allowance prices had a reasonable month without the recent volatility. Prices in Euro terms declined somewhat during the month and also fell in NZD terms.

2012 CER prices suggest NZU prices of \$24 at the current exchange rate of 0.49



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## Assigned Amount Units Offered

We have a small parcel of 1,583 AAU units from 2008 forestry for sale.

Contact us if you are interested in this parcel.

## Assigned Amount Units Sought for EU Purchasers

We are currently aggregating small less marketable parcels of AAU units for a European based purchaser. If you wish to be part of the syndication please contact us.

Our buyer is looking for volumes of 100k tonnes or more.

## REDD Credits looking for Buyers

SINGAPORE, Sept 11 (Reuters) - An Australian firm hoping to broker A\$1.6 billion in carbon credit sales from saving tropical forests highlights the promise and peril of a U.N.-backed scheme that rewards projects for curbing deforestation.

Carbon Planet, in presentations to investors, says it has contracted 100 million carbon offsets over five years from projects in Papua New Guinea and 60 million over five years from Indonesia at an average of A\$10 (\$8.5) each offset, or credit.

That equates to 160 million tonnes of carbon dioxide saved from being emitted by keeping the forests standing.

None of the 25 projects in PNG and 8 in Indonesia have yielded credits although the company, a carbon services provider, hopes credits will start to flow soon and says it has buyers.

But brokers and analysts say there is no appetite currently for that volume of "avoided deforestation" credits on the global voluntary carbon market, which is driven by demand from corporates wanting to offset their carbon emissions.

Demand worth potentially billions of dollars annually would only come from future national emissions trading schemes such as in the United States and Australia and an eventual global scheme backed by the United Nations, called reduced emissions from deforestation and degradation (REDD).

Analysts say giving large credit flow forecasts from REDD projects before they are audited or validated is

fraught with risk if projects do not yield as many credits as forecast.

In addition, REDD's final design has not been decided by the U.N., it is unclear how the scheme will be included in national schemes or if early REDD projects will be included in the U.N. framework.

REDD holds the promise of unlocking billions of dollars in annual revenue to developing nations from carbon offset sales to wealthy countries.

The scheme is designed to curb deforestation and restore the world's tropical forests so they can soak up growing amounts of planet-warming carbon dioxide from burning fossil fuels.

But REDD projects must provide funds for local communities, prove they are designed to address local causes of deforestation, ensure they are long-term and be able to accurately calculate how much carbon the forest will lock away over several decades.

Such complex calculations take time. Proving who actually owns the carbon stock in a given area is also crucial.

Carbon Planet's projections seem daring if only because the entire value of the world's voluntary carbon market was US\$705 million in 2008, up from US\$335 million in 2007, according to "State of the Voluntary Carbon Markets 2009" by Ecosystem Marketplace and analysts New Carbon Finance.

Of this, global sales of "avoided deforestation" credits were just one percent of turnover.

Carbon Planet Founder Dave Sag told Reuters the A\$600 million in revenues over five years from Indonesia was "based on a very conservative estimated yield of 12 million tonnes per annum".

"I understand that people have concerns about our projections. Anyone would given the scale of them. But the numbers to us do not seem unrealistic."

Sag said the projects would meet tough yardsticks -- such as the respected Voluntary Carbon Standard (VCS) and Climate, Community and Biodiversity Project Design Standards -- and the firm was looking more to future compliance markets.

"That's why we are busting a gut to make sure that these projects are produced properly."

But large markets that will accept large volumes of REDD credits are several years away. And many

developing nations have yet to develop rules governing REDD, adding to uncertainty.

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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 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, Europe, USA and South Africa

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