Carbon Monitor

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Cabinet Decisions Threaten Forest Owners Off Shore Access under the NZETS

Cabinet minutes from the 14th September 2009 have some sobering news for forest owners thinking of selling credits off shore by converting NZU units to international government compliance assigned amount units (AAU) units.

They read '*that it be clearly communicated to the forestry sector that it is New Zealand's intention to harmonise with the Australian Carbon Pollution Reduction Scheme, if it eventuates, and that therefore the exporting of forestry units cannot be assured in the future*'

Our view of this is that the current CPRS proposes to grant forest based units for post 1990 forests in Australia. The CPRS will cover deforestation of pre 1990 forest and deforestation will not require surrender of credits. It is proposed that there would be no conversion of forest credits granted under the CPRS to be converted to AAU units and therefore be able to be sold in the AAU marketplace. One assumes this is in part to stop Australian credits flowing off shore and limiting liquidity whilst there is a cap on price in the CPRS.

In our view harmonising the markets does not necessarily require us to restrict the transfer of NZU to AAU and therefore off shore. Presumably 'harmonising with the CPRS' would mean that an NZU be interchangeable with the Australian unit and therefore New Zealand forest units would still be able to be sold in the Australian market?

Restricting New Zealand forest NZU to the Australasian market would firstly limit the price of these to the higher of any cap in place at the time of sale. The cap is likely not to reflect the international price of credits. Should this be the case we are going to see distortions in the market and liquidity issues. Neither of these factors will assist in the end goal of reduced emissions.

We question given the New Zealand and Australian emissions profiles are markedly different why we need to take on limits from the CPRS to make the two markets link successfully. After all we have different tax rates, rules and GST rates and we still manage to sell goods on either side of the Tasman.

Cabinet needs to address the NZETS more closely and remove some of the deficiencies in the design before contemplating linking to other markets. A glaring deficiency we see is the one off annual allocation of NZU to the forest sector on the 31st March being the same day emitters need to be in balance. Emitters would be concerned on 31/3/2011 that their credits are in place to offset emissions and would not be sure of this until the end of the day. Hardly the basis for an 'efficient market'

Mora Costa Abandons Bid for Ecosecurities and Sells

The Board of Guanabara Holdings B.V. (Guanabara) announces that its increased cash offer of 90 pence per EcoSecurities Share (the Increased Cash Offer) has not become unconditional as to acceptances by 1.00 p.m. on 12 October 2009.

Guanabara has concluded that it cannot justify an offer in excess of the current offer from Carbon Acquisition Company Limited at 105p per share in cash. The Increased Cash Offer has lapsed with immediate effect and is no longer capable of acceptance. All acceptances of the Increased Cash Offer received to date are void.

Level of Acceptances

Guanabara announces that, as at 1:00 pm on 12 October 2009, being the revised closing date of the Increased Cash Offer, valid acceptances of the Increased Cash Offer had been received in respect of a total of 14,681,311 EcoSecurities Shares (representing approximately 12.42 per cent of the issued share capital of EcoSecurities).

This amount includes acceptances in respect of 12,014,000 EcoSecurities Shares held by First Island Trustees Limited representing approximately 10.17 per cent of the issued share capital of EcoSecurities, 2,498,840 EcoSecurities Shares held by BTG Absolute Return Master Fund L.P. representing approximately 2.11 per cent of the issued share capital of EcoSecurities and 130,000 EcoSecurities Shares held by Henrique Carlos De Moura Costa representing 0.11 per cent of the issued share capital of EcoSecurities. First Island Trustees Limited, BTG Absolute Return Master Fund L.P. and Henrique Carlos De Moura Costa are acting in concert with Guanabara.

On the 30th October the Carbon Acquisition Company Limited announced it and its associates controlled over 80% of

Ecosecurities after acquiring all the shares held by Pedro Mora Costa and his associates at 105 pence.

Once it consolidates the shareholding Carbon Acquisition will move to compulsorily acquire the balance of the shares and remove Ecosecurities from the stock exchange.

Australian Opposition Plans for CPRS Announced

The following was announced by Malcolm Turnbull the leader of the Opposition in Australia.

Implemented in full it would result in potential serious miss matches between the CPRS and the New Zealand Emissions Trading System, the NZETS.

The Coalition has unveiled a plan to save thousands of Australian jobs and limit increases in electricity prices for small business through common sense amendments to Labor's flawed and rushed emissions trading scheme.

The Shadow Cabinet and Joint Party Room today agreed to a package of amendments that will form the basis for good faith negotiations with the Rudd Labor Government. The package demonstrates Labor's CPRS can be made cheaper and smarter, protecting jobs.

Key export industries, including coal mining, food processing, natural gas and aluminium will be better protected, saving thousands of Australian jobs under threat from Labor's scheme.

The package also protects farmers from the scheme by exempting agriculture altogether. By allowing agricultural offsets which include carbon sequestration in soils and vegetation, there is the opportunity for financial and land management benefits in the rural sector. This is a win/win for farmers and the environment.

By including voluntary measures, the environment will also benefit from individuals, businesses and community groups who develop their own initiatives to reduce greenhouse gas emissions.

The Coalition will continue to advocate an intensity-based cap and trade approach to the electricity sector, as this more than halves the initial increase in electricity prices, reducing the economic costs of achieving emissions cuts.

If the Government refuses to consider the intensity-based approach, it must clearly explain why, and work with the Coalition to provide an alternative strategy for cushioning the initial impact of higher electricity prices on small businesses.

The key amendments to Labor's flawed CPRS and the commitments required from the Government that will be sought by the Coalition are outlined below.

Trade Exposed Industries

- Amend the CPRS to provide a single level of assistance for emissions intensive trade exposed (EITE) industries at 94.5 per cent until 2015 and 90 per cent thereafter.

- Lower the threshold for assistance from the CPRS proposal of 1000 tonnes of CO2 per $1 million of revenue to 850 tonnes of CO2 per $1 million.

- Continue to provide assistance to Australian EITE industries at 90 per cent until 80 per cent of their international competitors have also implemented carbon abatement measures.

- Include primary food processing such as dairy and meat in the EITE scheme.

- Allow industries that include a series of sequential or parallel production processes to have these assessed as a single activity in determining assistance.

Agriculture

- Permanently exclude agricultural emissions from the CPRS.

- Obtain Government agreement to introduction of an agricultural offset scheme in line with similar offset schemes to be introduced in comparable economies such as the US and EU.

Coal Mine Emissions

- Exclude coal mine fugitive emissions from the CPRS.

- Provide the Minister with authority to use regulation to control fugitive emissions with the objective of achieving a 30 per cent reduction by 2025 as technology and international best practice allow.

Lower Electricity Prices

- The Coalition will continue to advocate an intensity-based cap-and-trade model for generators. This delivers the same emissions cuts as the CPRS but with a much smaller increase in electricity prices.

- This would greatly reduce the burden on small and mid-sized businesses, which receive no compensation for higher power bills under Labor's proposals.

- Under the CPRS retail electricity prices will rise by close to 20 per cent in the first two years. Under an intensity approach, retail electricity prices would rise by less than 5 per cent in the first two years.

- If the Government continues to refuse to consider the intensity model, the Coalition will negotiate for an alternative approach to cushion near-term electricity price increases for small businesses.

Compensation for Electricity Generators

- Coal-fired generators must be better compensated for loss of value they experience from the CPRS, to ensure security of electricity supply and enable them to transition to lower emission energy sources.

- The CPRS offers coal-fired generators 130 million permits over five years worth $3.6 billion. Yet three respected private sector analysts estimate their losses at $9–$11 billion.

- Assistance should be increased to 390 million permits over 15 years (or about $10 billion). Assistance should be allocated to all generators in proportion to the losses they suffer.

- In the absence of access to the Government's secret Morgan Stanley report, this represents the Coalition's best estimate of appropriate generator compensation given the available data.

Energy Efficiency and Voluntary Action

- The Coalition will negotiate for a national "white certificate" energy efficiency scheme so households and businesses earn credits for efficiency measures, and contribute to reducing national emissions.

- Likewise, the Coalition supports creation of a voluntary offset market in advance of the introduction of the CPRS, and amending the CPRS to ensure voluntary abatement leads to a lower national level of emissions.

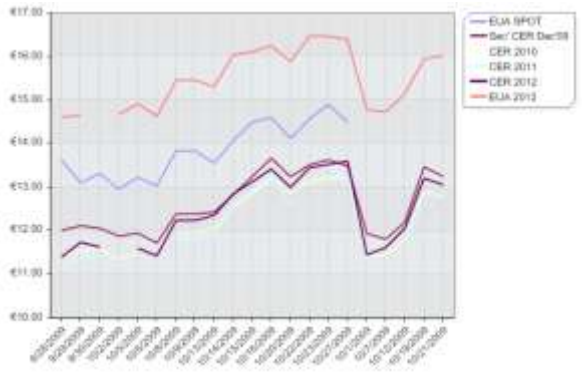
CPRS Bill Scheduled for Vote in November

Meanwhile the Labor Party has indicated it wants the CPRS passed in the House in November.

EU Price Update

Allowance prices had a reasonable month with some recent volatility. Prices in Euro terms increased.

2012 CER prices suggest NZU prices of $26 at the current exchange rate of 0.5067. OMF financial suggests this price is significantly higher applying forward exchange rates of 0.44 meaning that the price of 2012 CER units would exceed $30 NZD.



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CPR Clock Starts Ticking

Part of the Kyoto 'Rules' requires countries including New Zealand to always hold more than 90% of their CP1 (2008-2012) allocation in their emissions registry the so called 'Commitment Period Reserve'.

For New Zealand this is 90% of 309mt or 207,608,360 tonnes and we are currently at 99.79%

Opt In or Opt Out? The Choice for Post 1989 NZ Forest Owners

The forest owners Guide to Carbon Trading (available free by emailing forestguide@eitg.co.nz) makes a recommendation that post 1989 forest owners should opt into the NZETS.

Alan Bell a prominent forestry consultant made the comment '*you need to be careful not to be seen as trying scare people into the ETS ie you MUST OPT IN is a bit over the top if you want my opinion.*

As a registered forestry consultant I think it is important to give forest owners unbiased opinions. Most of the owners are astute people and will shy away from bully tactics.'

We agree totally and make the comment that we recommend forest owners opt in. We don't necessarily extend that to trading the credits. A decision to trade must be made on a case by case basis with those forest owners assessing the risks and opportunities against

their own personal circumstances and with appropriate legal and accounting advice.

The real question is 'should I opt into the ETS?' which we pose in the guide and go on to analyse the reasons. The reality is forest owners must make a choice of one of the two options and might as well do that in the manner that minimises their risk hence the recommendation to opt in.

At a recent forest owners meeting with over 50 attendees, the group voted unanimously to instruct their forest manager to arrange for them to opt in to the ETS.

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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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