
Carbon Monitor

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Large Scale African Forestry Project Gains Registration under the Kyoto Protocol

The Humbo Assisted Natural Regeneration Project is Africa's first large-scale forestry project to be registered under the Clean Development Mechanism of the Kyoto Protocol. It will bring both economic and social benefits to poor communities in Ethiopia as well as environmental benefits as the project will cut an estimated 880,000 metric tonnes of carbon dioxide from the atmosphere over the next 30 years.

World Vision Australia CEO Tim Costello points to the Humbo Assisted Natural Regeneration Project, developed by the international development agency World Vision in partnership with the World Bank, as a highly successful example of reforestation that alleviates poverty while also addressing climate change.

“World Vision has been working with poor communities for more than 20 years to implement environmentally sustainable projects that create jobs and reduce poverty,” he said. “While the income from the carbon credits is a welcome bonus, other tangible benefits from the project come from building resilience against climate impacts.

The Humbo Project is the product of collaboration across organizations and continents, involving World Vision offices in Australia and Ethiopia, the World Bank, the Ethiopian Environment Protection Agency, as well as local and regional governments and the community. It has restored more than 2,700 hectares of degraded land in Humbo in south-western Ethiopia since 2007. Registration of the Project by the United Nations enables the future sale of over 338,000 tonnes worth of carbon credits (by 2017), of which the World Bank's BioCarbonFund will purchase 165,000 tonnes worth of carbon credits.

The BioCarbon Fund is an initiative with public and private contributions. It purchases emission reductions from afforestation and reforestation projects under the CDM, as well as from land-use sector projects outside the CDM, such as projects that reduce emissions from deforestation and forest degradation (REDD) and increase carbon sequestration in soils through improved agriculture practices.

The sale of carbon credits under the BioCarbon Fund will provide an income stream of more than US\$700,000 to the local communities over a minimum of ten years. Further revenue will be available to the community from the sale of carbon credits not purchased by the World Bank as well as

from the sale of timber products from designated woodlots in the Project.

The Humbo Project is the largest World Bank forestry project in Africa to gain CDM registration. “To date, Africa hosts less than 2 % of all registered CDM projects. Promotion of land-use and forestry projects in this region is key to changing the status quo. Without this, it will be difficult for a post-Kyoto climate regime to gain support from African countries. In this regard, the registration of this project has a special significance,” says Ms. Inger Andersen, Director, Sustainable Development (Africa Region) for the World Bank.

Hear EITG Speakers at Conferences in March 2010

The information and expertise of EITG is in significant demand with speaking engagements in Auckland in March 2010

Future Forestry Finance Auckland 4/5 March 2010

Carbon Strategies for Forest Owners Auckland 18 March 2010

Carbon Masterclass Auckland 26 March 2010

Most of these events have limits on attendees. Contact us or google the event to register

Forest Fires in New Zealand demonstrate Risk to Forest Carbon Traders

A forest fire burning near Dunedin is highlighting the risk of natural disasters to carbon which run into millions of dollars, Carbon News reports.

Wenita Forest Products, which owns the 700ha of forest which has been burning most of the week, has registered under the Emissions Trading Scheme, but has not yet claimed credits.

If it had, it would be liable for the carbon lost in the fire, according to [Carbon News](#), the country's specialist news service on the carbon markets..

Under the ETS, the destruction of trees through natural disaster is treated in



the same way as harvesting – making the forest owner liable for the loss of carbon.

That means that in the case of fire or wind damage, the forest owner would have to surrender as many credits as it had received for the forest lost.

If, for example, a company had been receiving credits on 700ha of forest for 20 years it could be liable for some 500,000 tonnes of carbon – worth \$10 million at a carbon price of \$20 a tonne.

Carbon News says the issue of how to protect forest owners from the cost of carbon loss through natural disaster is now being investigated.

In a [paper](#) commissioned by the Ministry of Agriculture and Forestry, Chandler Fraser Keating, EcoSecurities and Simpson Grierson propose creating pool system to cover the risk.

The report says that 40,000ha of exotic plantations have been lost to fire since 1940 – an average of 570ha a year, or 0.12 per cent of the national estate a year, while 80,000ha of forest (1155ha or 0.18 per cent a year) has been lost to wind damage since 1945.

“The results of our study suggest that there are many things that a pool can do to help mitigate Kyoto foresters’ technical and market risk, including creating market information and economic signals in regard to replanting, afforestation, delay of harvest, physical swap contracts, and price hedging,” the report says.

“The economics of these solutions are compelling, though in general will require adoption of dual-market perspective as plantation foresters move their economic perspective closer to those of permanent foresters.”

Commentary

This situation illustrates the need for forest owners to join a credible properly structured pool or suffer the risk of this type of event.

Currently EITG is not aware of any insurance product that will pay out in credits in the event of a fire such as this.

The EITG Carbon Pool incorporates a facility that deals with the potential risks from fire as well as other risks and the harvest liability.

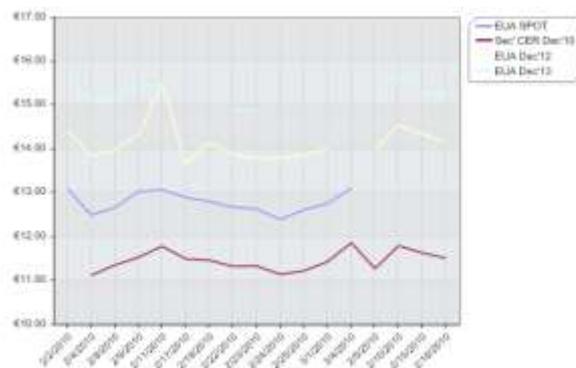
EU Price Update

Allowance prices had a reasonable month with a relatively flat performance. Prices in Euro terms dropped over the month.

2012 CER prices suggest NZU prices of around \$20 at the current exchange rate of 0.51. Local market prices as per OMF financial suggest that NZU and CER are almost identical in price. Expect forest owners to compete with CER from project developers off shore and the international markets as local emitters look to purchase volume in bulk.

Forest owners are still struggling to meet the market requirements of large parcels.

Post 2012 pricing softened to around 15 Euro or less than \$30NZ for an EUA.



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Promoters of Carbon Forestry and the Securities Act

Significant risks exist for Promoters of Carbon Forestry under the Securities Act.

The Securities Act provides for civil and in some cases criminal penalties in the event promoters documents are found to be misleading.

Missleading statements can cover a wide range of claims. Some Promoters look to independent experts to provide reports to cover such risks.

The Carbon Market provides an interesting challenge to promoters. This is especially the case when it comes to establishing a price for credits that is then used to project the income of the scheme.

Essentially New Zealand forest can create two types of credits, the New Zealand Unit or NZU or an Assigned Amount Unit or AAU.

There are essentially no restrictions at this time to transfer NZU units to AAU units.

AAU units are the international Government to Government currency of the Kyoto Protocol. Contrary

to belief these are not widely traded and information on trades is limited.

AAU units are not permitted in the European ETS and therefore no benefit can be derived from using the EUETS trading to justify prices.

Projections that AAU units would fetch \$25NZD are now looking quite wrong with reports of AAU units below \$16NZD in the London Markets.

Moreover there are significant factors in the pricing of AAU units that would mean that providing a price would not be in our view prudent.

The question of course is whether a projection is correct at the time it is given.

Pre 1990 Forest Allocation Plan

New Zealand's Ministry of Agriculture and Forestry has announced consultation on the allocation of credits for pre 1990 forest owners. The purpose of the allocation plan is to compensate forest owners as deforestation of pre 1990 forest without replanting requires that forest owners surrender credits amounting to the total carbon stored on the site.

With Pinus Radiata this would amount to some 800 NZU units per ha of mature forest. Some pre 1990 forest land could be changed to another land use and the total amount of credits estimated for this is simply being divided amongst all pre 1990 forest owners.

Key in the allocation plan is whether or not the forest concerned was sold before or after November 2002 when the regulations were signalled.

In essence pre 1990 forest owners that have not purchased their forest after November 2002 will be entitled to 60 NZU per hectare with 38% allocated prior to 2012 and the balance post 2012.

Exemptions remain for less than 50ha in holding and there is a 2ha reporting threshold.

See <http://www.maf.govt.nz/mafnet/consultation.htm>

EITG Updated Web Site

To improve service and access to information we have completed the first stage of the update of our web site.

Over the next couple of months we will be adding private areas for clients and downloads of our key information.

Please bear with us as we reorganise the content and update the material.

To listen to a podcast on emissions trading go to http://southem.com/index.php?option=com_seyret&Itemid=47&task=videodirectlink&id=5

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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, Europe, USA and South Africa

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This blog is designed to discuss all aspects of emissions trading and GHG as well as the Kyoto Protocol

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