
Carbon Monitor

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EU move to a target of 30% reduction means a Carbon Price of 50 Euro

Deutsche Bank review of the impact of cuts in emissions by 30% below 1990 levels suggests that the carbon price may be up to 50 Euro or \$95 NZD post 2012.

The current emissions target is 20% reduction post 2012 and the EU will debate the proposed further cuts on the basis other nations will follow suit.

Also as part of the debate consideration is being given to requiring two UN credits to be used to offset one tonne of emissions under the EUETS. Such a process would introduce a multiplier and in effect halve the value of such offsets. Of course in the EUA is 50 Euro then a CER (the typical imported UN instrument in the EUETS) would be 25 Euro, significantly higher than the current trading price of CER's.

Part of the assumptions of the commission are that the renewable energy sector will grown to 20% of the electricity market by 2020. Sweden, a leader in this area has a much larger renewables component, and this is putting upward pressure on wood prices.

Commentary

So what does this mean for New Zealand forest owners selling their credits on the international market?

Firstly the price of the EUETS and the New Zealand market is linked via the CER, as both systems permit CER to be traded. This would mean based on the multiplier proposal CER's would be 25 Euro and not 50, or around \$47.50 NZD.

Secondly it is debatable whether forest owners would receive any more for their NZU units converted to AAU units. These currently trade 10-11 Euro a significant discount to the EU allowance prices as an AAU is not permitted in the EU ETS. If the discount remains relative, then an AAU may increase to say 20 Euro in effect doubling the potential income.

When will this happen? At present post 2012 the emissions cap in the EU is 1990 level minus 20%. The proposals therefore remain proposals. Given there is a price for 2013 EUA reported there is a small premium expected but nothing like that projected 50 Euro.

The proposals remain moot on the inclusion of REDD credits from forest conservation in the third world, and in the event it is included with a multiplier the availability of hundreds of millions of REDD credits would likely dampen prices significantly.

In conclusion selling a NZ forest carbon credit today leaves forest owners with a liability to surrender at harvest. Suggestions of prices of 50 Euro or even half that at 20 Euro mean that a NZD sale price of \$18 today will be reflected in a price of between \$40 and \$95 NZD at harvest. That of course is speculation and no one knows the price of carbon in 5, 10 or 15 years.

Those selling carbon today have been 'self insuring' against price rises by having some radiata and douglas fir, and simply saying if prices increase they will use the Douglas fir credits to surrender to allow them to harvest their radiata.

Most foresters don't have that luxury as they all own single age class forests and must harvest sooner or later to receive income from the timber, the objective of their forest investment. Those who are offering to sell credits 'naked' that is with no cover for the harvest liability are taking a substantial risk.

There are ways of dealing with those risks and carbon pooling is one of them.

Trustee Companies Advise Against Opting into ETS

Forest partnerships in New Zealand with Trustee Companies overseeing the operations are reportedly refusing to opt into the ETS on the basis that the liabilities are unknown.

Many of the same trustee companies are facing significant flack from their involvement as trustees of finance companies that have collapsed owing the general public billions of dollars, most of which appears unrecoverable. It would be only a matter of time before the trustees actions are scrutinised by a Court.

Given this it is understandable such trustees are risk averse. However it is important to look at the entire picture. That is the credits are managed by the Government if a forester fails to opt in. The promise is that at harvest the Government will supply or not require surrender of credits at harvest. All good until officials say current



governments cannot bind future governments. It is not hard to understand why when at some future date a forest owner receiving say \$20,000 per ha for timber asks the Government for \$40,000 of credits per ha to balance the liability for surrendering credits at harvest. The answer may be a clear no.

So why would a trustee not opt on? It would appear on the face of it examples exist as to this scenario in the fishing industry with quota, and particularly crayfishing quota or lobsters for our American readers.

Those who did not bother to opt in for quota lost it permanently.

It does not appear this is being factored into any trustees decisions.

China expects no post 2012 deal in 2010 citing the USA

BEIJING, May 25 (Reuters) - A senior Chinese climate official said on Tuesday that negotiators aim to seal a binding global pact on warming by the end of 2011, a blow to any lingering hopes the world could reach a deal at talks this year in Mexico.

Xie Zhenhua, who led China's delegation to fractious negotiations in Copenhagen last year, said the only target for a December gathering in coastal Cancun city was a "positive result".

Top European and U.N. officials had already all but ruled out a deal this year, but Xie's comments are the first time the world's number one emitter has confirmed it also does not expect to seal a new pact in 2010.

"Everyone is now taking pragmatic measures, and working hard in a positive manner, in order that we can achieve a legally binding agreement at next year's meeting in South Africa," Xie told a Sino-European political forum.

Environment ministers of the so-called BASIC bloc of major emerging economies -- Brazil, South Africa, India and China -- agreed a month ago that a deal should be sealed by 2011.

But Xie signalled that was more a target than a last-ditch deadline, with talks in Mexico at the end of the year likely to produce little more than incremental progress on less-controversial issues like forest protection schemes.

"According to the current negotiating process, every country is taking quite a pragmatic approach. We hope that this year everyone can increase mutual trust, and

move forward in exchanging opinions on all key problems, so we can have a positive result from this year's meeting in Cancun," he said.

"At the same time, we have not set in advance a goal that we must draw up a legally binding treaty." Xie also said that China would like a future deal under the framework of the Kyoto Protocol, which binds about 40 developed nations to cutting emissions by 2008-12, but that there were some obstacles to continuing to uphold it.

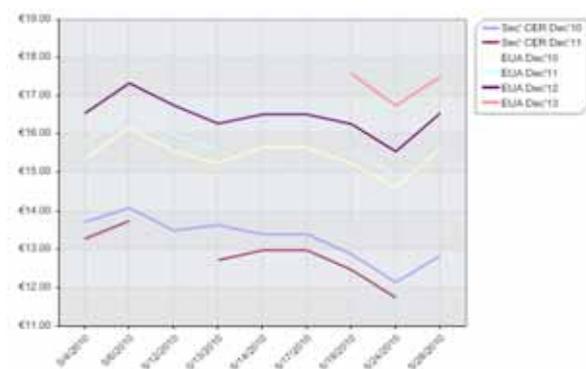
One of the key problems was the position of the United States, which did not ratify the protocol, he said.

EU Price Update

Allowance prices had a reasonable month with significant firming in the market with prices of EUA spread around 16 Euro. Market sentiment has been stronger recently even with oil prices falling.

2010 CER prices suggest NZU prices of around \$23.80 at the current exchange rate of 0.54.

Post 2012 pricing firmed above 17.50 Euro or \$32.40 NZ for an EUA.



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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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