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# Carbon Monitor

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## NZETS Slows – Prices Firm - Liquidity Dries Up – Questionable Advice?

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Reports suggest Westpac is now paying around \$18.60 per NZU up from \$17 but trading volumes have dropped significantly.

Sources tell EITG that they are now sitting on NZU units and are unwilling to sell. No price that may change their minds was suggested.

The initial euphoria of the market may have been tempered by the knowledge that some trades were significantly lower than others with some EITG clients suggesting their net for small parcels would be \$17.

Meanwhile emitters seem to be trailing around the edges but the perception is Westpac is driving the market. Certainly it has been reported Westpac was contacting forest owners on the NZEUR and offering to buy NZU.

Some of the larger forestry players suggest forward trades for future delivery have been completed. These appear to be offering a premium pricing on NZU for 2011 delivery at \$19.50. The volumes are small in the tens of thousands of tonnes.

Whilst on our travels around the country we see most NZIF registered forest managers are very aware of the risks and clearly understand the risk of loss of credits during the growth phase of the trees from events such as fire and then the risk of the cost of purchasing credits to surrender at harvest not knowing the price of an NZU in 10 or 20 years.

Just how well these risks are understood by forest owners is not so clear. We get the impression sophisticated owners are aware of the risks and are only selling their 'free' carbon, that is minimum level of carbon that will remain on the land after harvest replanting takes place. This is a relatively commonsense approach until you realise that with Radiata, most of the post 1989 plantings re over 10 years old already. That has the effect of significantly reducing such 'free' carbon for those with single age classes.

So why all the sales you may ask? There are two categories of sellers we can find:

- The corporate seller with multiple age classes who understand their 'free' carbon and a need to generate cash

- The smaller forest seller whose forest manager suggest that they should sell

The later are interesting as those forest managers in the main have been receiving sales commissions from the sales which in some cases on a million dollars of sales are over \$50,000.

EITG has been told by some managers that whilst the risks exist they are of no significance as carbon prices will not increase, the scheme may instantly cease to exist and the risk is carbon that they have will soon have no value.

EITG is surprised that such advice is being offered to forest owners particularly as it has a forward looking statement as to the price of carbon, and last time we looked anyone offering financial advice like this they disclaimed projections saying that 'no one knows the future price' and said 'past performance is not a predictor of future performance'

You would have to wonder if the Professional Indemnity insurers of people giving this type of advice know what they are saying! Claims may appear 10 or more years down the track and everyone will be heading for cover!

Meantime one of the Power Company Emitters is advertising a tender for a supply of NZU units for the next 10 years at a nominal level of 10,000 units per annum. We see this as a toe in the water for long term strip deals.

Similar deals with off shore strip sales EITG is involved with range from 12.50 euro to 17.50 euro in five years on much larger volumes.

In response to what is happening EITG has been working on introducing some initiatives into the market that will provide more cost effective broker commissions and more market information.

### EU Market Sales for Delivery in 2020

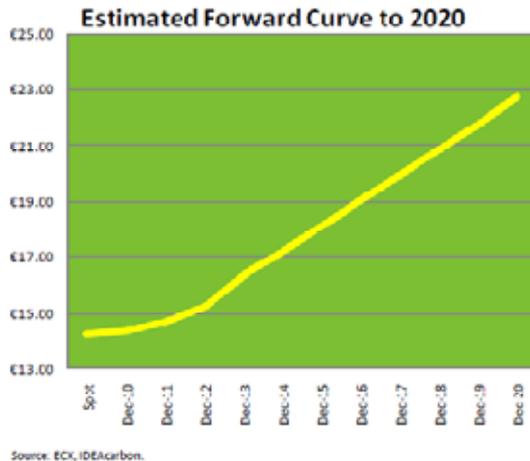
The European Climate Exchange in early August launched EUA futures contracts for the years 2015-2020, and the first trade in post-2014 EUAs took place on Friday morning with a multi-year trade between Gunvor Global Energy and JP Morgan, brokered by TFS. The 2020 price was set at €22.72.



This trade may have more symbolic than practical importance for the market. Analyst estimates of Phase III EUA prices are considerably higher than the level fixed in today's trade, which reflects instead the existing Phase II price curve.

However, the fact that trading has begun for futures contracts out to 2020 offers a vote of confidence in the long-term prospects for the EU ETS, despite the current political stalemate over a post-2012 global agreement.

Idea Carbon has estimated the shape of the Phase II/III price curve based on this and other data in the chart, and the development of this curve should be a matter of close interest to the market in the coming weeks.



## Australian Election Result

Julia Gillard struggles to form a Government as the election resulted in a hung parliament. The Greens appear to be potential king makers as they for the first time have broken into the lower house of Parliament. They hold the balance of power in the Senate, the upper house with 9 seats and will be a logical partner to Labour.

Speculation on the markets being driven by uncertainty is rife with comments that another election is needed. In the lower house the independents are also calling the shots with 3 members from the Country Party their logical partners are the Coalition. Rural broadband is said to be their issue with Gillard promising billions to deal with this.

Certainly the Greens will be interested in a functioning CPRS and in the interim a carbon charge. The Coalition gaining power will send the CPRS to the scrap heap. The NZETS could soon follow given concerns that Australia without a CPRS is not in New Zealand's best interests.

Industry talk is government officials are adamant that the NZETS will remain past 2012.

## New Format a Winner

Carbon Monitor recently changed to a format where we provide a link to the PDF version of the CM on our web site.

Rather than send the attachment creating many giga bytes of internet traffic we took the 'green' option to reduce the electricity consumption caused by doing so.

Now we highlight the issue and ask that you click on the link to see the full publication.

Readers are unanimous in praising us for the new format presumably speeding their access to their emails and as often they have lower speed connections the time it takes.

In conjunction with this our web site has received another extensive review adding more on REDD and re organising content. Past CM from 2009 are now on line.

## FREE Estimate of Your Forest NZU under the NZETS – Podcast on line

To get a free estimate of how many NZU units you are entitled to we have introduced a link on the main section of our web site. [www.forestry.eitg.co.nz](http://www.forestry.eitg.co.nz)

The process requires you to enter some basic location, area and age class data and we send you a report via email with a summary of the NZU you may receive based on the look up tables and the data you provide.

The summary provides an indication only and assumes the forest qualifies and the information you provide is accurate. Only when measured by an NZIF registered consultant and approved by MAF should you consider any estimate accurate.

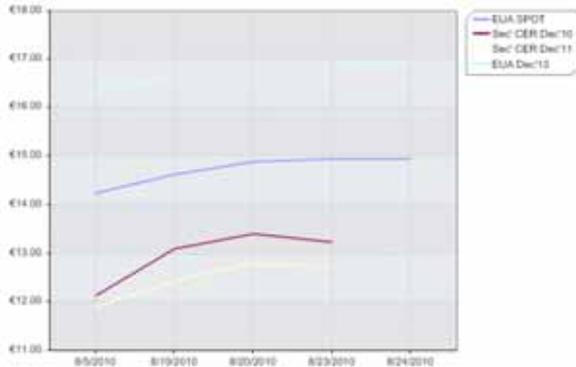
Check out the Southem web site to listen to the podcast [http://bit.ly/podcast\\_nzets\\_tool](http://bit.ly/podcast_nzets_tool) or [www.southem.com](http://www.southem.com)

## EU Price Update

Allowance prices firmed with prices of EUA spread up to 15 Euro.

Concerns as to reviews of HFC projects limiting the availability of CER units meant prices spiked up to over 13.38 Euro. 2010 CER prices suggest NZU prices of around \$24.00 at the current exchange rate of 0.55.

Post 2012 remained around 17.50 Euro or \$30.70 NZ for an EUA.



Source: [www.cantorco2e.com](http://www.cantorco2e.com)

## AAU Price Update

Green investment scheme Assigned Amount Units are available in large volumes. The AAU is the government to government currency of the Kyoto Protocol. The 'green investment' signifies money from the sale is invested in schemes that reduce GHG emissions in the host country.

The 'greening' is designed to offset the so called 'hot air' AAU label where the surplus AAU are from the collapse of the economy of the host country post 1990. Typically reserved for the former Soviet Union or FSU this label also extends to some eastern block countries.

The current price is 10 euro per tonne or \$18.18 NZD, and availability of up to 40mt. New Zealand AAU units are only likely to achieve more than the 10 Euro on their 'environmental integrity'

## Voluntary Credits from New Zealand Forest?

Despite the NZETS coming into force there remains a strong off shore demand for New Zealand voluntary credits.

The first indications of a demand for voluntary credits or VER's came before the ETS was finalised with Greenair and the then TZ1 registry issuing several million 'VER' credits based on the then incomplete NZETS 'standard'

We were told at the time a sale was imminent for 'millions'. We were sceptical and remain in the dark as to whether any sale ever took place.

When ETS finally emerged after its review I think everyone took their eyes off voluntary credits to embrace the NZU.

In recent weeks it appears Voluntary credits are being created and sold by some very clever New Zealand based traders.

Even more interesting was an approach to EITG last month where we were requested to source a supply of VER units for a New Zealand client.

So if you need voluntary credits and will accept New Zealand forestry they are available.

## Government Support Needed to Plant New Forests

EITG believes the Government should underwrite the growing of millions of forestry seedlings if it wants to meet its climate change planting goal. This goal is critical after 2020 as the 'wall of wood' will need to be harvested and the mass surrender of NZU will start from the forest sector. At that stage forestry will become one of New Zealand's largest emitters.

Current planting levels are far below the 30,000ha of new forest a year for 10 years needed to stabilise the losses from harvesting predicted.

Four thousand hectares were planted last year, and just 2000ha the year before.

As an EITG director and long-time forestry investor I have said that there simply isn't the confidence in the industry to encourage the necessary level of new planting, and nurseries are reluctant to carry the cost of bringing on enough trees.

The last time we planted 30,000ha in a year was 10 years ago, according to the National Post 1989 forest statistics

In an interview with Carbon News I stated "We need millions of seedlings coming on, but the nurseries have already been burnt with one outfit saying they were going to plant a lot of carbon forests and then falling over, and don't want to take the financial risk."

Having the Government underwrite the risk of a massive increase in seedling production by promising to buy any unsold seedlings would give the nurseries the confidence they need to get the trees started.

For the full article [www.carbonnews.co.nz](http://www.carbonnews.co.nz)

## Tokyo Carbon Prices Eye Watering 112 Euro per Tonne

Tokyo launched an emissions trading scheme for the city's top 1400 emitters requiring an average drop in emissions by 7% between 2010 and 2014. Tokyo represents 5% of Japan's total GHG emissions.

**The first trade of 22 tonnes took place at an eye watering 112 Euro which was still 6% below the 15,000 yen cap!**

**Long term target is to cut emissions by 30% from 1990 levels by 2020**

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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

To subscribe email [subscribe@eitg.co.nz](mailto:subscribe@eitg.co.nz) with your full contact details.

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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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