Carbon Monitor

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NZETS thin trading, Prices over $20NZD, CER's Not an Option for Compliance?

Reports from Westpac and OM Financial have NZU units firming to around the mid $20NZD mark. Trading remains light with few sellers but one or two notable trades.

Another option for compliance in the NZETS has emerged as the international markets are forecasting potential oversupply of so called CER units or certified emissions reductions. These units are issued to projects commenced in developing countries that do not have an emissions cap under the Kyoto Protocol.

The Clean Development Mechanism Executive Board (CDM-EB) on Monday 29th November issued 17.8 million CERs. This issuance of CERs (about 10% of annual issued volume) to eleven HFC projects which had been under review by the CDM-EB was unexpected by the market. Subsequently, CER prices have fallen by over 3% resulting in a closing price below the last traded NZU price.

However the latest spot CER price is around 13.43 Euro which at the current exchange rage of 0.57 results in an NZD price of $23.56 or at least $2.50 over the best NZU price.

It appears from reports large volumes are attracting better prices meaning aggregators are still making up to 5% on the spread between buy and sell. All the risk remains with the forest owner vendors.

We think that is too much. Those forest owners who have sold for $17 on the advice of forest managers must be questioning the advice received.

MAF Update on the NZETS

The New Zealand Ministry for Agriculture and Forestry issued is regular update on the New Zealand Emissions Trading Scheme.

It states if post 1989 forest owners wish to claim the NZYU for 2008-2010 need to get their applications into MAF now. Last year there were significant delays from late applications meaning many forest owners missed receiving their NZU allocation.

Also in the news is the mapping system for pre 1990 allocations has been released and this time includes a 'tutorial' It is not clear whether or not a 'play' area will be included to allow foresters to experiment to learn how to operate the system before actually entering data. This was a flaw in the post 1989 mapping system.

Consultation and submission for the field measurement approach closed mid last month and there were a good number of useful submissions.

NZETS Facts and Figures

Given the expected oversupply of NZU units from forestry traders are interested in how many units have been allocated and what percentage of the potential units have registered.

Some 16mt of pre 1990 allocation is on the way albeit the market feedback is these units are not yet coming into the market.

MAF has now allocated more than 5.1 million NZUs to 585 post-1989 forest owners covering over 125,000 hectares. This means around 20% of the potential forest eligible by area has registered in the NZETS.

For pre-1990 forest land owners, MAF has made final determinations on 39 applications, allocating just under 750 000 NZUs for both commitment periods.

This represents about 13 500 hectares of pre-1990 forest. A preliminary determination has been made for a further 84 applications (38 000 hectares). The allocation so far represents an average 57.6 units per ha with allocations being either 60, 39 and 18 units per ha depending on the ownership of the land on certain dates.

Overall therefore for the period to end of 2012 at 23 units per ha would result in some 300,000 units coming on the market by 2012. Adding the further 38,000 ha presuming a similar make up, a total of approximately 1.1m NZU would come to the market prior to 2012. This is only 7.5% of the potential amount to be issued.

It looks that to date the expected oversupply at the market level is unlikely to occur. The New Zealand Government however has no such issue as those forest owners who do not opt in automatically allow the Government to use their NZU to comply with the Kyoto limits from 2008-2012. In return the Government according to existing law indemnifies the forest owner by surrendering the same credits on the land owner's behalf at harvest.

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Given the wall of wood post 2020 looks to turn the forest industry from the source of NZU to the largest single emitting sector it is an interesting question as to whether the taxpayer will foot the bill. Is this a case of ignoring the future to deal with short term imperatives?

Are Forest Managers Financial Service Providers?

A person, business, or organisation providing financial services in or from New Zealand must be registered on the Financial Service Providers Register (FSPR) before 1 December 2010 (except for financial advisers who have until 31 March 2011 to be registered.)

Financial services range across consumer loans and credit, money management and investment advice, bank services, broking services, currency exchange and money transfers, insurance – the list goes on. If you deal with money or investments, you probably need to register.

There are a range of exemptions for providing such advice in the normal course of business, an area which is still quite gray. Real Estate agents who sell businesses are seeking clarification of the Act.

Whether a forest manager who brokers a sale of carbon credits is covered is not clear in the Act.

EU Price Update

CER prices softened towards the end of November spot prices were Euro 13.43 with December 2011 at Euro 12.85

EUA remained between 15 and 16 Euro. EUA for 2013 remained strong over 17.50 Euro.

We apologise not being able to provide a monthly trend graph this month.

Source: www.cantorco2e.com

CDM PIN Announced

EITG in conjunction with Delta projects has issued a PIN or project information note on a biomass power facility in the Pacific Islands.

The project is projected to create some 40,000 Certified Emissions Reductions (CER) per annum from 2011 under the Clean Development Mechanism of the Kyoto Protocol (CDM)

The CDM is administered by the United Nations and issues carbon credits for emissions reductions that would not otherwise occur.

The project is an excellent use of agricultural waste and avoids methane emissions when the waste is simply left to rot.

The power generated will be fed into the national grid and displace diesel powered generation.

The PIN has been issued to attract bids for pCER units that are to be issued. Offers to purchase the units once issued or sCER will also be entertained.

EITG has issued the PIN to a range selected trading houses and emitters and has interest from Europe and Japan. At this stage only year 1 credits are on offer.

A strip sale could be concluded. The last strip sale on a project with EITG involvement achieved 17.50 Euro per CER at year 4.

Dumping Ground for Second Rate Carbon Credits

A recent report suggests New Zealand could become a dumping ground for second rate credits from the Clean Development Mechanism or CDM.

IdeaCarbon wrote in its report, the recent decisions from both the Clean Development Mechanism Executive Board (CDM EB) and the European Commission (EC) on industrial gas CDM projects involving reductions of hydrofluorocarbon-23 (HFC-23) and nitrous oxide (N2O) from adipic acid plants are set to radically reconfigure the global market for offsets. The effects of these decisions are far-reaching and could potentially have implications for the New Zealand Emissions Trading Scheme (NZ ETS).

The NZ ETS could be a major source of demand for these “homeless” CERs. Due to a lack of restrictions on the use of CERs for compliance, NZ ETS credits (termed New Zealand Units – NZUs) could be vulnerable to downward price pressure as industrial gas CERs seek out other markets.

Under the European Union Emissions Trading Scheme (EU ETS), companies can meet a part of their emission reduction obligations by purchasing cost–effective offset credits (CERs or Emission Reduction Units from Joint Implementation offset projects) under the UN–approved flexible mechanisms. Offsetting can include credit origination from projects involving the destruction of HFC-23 and N2O industrial gases.

There are four problems with industrial gas reduction projects.

First, they're extremely cheap to carry out. For example, it is estimated that the destruction of HFC-23 can be carried out at €0.171 per ton of CO2 equivalent. But when these CERs are issued they currently command a price of €12.00 – seventy times more than it costs to destroy the gas.

Second, the cost–effectiveness of these projects has created unintended perversities; HFC-23 CERs are so valuable they exceed the value of the primary gas (HCFC-22) by as much as five times, which has led to the widespread accusation that host countries are ramping up HCFC-22 output primarily to profit from CER revenue.

Third, the current incentives for HFC-23 destruction undermine attempts under the Montreal Protocol to phase out HCFC-22 production.

Fourth, the dominance of industrial gas has distorted the geographical distribution of projects under the CDM in favour of China and India.

The EC has proposed a ban to come into force from January 1st 2013. The proposal is due to be discussed by a committee of member states before going to the European Parliament to be scrutinised, with a decision expected in three months.

The CDM EB's Methodologies Panel has recommended that the AM0001 methodology which governs the generation of CERs from HFC-23 reduction projects should be revised. According to a paper delivered to the EB at this week's meeting, "it is likely that emissions reductions could be overestimated, since there is no incentive to reduce the w-factor", referring to the ration of HFC-23 emitted by a plant producing HCFC-22 refrigerant gas.

There is currently no indication as to by how much an amended methodology would cut CER yield.

The CDM EB has decided to revise the AM0001 methodology, which will then be applied to each project as it reaches the end of its current crediting period. With the largest number of HFC-23 projects coming to the end of their first crediting period between 2012 and 2014, this means that CER yield could drop significantly thereafter.

Industrial gases currently comprise 75% of CER output to date. With regulated entities within the NZ ETS being allowed virtually unlimited use of CERs to meet their compliance, these industrial gas CERs could soon overshadow the New Zealand market.

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

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