
Carbon Monitor

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GA Group and EITG in 250mw China Biomass CDM Project

The global financial services organisation held by GA GROUP (ASIA) Limited in the Isle of Man - has been appointed lead manager to China's Shenzhen based Hanyuan Green Energy Co. for a major capital raising for a China-based biomass energy enterprise venture. GA Group will collaborate with EITG.

With the aim of raising USD30-100 million, GA GROUP will be responsible for exploring all market options - whether public or private - for raising the target capital and EITG will manage the associated carbon credit business surrounding the venture with the subsequent value integrated into the deal. EITG has commenced the steps necessary to register the project under the Clean Development Mechanism of the United Nations Kyoto Protocol, selling the resulting Certified Emissions Reductions to its European Clients.

"This is an incredibly dynamic project for GA GROUP and is a total vote of confidence in New Zealand's ability to lead the global pathway in the challenging field of renewable energy and UN compliant carbon credits," said Tim Munro-Keene, Executive Chair, GA GROUP.

"We set a mandate at launch that we would actively pursue socially responsible finance for climate change as part of our business ethos and strategy. It is rewarding to partner with fellow New Zealanders, EITG, to guide this innovative project to market and pave the way for new models of renewable energy financial services across the Asia Pacific."

Based in China, the biomass energy enterprise venture is a scalable project designed to utilize waste agriculture biomass to produce electricity in the Shandong Province. Five power stations each producing 50 megawatts are to be built. The project has a social responsibility perspective as local farmers will be able to increase their earnings from the sale of otherwise discarded material.

Field Measurement Approach Creates Substantial Risks for Forest Owners

The New Zealand Ministry for Agriculture and Forestry (MAF) Sustainable forestry bulletin issue 25 confirms Cabinet has approved the drafting of the regulations for the Field Measurement Approach (FMA). First mentioned in the Carbon Monitor in

November 2010 volume 15 issue 10 these regulations cover post 1989 forest of 100ha or more.

The 100ha threshold relates to the total forest holding of one participant. Participant includes all associated parties as defined in the Act. The Act definition of Associated Parties is wide ranging so those with small forests can unwittingly be dragged into the FMA regime due to the aggregation of smaller holdings to exceed 100ha.

Of significant concern is the requirement for the final emission return for the First Commitment Period 2008-2012. This must be carried out using participant specific look up tables that are created from MAF specified sample plot locations on the participant's forest(s).

Meantime, that is at least from 2008-2011 participants are required to use the standard regional look up tables.

The tables are acknowledged to in 'some' cases specify more the issue of more NZU units than there is CO2 removed from the atmosphere by a given forest. Simplistically, some forest owners may have received more NZU than they should have for their forest in each of the last 3 years 2008-2010.

Changing to participant specific look up tables in 2011/2012 those forest owners may find that they receive significantly less NZU with these tables than the standard tables they used in the first 3 years.

In the emissions return for 2008-2012 foresters may have to surrender the over allocation in 2008-2010 using NZU issued in 2011 and 2012. For those with patchy forest or lower than expected site indexes there may be a surprise in store and a reduction in NZU income due to the change in tables to forest specific tables. Add the costs of the field measurements for the FMA and some forest owners may be in for significant cost.

Japan Crisis Drives European Market Upwards

Recent developments with the disaster in Japan placed focus on the future of low carbon nuclear energy sources in Europe.

Germany reportedly placed under review decisions on a number of its reactors in response to the devastation



in Japan.

A corresponding jump in prices of emissions units resulted in EUA up to 17.22 up 2.23 and CER units up to 13.12 up 1.62. CER were reported as trading above the \$25NZD the cap for the NZETS.

Since CER dominated the NZETS market in late 2010 there has been a scramble for those emitters who purchased units to sell at a substantial profit. The flow on effect is reported NZU sales over \$21NZD up 1.90 this in March

Are Forest Owners 'Silly Fools' a CM Reader Poses the Question?

Peter Ann, a Carbon Monitor reader sent us his thoughts on selling forest based NZU for post 1989 forests. He writes:

So..... we sell our NZU's and they are taxed in the year of income.

Lets assume a 400ha forest of 10 years age, 10,000 units at \$20... could be around \$60,000 tax. \$140,000 to invest someplace else, say a 2.5 million dollar building in the city, complete with 20 year mortgage leveraged against rental and the income from more sales of NZU's.....

The rough guide for returns of commercial property is equal to inflation over a long period (60 years to 1989)....

Onwards 20 years and the forest now has a liability of surrendering the units sold by that "silly fool" who sold them all, against all advice from every forest person he talked to ever.

The question is will his building now be worth the balance between surrender value of his units plus his log harvest less the residue units or "free units" as in forestry jargon.

Historically forestry had a 3% above inflation compared to -3% for dry stock farming return for the 60 years (share market in NZ was 7% for the curious) preceding the 1989 article the writer read and made the decision to invest in forestry when he could.

At harvest the logs should return more dollars than the NZU that have to be surrendered. If not the prudent forest owner will leave the trees growing.... until they are. Just look at the turnaround in the last 3 years from doom and gloom to the highest log prices since the 1991 spike. Trees don't mind being 33 years old!

However the building is now freehold and available for sale at capital gain....

The large surrender value of 20 years of sales of NZU is fully tax deductible expense, just as the harvest cost is deductible. $260,000 * 30\% \text{ residue} = 182,000$ units to be surrendered at say \$70 \$1,274,000 remember the tax deduction against income

Who among you followers of forestry are prepared to do the numbers and stop suggesting and advising forest owners with one age class to plant more forest to offset liability. how many eggs do you put in one basket?

Commentary

Peter raises some very good points. In a past issue of the CM we shared the use of Land Expectation Value put forward by the University of Canterbury school of Forestry as a way of modelling the potential income and liability of participation in the NZETS.

Interestingly a 5% increase in the price of an NZU over each of 10 years showed little impact on the LEV as a metric.

However if as Peter says an NZU is \$70 who would bother to harvest? Income of over \$2000 per ha would be hard to beat with money in the bank from harvest yielding less than 5% in interest.

The problem is that no one knows the price of an NZU 10 or 20 years out and not managing this risk is as Peter puts it creates a 'silly fool'

The next emerging issue appears to be the Banks have realised the sale of the NZU units potentially creates a liability that ranks ahead of a mortgage security. When a forest is sold any buyer would factor in the cost of surrendering NZU units when calculating a purchase price.

Forest Carbon Insurance Update

For an update on the New Zealand insurance scene for carbon forestry insurance, we asked Geoff Manks, managing director NZ Carbon Insurance (a division of Sage Partners Ltd). NZ Carbon Insurance has been active in the area of carbon credit insurance and lead the market offering specialist solutions for forest owners. Geoff claims to be the only insurer in Australasia actually having written policies for this type of cover. He reports:

In the last 4 weeks we have had a noticeable lift in enquiries from forest owners, large & small, from around NZ seeking advice on insuring their forests.

Presumably this is a direct result from carbon credit returns being filed with MAF and growers then considering trading options, or trades having already being recently concluded.

However there clearly remains a lack of appreciation by some growers as to their contingent liabilities, and therefore what insurable value to attach to their forest. What is apparent, from the insurance programmes we have reviewed, is those who have traded their credits and are already insured under a traditional forest model, likely have an insurance programme which does not reflect their position. In particular post 1 April 2011 where the contingent liability values accrue. One area we spend most time with clients on is helping them understand how to establish an appropriate insurance value for their forest. This generally differs between each forest but is based around our unique model from which clients then select the option they feel comfortable with.

Insurance capacity in NZ remains limited with insurers still shy about providing limits in some regions for wind, earthquake, landslip etc. However premium rates remain competitive with carbon forest insurance programmes generally priced at similar levels to traditional timber insurance. We are likely to see the entry of another insurer into the NZ market in the near future capable of accepting carbon forest business. The incumbent, NZI, still have a stated position of not insuring carbon. What this exactly means is not entirely clear, however without further definition or a more flexible model for covering perils or establishing insured values, we still have concerns about their suitability for carbon forestry.

Whether for Silviculture, ETS registration, Filing returns, Measurement or Trading credits, getting sound advice is critical forest owners. Insurance is not the sole answer to growers as not all events are insured against. However forest owners must understand the manageable and non-negotiable consequences, of a loss to an ETS/PFSI entered forest and are prepared to accept these or take steps to mitigate the risk.

United Nations Publishes Radio Broadcasts on the CDM

The Clean Development Mechanism of the Kyoto Protocol allows the creation of projects in developing countries that would not otherwise go ahead (business as usual) to receive credits called Certified Emissions Reductions or CER.

CER can be used in the main emissions trading schemes and are permitted in the NZETS and EUETS.

The UNFCCC secretariat has produced five 'broadcast-ready' radio stories for dissemination to radio stations in Africa. These stories are meant to

make the Clean Development Mechanism of the Kyoto Protocol understandable and accessible to a broad audience, including community stakeholders, potential project participants and policy makers

They are available at <http://bit.ly/cdmstories>

Technological Solutions for Coal Fired Stations move Closer to Reality

Two new patented sorbents used for carbon dioxide (CO₂) capture from coal-based power plants have moved closer to commercialization as a result of a licensing agreement between the Office of Fossil Energy's (FE) National Energy Technology Laboratory (NETL) and ADA Environmental Solutions (ADA-ES).

The nonexclusive agreement facilitates negotiations on intellectual property rights, protects proprietary information, and grants non-exclusive licensing of the new technology. Under federal regulations, NETL is authorized to obtain, maintain, and own patent protection for its inventions, including those funded through collaborative agreements. By granting a commercial license for these sorbents, NETL can now convey and control the right to make, use, and sell the products and services claimed in the patent, thereby assuring strategic commercialization throughout the coal-fired power plant industry.

CO₂ capture is an important component of carbon capture and storage (CCS) technology, viewed by many experts as an integral part of a portfolio strategy (including increased use of renewable and nuclear energy, and greater efficiencies) for confronting increasing atmospheric carbon dioxide emissions and potential climate change. Coal-based power and industrial plants are essential to U.S. energy production and are projected in many forecasts to remain so for the foreseeable future. But they are also among the most carbon-intensive energy sources.

FE's comprehensive CCS research includes developing new materials that can capture and release CO₂ at reasonable energy and operating costs. Traditional solvent-based systems consume too much energy, either in operation or during regeneration of the solvents. So FE is developing and testing a wide range of approaches.

A promising solution for affordable CO₂ capture is "dry scrubbing" or chemical absorption of CO₂ using a solid regenerable sorbent. The most important advantage of solid sorbents is the potential to significantly reduce the amount of energy required to capture and release CO₂. These range from alkaline earth metal oxides or hydroxides that can absorb CO₂

at temperatures that typically range from about 100—300 °C to impregnating a porous substrate with one of the liquid solvents. In all of these, the sorbent can be regenerated in a subsequent step, after the CO₂ is removed. The efficiencies of these processes are highly dependent on the optimum temperature and pressure conditions at which absorption and regeneration are performed. In the case of high-performance sorbents, both of these mechanistic steps occur with the lowest possible energetic and operational costs.

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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 with your full contact details.

Let your thoughts be known at
www.ghgmissionstrading.wordpress.com

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

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