
Carbon Monitor

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Is Australia the Next Market for CERs?

Point Carbon has identified the Australian Emissions Trading Market as a major consumer of project based Certified Emissions Reductions or CER units.

In the fixed price period of the carbon scheme, running for three years from July 1, 2012, Australian emitters will not have access to international credits such as CER. From mid-2015, when the ETS comes into force Certified Emissions Reductions (CERs) can be used to meet 50 percent of their surrender obligations.

Analysts at Thomson Reuters Point Carbon estimate that Australian firms will buy 350-400 million international offsets between 2015 and 2020. These credits will come from existing projects that are registered to produce CER units and projects registered post 2012. Currently projects creating CER registered post 2012 and not from least developed countries are not admitted to the EUETS. The Australian ETS will provide demand for credits from this class of projects.

At an expected market price of A\$17.80, Australian demand for carbon credits in dollar terms could exceed A\$7.12 billion over the five years. Bloomberg New Energy Finance has plotted demand for CERs in 2020 at 90 million, slightly below expectations at the Australian Treasury.

Source: Point Carbon Australia New Zealand Carbon Market October 2011.

Australian Opposition Undermines Carbon Tax

The Australian opposition leader Mr Abbot has come out warning companies not to take forward positions under the new carbon legislation. The legislation passed in the lower house earlier this month and is expected to pass the Senate before the end of the year.

Mr Abbot is reported to have cautioned companies that they would not be compensated for expenses incurred if in the event he came to power he intended to axe the carbon tax.

Commentators see this move as a cynical attack at the carbon tax to try and undermine it. Given the oppositions support for some sort of ETS this is in the view of many people hypocritical. Australian

television is saturated by sound bites from the rival political personalities and the attacks at the Governments policy are relentless and sometimes meaningless. As one commentator put it, when have you ever heard of an incoming party abolishing a tax?

The reality is however a proper market cannot kick start without an ability to set a forward price. Investment will not happen without a forward price, and in our estimates most of the projected 9bn per year investment in renewable energy will be at risk in this policy environment.

Emitters that choose to purchase CER units, eligible in both the EU and Australian markets could mitigate the policy risk by simply selling back into the EU or New Zealand markets in the event the Australian market ceases to exist.

Comments on the NZETS Review

The report on the NZETS is by way of a review and not policy. The commentary is therefore directed at the report itself and not on what policy in our view should be.

The review panel has taken into account and is following the proposed Australian scheme to allow integration at some future date. Progressive increasing of the price cap and the requirements to surrender 100% of emissions are all positive but in our view being implemented to slow given the Australia plan. The sudden phase out in 2012 is arguably too radical. However there have been some perverse outcomes of the cap. The reported charging at the cap by emitters and then purchasing at a lower rate has created unintended profit opportunities from the NZETS. Whilst there is no specific evidence of this there are reports of second tier emitters becoming points of obligation to avoid paying \$25. If we have an increasing cap the regulator should look carefully at what people are paying for costs that are attributed to the carbon charge.

I cannot see any relief from deforestation restrictions for pre 1990 forest owners as the report would recommend but notes is not possible due to the international rules.

One issue we are following which may change the landscape for forest owners is the classification of carbon credits as a financial product in Australia. The report considers linking to



the Australian scheme and the question that is not addressed is how the New Zealand regulatory environment would need to change.

What flows from this is the current perception of risk by forest owners. The majority of advice has been from forest managers and this has failed to promote the awareness of risks. The panel recommends in its report this be addressed. The reality is this must in EITG view must be via proper advice from properly qualified people.

Choice to opt into the FMA with less than 100ha is a sensible recommendation. Increasing the threshold is not without risk and no empirical data has been supplied to argue increasing the threshold. Once data is available from 2012 measurements it may be this risk can be assessed and the threshold reviewed.

The pooling to create an insurance risk pool matching the Australian scheme whilst noble fails to consider the Australian scheme excludes plantation forest. Forest owners have access to and can fund private insurance. This should tie into foresters receiving proper advice.

Exclusion of industrial gas CER from the NZETS has been raised but no real recommendation made on the impact of this on the costs of carbon and on the ETS. An urgent recommendation for review is therefore appropriate. We note the consultation process has commenced and results are expected shortly.

No comment real has been made on the operation of the ETS. The timing of allocation and surrender, currently on fixed dates, are in our view counterproductive and create potential distortions in the market. I cannot see recommendations on the structure and operation of the ETS. Adding 9000 farmers of points of obligation as the report suggests would put further significant pressure on the regulator all during one time period during the year.

On the operation of the EUR there is some suggestion that information be released so as to preserve commercial confidentiality in relation to specific transactions. Given the purpose of the ETS is provide a readily discoverable price of emissions we question this advice. The stock market is open and subject to disclosure rules to protect parties from people miss using information. The review panel suggests that commercial confidentiality is above the need for transparency in the market. To date we believe one of the flaws in the ETS has been the lack of credible and reliable information to buyers and sellers. The market is essentially bilateral trades which are unreported. Carbon Match offers a bid/ask service but this lacks depth and potential transparency.

The concept of averaging for post 1989 forests to deal with liabilities at harvest is raised the proposal suggests the Government use a scheme to limit credit issuance to the long term post 2008 average carbon stocks and in turn it supplies the credits to meet harvest liabilities. We don't think this is practical as the majority of post 1989 forests will be harvested from 2020 onwards and the average carbon stock approach fails to address the fact that ALL units issued under the ETS will need to be surrendered at harvest. In our view averaging will only assist those with new plantations post 2008 of which there are few.

Submissions called for Removal of Industrial Gas CER from NZETS

The New Zealand Government proposed to ban industrial gas CERs for NZ ETS compliance - see "Consultation on Proposed Regulations Restricting the Use of HFC-23 and N₂O CERs in the NZ ETS" [here](#). This follows the NZ ETS review panel's comments on industrial gas CERs in its recently released report.

The Government is consulting on 2 timing options, namely to ban industrial gas CERs that enter the NZEUR from 1 January 2012 (option 1) or 1 January 2013 (option 2) from use to meet NZ ETS surrender obligations.

Both timing options are earlier than the 1 May 2013 effective start date of the EU ETS ban on industrial gas CERs. The ban would apply to industrial gas CERs that have already been purchased under existing forward contracts but that will not be delivered until after the regulations come into force. However, the Government is also consulting on whether there should be an exemption for such forward contracts. The ban would not apply to industrial gas CERs in the NZEUR at the time the regulations come into force.

Reported from Buddle Findlay
www.buddlefindlay.com

Authorised Financial Adviser available to Forest Owners

Royden Shotter joins EITG to provide the increasingly necessary advice to forest owners under the NZETS. Royden is an Authorised Financial Adviser (AFA) and Certified Financial Planner (CFPcm) practitioner. As a Financial Consultant he works primarily in two roles, conducting analysis for individuals and businesses, and portfolio management of assets and investments. Depending on the mandate financial analysis typically involves data construction techniques which can be used for trouble-shooting, sensitivity analysis, problem solving or simply to reach a given result that would otherwise be too

difficult to determine. The results are then often used in strategic planning or project development.

Royden's role at EITG is to provide specialised advice to clients who wish to have the benefit of financial advice before deciding what to do with their NZU units. He is separately retained by each client for this purpose. His interest in forestry was established early on, growing up in a rural environment, on his parent's horticultural block.

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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 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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