
Carbon Monitor

Volume 17 Issue 2

March 2012

Australia on track for Kyoto Surplus – Is New Zealand in a similar position?

Figures released by the Australian Government and reported by Deutsche Bank indicate that Australia is on track for a surplus in the Kyoto period 2008-2012.

Originally negotiating a cap of 108% of 1990 levels Australia successfully argued that deforestation entitled them to an increase in 1990 level emissions. Shortly thereafter deforestation was curtailed by a series of internal measures.

Annual emissions are noted as around 591mt currently some 90mt below the Kyoto Cap. Deutsche Bank estimates a final surplus of some 125mt based on current trends.

Depending on the volume of NZU issued to post 1989 foresters that have opted into the NZETS the New Zealand Government would also be holding a surplus for the same period.

So the question is what to do with the surplus NZU?

Given the New Zealand Government has indemnified forest owners that have not opted into the ETS that it would cover their deemed emissions at harvest these NZU (effectively AAU) should arguably be 'banked' in expectation of that liability.

Australia however according to Deutsche Bank has a couple of options:

Option 1: Selling the surplus

Demand for assigned amount units (AAUs) is relatively weak and the units tend to trade at a discount to CERs, but Point Carbon reported that Japan bought 38 million AAUs in 2011, and Austria and other European countries have bought AAUs in recent years. At a price of between €2/t and €5/t, a surplus of 125 million AAUs could be worth A\$300-770 million, though it is not clear whether there would be demand for that volume.

Option 2: Rolling over the surplus

Alternatively, Australia could hold on to its AAU surplus as a buffer against a future increase in emissions or a revision of historical emissions. During the first three years of Australia's carbon price, there will be no quantity cap on emissions, and it would be prudent to hedge against emissions that turn out to be higher than anticipated. But there is no legal agreement governing emissions reductions after 2012,

and the Durban talks decided that a new binding global framework will only apply after 2020, so it is not clear what formal obligations Australia's AAU balance would be measured against.

The full research report is available on limited time download at <http://pull.db-gmresearch.com/p/393-A9D7/13123244/0900b8c084c69a6c.pdf>

Of course what this really means is the Australian Government's carbon tax is completely optional as no real internal action is required for Australia to meet its commitment to Kyoto. With the lack of a treaty in place post 2012 the same applies to after 2012.

Paper Raises the Spectre of Limiting use of CER in the NZETS

The New Zealand Ministry for the Environment provided a cabinet paper in December 2011 that argued CER should be restricted in the NZETS to avoid a flood of cheap CER.

Released to the public in early February 2012 the paper is [available here](#)

The NZETS currently has no restrictions on how many CER can be surrendered in respect of any obligations under the scheme. Europe by comparison in the EUETS restricts the number of CER that can be used for complying with obligations.

This has resulted in a significant spread between the EUA price (the NZU equivalent in the EUETS) and the CER price. This is not the case in the NZETS.

The availability of cheap CER has been cited as a reason for the significant drop in the price of an NZU in recent times.

Prices however are on the rise as the EUETS recovers strongly. No one has asked the obvious question. Are New Zealanders paying \$25 for an NZU equivalent in their fuel and electricity prices? If they are who is profiting when the price of an NZU is \$8?

Changing the EUETS for Success

Analysts are scrambling to interpret the actions of the EU parliament. The so called set aside has growing support along with a definitive move to a 2020 target of minus 30% from 1990



emissions levels. Previously the target of minus 20% has been seen as comfortable given the economic strife in Europe. That in part has resulted in a significant drop in carbon prices in late 2011.

The policy statements and following actions have lit a fire under EUA prices. EUA prices are up some 43% on the lows of 2011. Some commentators are actively talking about EUA prices of 15 Euro this year. Forward prices according to Deutsche Bank exceed 10 Euro for Dec 14 and 11 Euro for Dec 15 delivery

So will CER prices follow? To a certain extent they are recently hitting 5 Euro up from lows of just over 3 Euros. Pundits suggest further action is required to provide more impetus to this price increase. Ideas include removing large scale hydro CER from the EU marketplace. According to data from UN Riso this would reduce the supply of CER into the EUETS by some 1.2bn in the years up to 2020.

Irrespective of the actions that are being taken, low carbon prices are accepted as not providing the signals needed for change. Many commentators are happy that the targets being achieved. Others say the targets are entirely insufficient to prevent significant climactic events that could threaten humanity.

Either way if the intention exists to reduce carbon emissions by a market based mechanism the price must reflect the cost of abatement strategies to have them considered or adopted by market participants. Along with that the long term outlook on price must justify the investments necessary to implement such abatement strategies.

Potentially Misleading Carbon Credit Advice Exposed

Consumer Affairs program Fair Go screened in New Zealand targeting potentially incomplete or misleading advice given on carbon credits by real estate agents

<http://tvnz.co.nz/fair-go/carbon-copy-video-4738017>

Unfortunately the item did not clarify that if pre 1990 forest was replanted then there was no carbon credit liability. Instead an impression was given that up to 800 NZU units per ha would have to be purchased at harvest.

The article also quoted prices of \$10 per NZU when recent prices have been somewhat less.

Overall however, with input from long time CM reader Garth Cumberland, the article did identify some of the risks and more importantly established that the

real estate agents involved were not able to give the advice required. It is understood the Real Estate Agents Authority along with prominent agency networks moved to warn licensed agents of their obligations after the item was aired.

In essence the message was proper professional advice is essential when getting involved with the NZETS.

Carbon Credit Leasing Offer – Reply from the Promoters

NZ Carbon Farming Limited Matt Walsh replied to our questions raised in our blog. His reply:-

“The questions raised in your blog & carbon monitor are the sorts of issues we have covered off with the 42 forest owners currently in the program during the due diligence undertaken by them and their legal advisors. If there are other forest owners considering our leasing program, then we would of-course be happy to provide peace of mind on these and other points of the program.

We invite forest owners with more than 100ha of first rotation forests to view details on our website at <http://www.NZForestLeasing.co.nz> or contact Managing Director Matt Walsh: matt@NZCarbonFarming.co.nz or 021 52 8888”

It would appear Matt is more than happy to share the answers to our questions with potential interested parties on a one on one basis.

Contact Details

Terry Quilty p: 64 21 250 6789
f: 64 9 920 1093
skype terryquilty
e: terry.quilty@eitg.co.nz

Richard Hayes p: 64 9 920 1092
m: 64 21 310 301
m: 61 452 230 232 (Australia)
f: 64 9 920 1093
skype richardshayes
e: richard.hayes@eitg.co.nz

Simon Baillieu p: 27 82 558 9616
skype sbailieu
e: simon.baillieu@eitg.co.nz

Martin Albrecht m: 64 21 565 682
e: martin.albrecht@eitg.co.nz
skype goodground

Iain MacDonald m: 64 27 438 2544
e: iain.macdonald@eitg.co.nz

Royden Shotter m: 64 21 279 9898

e: royden.shotter@eitg.co.nz

'Carbon Monitor' is a client service of EITG. EITG develops, facilitates and engineers Carbon Mitigation projects and strategies. Terms of use of this information are set out on our web site.

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



To subscribe go to our web site and enter your details



Let your thoughts be known on our blog at www.ghgmissionstrading.wordpress.com



Join twitter for updates from EITG www.twitter.com/eitg



Like us on Facebook Environmental Intermediaries & Trading Group Limited

Portions © 2012 Environmental Intermediaries & Trading Group Limited all rights reserved

www.eitg.co.nz