

# Carbon Market Australia-New Zealand

PointCarbon™

Vol 1 • Issue 2 • 7 November 2008

NEWS

## NZ carbon traders prepare for election result

This Saturday's general election in New Zealand will decide whether companies can go ahead and prepare to comply with the country's recently approved emissions trading scheme, or if they face another nine months of uncertainty.

The Labour-led coalition government saw the ETS adopted by parliament in September, ending a lengthy process of designing the scheme's rules and regulations. It has yet to decide the actual emission cap it will impose on participating companies, but the structure of the scheme and entry dates for the various sectors are clear.

But the opposition National party, responding to industry claims that the ETS will be a disaster for the economy, has warned it will make major changes to the scheme if it wins the close-race election and introduce a cap-and-trade system of its own within nine months.

It has not made clear exactly which changes will be made, leaving participants in the dark over future compliance requirements. This could stave off some firms' willingness to step into the market place and conduct high-volume trades in the near future, some market observers said.

"National has expressed concern that the NZ ETS makes domestic industry uncompetitive so may be expected to ease the burden on trade-exposed industry by lessening the obligation, possibly moving to an intensity-based obligation, or increasing the level of free allocation available," Alastair Cameron, senior solicitor with law firm Buddle Findlay told Point Carbon.

"But the biggest changes may be reserved for the primary industries.

National has said it will increase the level of free allocation to the fisheries industry and establish a scheme enabling forest owners to offset deforestation liabilities with new forest plantings, although the latter is subject to a full assessment of the costs," the lawyer added.

After parliament's approval of the ETS seven weeks ago, some initial trades have been heard in the market, but no detailed information on price levels or volume has been made available.

Numbers have disappeared off most screens this week as traders anticipate the election result, but brokerage OM Financial reported having a firm bid for 100,000 December 2009 New Zealand Units (NZUs) at €13 and an offer for the same amount at €14.

This leaves the NZ carbon credit slightly discounted to secondary certified emissions reductions (CERs), which are trading in the EU market at around €15.

NZ firms can use an unlimited amount of CERs for domestic compliance purposes, and some analysts have said the NZU price should therefore be aligned with the secondary CER price.

"I think they (NZUs) are trading at a discount now because the market is so illiquid," said one observer, pointing out that utility buyers don't have to comply for another three years.

He predicted the market to become significantly more active around April next year.

An election win for National would most likely push that date back several months, but could also leave New Zealand with an ETS less hotly contested by industry.

## CONTENTS

- 2 Market comment and prices
- 2 Don't fix carbon price: observers
- 3 Treasury finds ETS benign to economy
- 3 Australian CER demand could be short-lived: analyst
- 4 Australia should exclude agriculture from ETS: think tank
- 4 Keep climate talks in key UN location: Australian negotiator
- 5 NZ lobby slams government over carbon cost forecast
- 5 NZ foresters seek to change Kyoto plantation rules
- 6 Guest commentary: Market structures needed to support CCS, by Tony Beck, Chairman, Asia-Pacific Emissions Trading Forum

### Upcoming training courses 2008

CO<sub>2</sub> Introductory training course  
**Singapore, 11 November 2008**

See [www.pointcarbon.com](http://www.pointcarbon.com) for more information and to register.

## Market comment

No new trades have been reported for Australian emission units (AEUs) over the last two weeks, but bids have firmed following the Treasury's 31 October report concluding that the carbon trading scheme will not have a major impact on Australia's economy (see story page 3).

"The Treasury modelling spurred a sentiment that there should be upward pressure on carbon," one broker said.

"It concluded that the ETS will not be impacting on business to a large amount, meaning that the carbon price could potentially be higher," he said.

The 2011/12 AEUs were bid at A\$22.00 on Thursday, up A\$0.25 compared to two weeks ago. The 2012/13 contract was bid at A\$23.00, half a dollar higher than a fortnight earlier.

The slight price hike has occurred in the context of carbon prices crashing in most other carbon markets amid weaker energy prices following the financial crisis.

"But people are still awaiting the white paper in December and there is a relative amount of caution out there. There is a potential that the structure of the scheme could be changed and thereby the price," one market participant said.

The relatively active trading seen in July and August has died down as market players have turned to finalise internal trading routines. Traders remain reluctant to make firm bids or offers on 2010/11 AEUs due to uncertainty on the scheme's starting date.

### AEU OTC closing prices (A\$/t)

Delivery	Bid	Offer	Close
AEU 2010/11	..	..	..
AEU 2011/12	22.00	23.00	22.50
AEU 2012/13	23.00	24.00	23.50

The prices reflect OTC levels on 6 November. AEUs are quoted in A\$. Prices provided by brokerages Newedge, Nextgen and TFS and market traders. For methodology, see [www.pointcarbon.com](http://www.pointcarbon.com).

## Don't fix carbon price: observers

Fixing or capping the price for emission permits in Australia's carbon pollution reduction scheme could deter foreign investment and isolate the market, observers warned 31 October.

The warning came a month after the government's top advisor on emissions trading, Ross Garnaut, said Australia should sell emission permits at a fixed price of A\$20 for the first three years of the scheme's operation.

"I think a fixed price would be a disaster," Sally Burns, director of CDM originator and management firm Sigma Global, told the Carbon Expo Australasia conference.

"Fixing the price would not drive innovation, technological investment or any meaningful infrastructure change," she said.

With a fixed price, Australia would miss the chance of linking its carbon trading scheme to other national and regional schemes, she said.

Helen Robinson, chief executive of TZ1, a New Zealand-based carbon credit registry, agreed.

"It would have an enormously negative effect," she said. "If the price is fixed, I don't think New Zealand would link to the Australian scheme."

A capped price on Australian credits could be perceived as market distorting by administrators of other schemes.

In the EU carbon market, December 2008 allowances currently trade around €18, which amounts to A\$34.46 – almost 75 per cent more than the proposed Australian price.

Market observers warned that Australia would miss out on business opportunities if it chooses to fix or cap the price.

"We would like to see Australia become a central 'carbon finance hub' for the region," said Martijn Wilder of Baker and McKenzie.

"But we only have one opportunity to make sure that Australia becomes a regional hub for the carbon market. A curtailed market will see cash and equity investors base themselves out of Hong Kong, Singapore or Tokyo – if this happens they will not relocate later to Australia," he said.

Baker and McKenzie, along with BP Australia, utility AGL and Environmental Business Australia (EBA) circulated a petition at the conference for the government not to fix or cap the price of carbon.

"It would not allow investors to capture the commercial upside of the market, and it would deny clean technology and infrastructure project providers the investment funds they desperately need in the next two years," Fiona Wain, chief executive officer of EBA told Point Carbon.

## Treasury finds ETS benign to economy

Even an ambitious emission reduction target will only have a modest impact on Australia's long-term economic future, according to a report released by Treasury on 30 October.

The report included the results of extensive modelling done by Treasury to estimate the costs of various emission reduction targets under the government's carbon pollution reduction scheme (CPRS).

According to the results, Australia's economic growth will suffer 0.2 percentage points per year over the next 40 years if the country aims for a 90 per cent cut of emissions by 2050, compared to imposing no emission restrictions at all.

Annual gross domestic product (GDP) growth per capita will be 1.2 per cent if Australia aims to cut emissions 90 per cent and 1.4 per cent if emissions are allowed to grow unabated.

With no restrictions, emissions would stand 88 per cent above current levels in 2050, according to the report.

"The modelling shows that taking action is the economical responsible thing to do," Penny Wong, climate change minister, told the Carbon Expo Australasia conference on the Gold Coast.

Wong and Treasurer Wayne Swan said in a joint statement that costs would be reduced by some 15 per cent if the country takes early action.

Early action would redirect global investments to first-mover countries, the report said.

The Australian government plans to introduce the CPRS in July 2010, but has not yet set an emission cap for participating companies or announced a mid-term national

emission target to 2020.

The two targets seen by observers as most likely – a 5 or 10 per cent cut from 2000 levels and a further cut to 60 per cent below 2000 levels in 2050 – would see GDP per capita increase 1.3 per cent per year to 2050, the Treasury report said.

The government will give a "firm indication" of an emission trajectory in December this year.

However, the Treasury report was criticised for not modifying expected growth numbers after the financial crisis hit. Observers also said it has underestimated the cost of oil and gas.

## Australian CER demand could be short-lived: analyst

Australian demand for UN-issued carbon credits could wither after 2014 if the country realises its carbon savings potential, according to an expert at financial firm Nab Capital.

The large potential for relatively cheap emission reductions in Australia could mean Australian firms would demand almost zero carbon credits in 2020, according to Sean Lucy, head of the Carbon Solutions Group at Nab Capital, a division of National Australia Bank.

Australian companies could demand between 20 and 70 million certified emissions reductions (CERs) in the year 2014 alone depending on the government's emission reduction target and rules for the use of such credits.

"But by 2020 investments in renewable energy and energy efficiency measures could remove the need to buy CERs," Lucy said at the Carbon Expo Australasia conference on 30 October.

The government has yet to set a limit on how many CERs Australian companies can use when its domestic emissions trading scheme is launched in 2010.

The estimate is based on CER prices at recent levels, around €15-16, and a domestic price of carbon of some A\$20 in early years.

The cost of Australian credits would gradually increase to around A\$100 (\$70) later in the century, according to Nab

Capital.

Australia's plan to cut emissions 60 per cent below 2000 levels by 2050 would require average annual investments of A\$5-7 billion over the next 40 years, Lucy said.

He urged the government to allow joint implementation (JI) projects in Australia in order to attract offshore investments and accelerate carbon intensity improvements.

JI, a Kyoto protocol mechanism, allows nations with targets under Kyoto to host projects that generate carbon credits when they reduce emissions.

However, Australia has signalled it will not give priority to use its resources on boosting JI projects at home.

## Australia should exclude agriculture from ETS: think tank

Australia should exclude agriculture from its emissions trading scheme because measuring the sector's contribution to climate change is too complex, while the administrative costs would be unbearable, said a new report published 3 November by an independent think tank.

The report, which was published by the Australia Institute, claimed the country's large agriculture sector is not suitable for participation in an upcoming emissions trading scheme because measurement of farming's carbon footprint at a micro level is simply too difficult.

"The whole point of an emissions trading scheme is accurate measurement of the emissions of individual polluters in order to make them pay for what they emit, but when it comes to agriculture it is neither possible, nor efficient, to accurately measure the emissions of a herd of cows or a paddock of wheat," Hugh Saddler, co-author of the report said.

The Australian government has said that it will decide in 2013 whether or not to bring agriculture into its carbon pollution reduction scheme (CPRS) from 2015.

The scheme is due to start in July 2010, covering around 1,000 energy and industrial facilities that emit some 70 per cent of Australia's greenhouse gas emissions.

In comparison, Australia is home to 130,000 farms which represent 16 per cent of emissions.

"When the administrative costs and the compliance costs are combined with the inaccuracies in measuring emissions, the idea of including agriculture in the CPRS just doesn't stack up," said Helen King, the report's other author.

## Keep climate talks in key UN location: Australian negotiator

Holding climate negotiations in a major UN location, such as Geneva or Bonn, would be more conducive to reaching an agreement than at rotating venues, said Howard Bamsey, special envoy on climate change for the Australian government.

The UN hopes to conclude a deal on a future global climate change treaty in Copenhagen next year, but would be well advised to organise the talks differently, Bamsey said.

"This is the major multinational negotiations on climate change, and it ought to always stay in (one place)," he told Point Carbon on the sidelines of the Carbon Expo Australasia conference on 30 October.

The annual UN talks are scheduled to be held in Poznan, Poland this year before they move on to Copenhagen at the end of 2009.

"For developing countries it would be much better to hold the talks in a UN capital where they have diplomatic missions established," Bamsey said.

That way, the parties could talk to each other continuously rather than just during eight weeks per year, he said.

He pointed out the presence of large delegations from countries with the rotating climate convention presidency could actually put talks off track.

Still, Bamsey was positive the Copenhagen summit would produce results despite the fact that developed and developing countries stand far apart in discussions on which countries should take on mandatory targets.

"I'm fairly confident we'll reach an agreement, but what's in it is too early to say," he said. "But Copenhagen is not the end of the road. What we are looking for is progress," he told the conference.

## NZ lobby slams government over carbon cost forecast

The New Zealand government is wrong to think an emissions trading scheme won't damage the economy, an industry lobby group claimed on 5 November.

Climate Change Minister David Parker's reasoning around the impacts of carbon trading is "economically illiterate," the Greenhouse Policy Coalition said three days before the federal election.

Imposing carbon caps on NZ industry will force companies to shut down completely or reduce domestic production, Catherine Beard, the coalition's chief executive said.

"In addition, the production that used to come from New Zealand will be replaced by production from countries that do not price carbon and which are more energy intensive than New Zealand, leading to a growth in global emissions," a coalition statement said.

Catherine Beard referred to economic studies undertaken showing that NZ risks losing up to 20,000 jobs the next four years if it goes ahead with the ETS.

"The sad fact of the matter is that while other governments around the world are trying to work out how to reduce the impact of climate change policies on their stressed economies, David Parker is not having any second thoughts about the wisdom of increasing all our energy costs and putting jobs at risk for little or no environmental gain," Beard said.

Last week, David Parker repeated claims that the NZ economy would be able to flourish despite capping greenhouse gas emissions.

"Our economy will continue to grow while we reduce our greenhouse gas emissions, but the growth rate will be slightly less than it would have been - around 0.1 per cent," he said in a statement.

The government successfully manoeuvred its emissions trading scheme through parliament in September, but risks losing office to the opposition National party on 8 November.

National has said it will adopt a carbon trading scheme of its own within nine months if it wins, although it has not outlined many details of its alternative scheme.

## NZ foresters seek to change Kyoto plantation rules

The New Zealand Forest Owners Association is lobbying to change the Kyoto protocol's rules on measuring greenhouse gas emissions from plantation forestry activities.

The association wants foresters to be allowed to harvest a forest in one area and replant it elsewhere without incurring an emission penalty, said David Rhodes, chief executive, in a statement.

"While this is totally rational from a plantation management and CO2 emissions point of view, we need to reassure environmental groups that, because it is only intended to apply to plantation forests, it won't open the door to the clearfelling of natural forests," Rhodes said.

This week he asked the International Council of Forest and Paper Associations (ICFPA) to back the rule change in the international negotiations on a follow-up treaty to the Kyoto protocol.

NZ foresters also want to change the current Kyoto rule that as soon as a tree is felled, all its stored carbon dioxide is counted as emissions.

"This makes for simple calculations, but is inaccurate and unfair - especially to exporting countries. Emission accounting for harvested trees should provide recognition for the carbon that is locked up in buildings when wood is used during construction," Rhodes said.

Rhodes has met with forest industry associations in Brazil, Chile, Portugal and South Africa to push the association's point of view, and was tasked by the ICFPA at a meeting in Rome to prepare a draft position paper that will be considered by the organisation.

"I am optimistic that forest issues that are critical for the sustainability of plantation forests in countries like New Zealand and Australia will be supported. We have made good progress, but there is a lot more ground to be covered before you could consider it a breakthrough," Rhodes said.

## Guest commentary: Market structures needed to support CCS

*By Tony Beck, Chairman, Asia-Pacific Emissions Trading Forum*

There is no doubting the concerted effort that the Australian government is putting into the design of Australia's new Carbon Pollution Reduction Scheme as they work towards the White Paper in December.

In rapid succession we have seen the CPRS design proposals put forward in the Commonwealth's Green Paper, release of the Garnaut Climate Change Review final report and details of the climate impact modelling that underpins Garnaut's calculations around the cost to Australia of failure to achieve significant global emission reductions.

In addition, we have now seen the recent release of economic modelling by Treasury indicating the Commonwealth's own thinking on carbon prices and CPRS design settings for the future.

It is in the nature of economic modelling that the underlying assumptions can and should be debated and this process is underway. But one thing is clear – fundamental to the modelled scenarios, and to Australia achieving its abatement objectives at an acceptable cost, is the successful widespread deployment of carbon capture and storage (CCS).

In both the modelling of the Australian electricity sector and the general equilibrium modelling of the world electricity sector, CCS is assumed to be available as a generation option from 2020. The actual timing of the CCS deployment is determined by the model, based factors such as the relative cost of CCS and non-CCS options, the requirements for new power plants and the emissions price.

Across all the scenarios for the Australian electricity sector, the earliest year of CCS deployment ranges from 2026 to 2033, with the emission price in that year ranging from A\$45 to A\$80 per tonne of CO<sub>2</sub>e for coal and around A\$100 per tonne of CO<sub>2</sub>e for gas. The modellers assume that CCS captures 85 per cent of emissions before 2050 and 90 per cent after 2050. (McLennan Magasanik Associates (2008), Impacts of an Emissions Trading Scheme on Australia's Electricity Markets, Department of Treasury, Canberra)

At this time these assumptions appear optimistic notwithstanding the significant R&D effort that is being focussed on the technology both in Australia and internationally. But even assuming the availability of the technology on these terms, more thinking is needed as to how CCS can gain the market support required for widespread deployment in Australia and globally.

For example, the business case for a CCS project is likely to be highly dependent on securing a long-term source of emissions from one or a few source entities, such as power stations. However, under emissions trading, source entities will have the option of buying their required permits on the open market. In economic terms, the source entity would be a monopoly buyer (a monopsonist) in dealing with the CCS operator who is potentially a captive source of abatement services.

This market structure means that considerable risk is borne by the CCS proponent while considerable market power is in the hands of the source entities in their dealings with the CCS proponent.

This imbalance of market power and risk exposure is a fundamental concern in the development of CCS and needs to be recognised in the way CCS is dealt with in an emissions trading scheme, particularly in the early stages of deployment. A number of issues are involved including possible market-based support programmes for CCS, contractual and financial arrangements between CCS proponents and the source entities, and the way permits are allocated.

Ultimately the CCS proponent will need the security of long-term access to major emission sources that can be sequestered at a reasonable cost while the source entity will be looking for a permit or abatement that is competitively priced relative to the wide range of alternative permit sources available in the market. If these respective objectives cannot be accommodated it is unlikely that CCS investment will occur.

**Are you interested in contributing a guest commentary for Carbon Market Australia-New Zealand? Please contact the editor, Stian Reklef, at [sr@pointcarbon.com](mailto:sr@pointcarbon.com).**

## Contacts

---

### Editorial enquiries

Stian Reklef (Editor)  
sr@pointcarbon.com  
Tel +66 8 4652 4243  
Fax +47 22 40 53 41

---

### Sales enquiries

Natalie Marie Gavri  
nmg@pointcarbon.com  
Tel +61 (02) 49 579 549  
Mob +61 (0) 403 130 959  
Yahoo ID: nmg\_pc@yahoo.com

---

### Other enquiries

Point Carbon, Norway  
(Main Office)  
contact@pointcarbon.com  
P.O. Box 7120 St.Olav  
N-0130 Oslo  
Norway  
Tel +47 22 40 53 40  
Fax +47 22 40 53 41

---

### Website

[www.pointcarbon.com](http://www.pointcarbon.com)

---

### Offices

#### Washington D.C.

Point Carbon North America  
900 2nd Street NE, Suite 309  
Washington D.C., DC  
20002washington@pointcarbon.com  
Phone: +1 202 289 3930  
Fax: +1 202 289 3967

#### Boston

Point Carbon LLC  
8 Faneuil Hall Marketplace, 3rd Floor  
Boston, MA 02109  
boston@pointcarbon.com  
Phone: +1 617 386 9299  
Fax: +1 617 973 6406

#### Oslo (Headquarters)

Point Carbon  
Akersgata 55, 3rd floor  
P.O. Box 7120 St.Olav  
N-0130 Oslo, NORWAY  
contact@pointcarbon.com  
Phone: +47 22 40 53 40  
Fax: +47 22 40 53 41

#### London

Point Carbon London  
Second Floor  
102-108 Clerkenwell Road  
London, EC1M 5SA  
United Kingdom  
london@pointcarbon.com  
Phone: +44 (0)20 7253 7878  
Fax: +44 (0)20 7253 7856

#### Kiev

Point Carbon Kiev  
3 Sportyvna Ploscha  
Entrance IV, 4th floor  
Olymp Business Center  
01601 Kiev  
Ukraine  
kiev@pointcarbon.com  
Tel: +38 044 499 0308  
Tel/Fax: +38 044 499 0309

#### Malmö

Point Carbon Malmö  
Östra Förstadsgatan 34  
212 12 Malmö  
Sweden  
contact@pointcarbon.com  
Phone: +47 22 40 53 40  
Fax: +47 22 40 53 41

#### Tokyo

Point Carbon representative  
2-3 Kandanshiki-cho  
Chiyoda-ku Tokyo  
101-8443 Japan  
tokyo@pointcarbon.com  
Tel: +81 80 3170 0094  
Fax: +81 3 3365 5586

Carbon Market Insights 2009



**17-19 March 2009, Copenhagen**

*Don't miss the annual event for the world's carbon markets!*

See [www.pointcarbon.com](http://www.pointcarbon.com) for more information and to register for the event.