

Carbon Market Australia-New Zealand

NEWS

EU scandals sneak under Australian radar

The EU emissions trading scheme has been shook by a series of scandals recently, leaving market participants anxious that the concept of carbon trading has been handed a huge blow. Carbon trading opponents in the US has grabbed at the events, arguing it proves the US should not put in place a similar scheme. The same does not appear to have happened in Australia, despite the government facing all sorts of problems winning support for its scheme.

"The climate debate and government push to implement a cap-and-trade system has probably been little affected by the recent irregularities that were discovered in the EU ETS market," said Jesco d'Alquen, CEO with Tradeslot, a Melbourne-based company hoping to offer a platform for auctions and trading of permits if an Australian scheme takes off.

"Not only are European affairs still a fair bit away from Canberra, the debate (here) has been very much inward focussed and centred around party politics," he told Point Carbon News.

The bumpy ride for the Europeans started in mid-December, when the union-wide police agency Europol said a number of people were suspected of VAT fraud, using the emissions trading scheme to swindle €5 billion from a number of European governments.

This was followed by a so-called phishing scandal in late January, when bogus e-mails convinced several holders of carbon credit accounts to give away their passwords. At least €3 million worth of carbon credits were stolen as a result.

Then earlier this month came the news that the Hungarian government had sold 1.7 million CERs that had already

been used for compliance by domestic purposes. This is allowed under the rules of the Kyoto protocol as long as Hungary retired a similar number of AAUs, which it did. However, under EU ETS rules such recycled CERs cannot be used for compliance again. When they later resurfaced on the exchange Bluenext they were offered as regular CERs. Several companies are believed to have unwittingly paid full price for CERs that they cannot use.

The news sent carbon traders reeling, with lobby organisations urging governments to not sell more recycled credits.

"In the political sphere climate change has taken a back seat to the government's health reform agenda and as such the more recent EU scandals have received very little attention in the mainstream media," said Vincent Cornes with Envex, a company offering a carbon credit trading platform.

"The recent EU scandals have been referenced by certain individuals who oppose the CPRS but in my view the general public has little appreciation of the detail," he said.

Tradeslot's d'Alquen concurred: "Public opinion on emission trading has been less affected by external news than a debate about the perceived complexity of a trading system. In an election year it will be interesting to see how open voters are to differentiated messages," he said.

"The Australian ETS has clearly taken into account learnings from the first two phases of the European ETS. While this can save Australia some time and experimentation, what will be lacking is the process of easing in a policy as impactful as an ETS."

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Market comment

Carbon trading under New Zealand's emerging emissions trading scheme is still in its starting tracks as the expected demand side of the market - energy producers, industrials and the liquid fuel sector - will only be covered by the scheme from 1 July this year, and the first compliance date is only in June 2011.

All vintages of New Zealand units (NZUs) remain bid at NZ\$18 and offered at NZ\$20 on the New Zealand Carbon Market platform, with no new trades heard the past two weeks.

Emissions reduction units (ERUs) generated in New Zealand under the joint implementation (JI) scheme are bid at NZ\$20 and offered at NZ\$25 on the same platform.

The government transferred nearly 110,000 ERUs transferred to TrustPower's account in the NZ carbon registry for emission cuts achieved under previously agreed JI projects. Japan's Kansai Electric Power and Belgian utility Electrabel are the buyers of the credits.

Elsewhere, secondary certified emissions reductions (CERs) have softened somewhat in the European market recently, and traded earlier this week around €11.20.

Bearish CER prices tracked a downward trend for EU allowances, which saw its December 2010 contract drop to a one-month low Wednesday this week when it closed at €12.74. Traders ascribed the price fall to weaker commodity markets, a weaker euro against the dollar amid concerns over Greece's and Portugal's debt as well as heavy selling by big utilities and financials.

Meanwhile, CDM demand from Japan seems to be waning, especially for new project development ahead of 2013. A number of Japanese firms told Point Carbon News this week they are no longer interested in adding to their portfolios. Lower emissions due to the economic slump, frustration with the cumbersome CDM registration process and plenty of access to cheap assigned amount units (AAUs) were offered as explanations by traders in Tokyo.

NZ to fail on carbon emissions: report

New Zealand's carbon emissions from power plants will rise despite government policies, according to a 15 March report released by the Institution of Professional Engineers (Ipenz).

The organisation predicted John Key's government will fail in its adopted strategy to cut greenhouse gas emissions from the electricity sector.

"It is unlikely that any progress will be made towards achieving the government's objective of reducing emissions," the report said.

The sector's CO₂ equivalent emissions stood at 9.36 million tonnes in 2009.

Ipenz said it anticipates emissions to grow 11 per cent to 10.36 million tonnes in 2015 and remain above 10 million in 2025.

"The current ETS (emissions trading scheme) is not expected to have a significant impact on reducing emissions from electricity generation," it said.

New Zealand has a target of cutting emissions 10-20 per cent below 1990 levels by 2020 if an ambitious global climate treaty is reached, but has not specified targets per sector.

Stationary energy sources will be covered by the ETS from 1 July 2010 but will not be given a cap on emissions.

For the first two and a half years of the scheme, electricity generators will only have to surrender carbon permits, or pay a NZ\$25 levy to the government, for 50 per cent of their emissions.

The main reason emissions in the sector will continue to rise is the likely failure in reaching the renewable energy target, Ipenz said.

New Zealand aims to generate 90 per cent of all electricity from renewable sources in 2025, up from current levels of 67 per cent.

But Ipenz said New Zealand will only manage 68 per cent by 2015 and 71 per cent by 2025, significantly below the target.

"The 90 per cent renewables target is not, and never was,

a practical target," the report said.

It argued the high share of renewable in NZ generation so far is mainly the result of a move away from cheap gas and improvements in technology, but further progress will be harder.

The government should scrap the target altogether, Ipenz argued.

Newedge shuts down carbon desk

Brokerage Newedge Australia on 15 March closed its energy and environment business.

The move, confirmed by a Newedge spokesman, came a month after the government failed in its third attempt to introduce a carbon emissions trading scheme.

Gary Cox, Newedge's senior emissions broker, left the company.

The brokerage was a key actor when the emerging Australian market saw a flurry of trades in early 2009 as most observers expected the carbon pollution reduction scheme to stroll through the Senate without difficulty.

However, market activity came to an abrupt halt on 4 May last year, when the government announced it would delay the scheme's start by one year to July 2011 and introduce a fixed price for the first 12 months.

The Senate's reluctance to pass the legislation since has further suppressed the appetite of traders.

It has now been almost 11 months since anyone last traded an Australian emissions unit (AEU), and hopes are fading that the scheme will ever see the light of day in its current form.

Several of the financial institutions that set up carbon trading desks last year have now directed its resources elsewhere.

The move also means Newedge has given up on Australia's renewable energy certificate (REC) market.

The government last month proposed a reshape of the REC market after being heavily criticised by the opposition for designing the market in a way that ensured it was flooded by cheap solar hot water, heat pumps and multiplied

rooftop solar credits.

Newedge Group is headquartered in France, and while they have now shut down the energy and environment desk in Australia, the company will keep its green business desks in London, New York, Houston, Calgary, Tokyo and Singapore.

Other Australia-based brokers speaking to Point Carbon News said their situation was different and that they had other markets, such as the electricity market, to focus on while politicians decide the future of carbon trading in Australia.

NZ to give free credits to fisheries within six months

The New Zealand government plans a one-off handout of free carbon credits to fisheries in September.

Companies that owned fishing quotas on 24 September 2009 will be eligible to apply for a share of 700,000 New Zealand units (NZUs) that the government will allocate to the sector free of charge.

The NZUs are intended as compensation to fisheries for an expected 3 cent per litre price hike in fuel prices when the liquid fuel sector is brought into the emissions trading scheme from 1 July this year.

Fisheries are excluded from the ETS, and do not have any compliance obligations under the scheme.

Instead they will be able to sell the 700,000 NZUs to energy generators, industrials or liquid fuel producers and pocket the revenue.

The ministry of environment on 22 March asked for stakeholder advice on whether all fishing quota owners should be eligible for free NZUs, or whether a minimum threshold should be introduced.

"If a minimum threshold is set, then only quota owners who own [threshold]kg of quota or more would be eligible to apply for an allocation of NZUs," the ministry said.

The credits issued to fisheries will not be permitted for use outside New Zealand.

The government has already decided the formula it will use

to allocate the NZUs, it said.

The ministry plans to publish a final allocation plan for fisheries in early June.

Australia's emissions drop

Australia's energy-related carbon emissions fell over the summer quarter.

Emissions from energy-related activities in the country's four eastern states dropped 1.6 per cent year-on-year in the summer months running from December through February.

In total, emissions fell just over 1.2 million tonnes of CO₂ equivalent, according to a quarterly GHG report published by The Climate Group on 21 March.

"It is good that emissions fell compared with last summer, especially considering that it was one of the hottest summers ever on record across Australia," said Rupert Posner, the group's Australia director.

Energy-related emissions in the four states of New South Wales, Queensland, South Australia and Victoria totalled 74.8 million tonnes of CO₂ equivalent over the three-month period, according to the report.

Carbon output from coal-fired generation fell 1.6 per cent, all of it in New South Wales, while emissions from using natural gas dropped 8.4 per cent.

Electricity generation, primarily coal-based, accounted for 46.7 million tonnes of the total energy-related emissions, a drop of 300,000 tonnes compared to the corresponding period in 2008-2009.

Victoria and Queensland both saw their emissions from electricity generation rise, but a 9.4-per cent drop in generation from black coal in New South Wales ensured overall emissions fell. NSW put two new gas-fired plants online last year.

Meanwhile, the volume of natural gas used for domestic and for industrial purposes fell across all states by 21.4 per cent, the report said.

An overall drop in energy demand from all sources explains the lower emissions, but the report's authors struggled to pin down one particular reason to explain the trend, given

that summer temperatures in Australia were the hottest on record.

Generation of electricity from non-fossil fuel sources fell at a sharper rate than the use of coal and gas over the period, making total generation more carbon intensive despite an overall drop in emissions.

"This provides a clear indication of the benefit of introducing a price on carbon," Posner said.

The four states covered in the report emitted a total of 437.8 million tonnes of CO₂ equivalent, according to figures for 2007, the most recent year for when complete data is available, while Australia's total emissions were 541.2 million tonnes.

Carbon trading to keep NZ deforestation in check

A report commissioned by the Ministry for Agriculture and Forestry showed that the mandatory inclusion of pre-1990 forest-owners in the emissions trading scheme will halt deforestation in New Zealand up to 2020.

With current carbon trading rules in place, large-scale forest-owners would cut down 14,000 hectares in the 2010-2020 period, the study undertaken by Canterbury University claims.

If the government gives in to pressure to dismantle the scheme, however, deforestation would increase to 65,000 hectares, the report said.

Forest carbon sinks play a key role in New Zealand's efforts to meet its international obligations on greenhouse gas emissions, as emissions in other sectors keep increasing.

"The report is very clear that New Zealand would be losing significant forest area without the ETS legislation," Climate Change Minister Nick Smith said on 25 March.

Owners of pre-1990 forest are covered by the ETS and are expected to earn a total of 13 million carbon credits over the 2008-2012 period for their forest management, and a further 21 million during the 2013-2020 period.

Owners of post-1989 forests can participate in the scheme voluntarily.

The study's author, Bruce Manley, stressed there are several uncertainties with the numbers, as many foresters haven't made final plans on how many trees they will cut down.

"An important factor in determining deforestation levels will be the market price of carbon units," he wrote.

"If carbon prices are in the range \$20 to \$25/t CO₂ there will be limited deforestation. However the amended ETS has reduced the demand for carbon units and may result in market prices for carbon being lower than this."

In international negotiations over a new global climate change treaty New Zealand is pushing hard for rule changes for the forestry sector.

Among others, the NZ government wants forest-owners to be allowed to cut down trees in one area of land without having to surrender carbon credits for the increased emissions, as long as they plant new forest in a corresponding area elsewhere.

The study showed that if New Zealand implements this rule change in its own emissions trading scheme, deforestation would almost triple to 39,000 ha the next decade compared to 14,000 ha with the current scheme rules.

The study only covered plantation forests.

Cheap mitigation potential abounds in Australia

Australia can reach its most ambitious goal in its range of carbon targets at a very low cost.

The country can slash its greenhouse gas emissions 249 million tonnes of CO₂ equivalent annually at a cost of A\$185 per household, according to a report released on 17 March by ClimateWorks.

The reduction potential is equal to a cut in carbon output of 25 per cent below 2000 levels, which is Australia's announced 2020 climate target, conditional on the world agreeing on a new and ambitious climate treaty.

"Reducing GHG emissions can protect Australia's economy into the future, provide immediate benefits for society and create profitable opportunities for businesses," the report said.

According to the non-profit organisation, Australia can achieve annual cuts of 102 million tonnes within industry, buildings, agriculture and transport at a net economic benefit to society of A\$40 per tonne.

The other 147 million tonnes in reduction potential was found within the power sector and forestry, at an average cost of A\$41 per tonne.

The report stressed the need for a carbon price in order to spur the necessary investments in Australian infrastructure.

"A carbon price of A\$43 per tonne in 2013 rising to A\$69 per tonne in 2020 is likely to more than triple the emissions reduction opportunities with a positive return for business," the report said.

But ClimateWorks did not offer advice as to whether the carbon price should be in the form of a tax or an emissions trading scheme.

"We have kept our recommendations broad so that the message can be clearly heard. The policy design is a matter for government," Anna Skarbek, executive director of ClimateWorks told Point Carbon News.

The Australian government has attempted unsuccessfully to introduce carbon trading, only to see its efforts blocked by the opposition, whose current leader Tony Abbott favours a baseline-and-credit scheme.

As a result Australia's efforts to bring down greenhouse gas emissions have been left paralysed, with no clear strategy for the future.

The ClimateWorks report warned the government must move quickly if it is to achieve all the emission cut opportunities identified in the report.

"Delaying action will mean some low cost opportunities are lost. Many emissions reduction opportunities, like avoiding the installation of inefficient equipment that has a 20-30 year life, exist only for a finite period," it said.

"Without prompt action the reduction potential will disappear, and any remedial measure to later 'make up' the deficit will cost more."

The lowest common denominator - industry lobbying and climate policy

By Peter Hardstaff, Climate change programme manager, WWF New Zealand

Which comes first: national action or an international deal? According to some sections of industry, agreements between nations are needed before any domestic action can take place. The more polluting industries, and the lobbyists who work for them, often demand an international treaty that will provide a global 'level-playing field' of climate regulation and carbon prices. Paradoxically, their actions on the domestic climate policy scene reduce the chances of ever achieving this international deal.

Across the world, lobbyists representing the most polluting industries are working hard to ensure that no country takes significant domestic action and no country commits to any significant national targets. Their argument goes, 'if you impose additional costs on us that are not faced by our competitors overseas, we will lose business to companies in other countries and the climate will be no better off'.

Governments like New Zealand listen to such claims, regardless of whether there is any real world evidence to demonstrate that this claimed 'carbon leakage' problem actually exists across the various industries seeking protection. The lobbyists simply point to producers in other countries that don't have emissions trading or a carbon tax. Or they point to other countries that do have emissions trading or carbon taxes but have created exemptions to address 'carbon leakage' concerns. 'Wait until others face the same costs', governments are told.

For example, during the development of the New Zealand emissions trading scheme, Rio Tinto Alcan New Zealand advocated keeping the initial 90% free allocation for emissions-intensive trade-exposed industrial activities, "until 80 per cent of global carbon emissions are covered by a carbon constraint comparable to that in New Zealand."

This of course will not happen because the lobbyists are hard at work making sure these other countries take minimal action as well.

The end result: nobody makes the first move and the most polluting industries are never subjected to anything approaching a realistic carbon price.

When countries come together at the international talks, the potential commitments on the table are so weak as to make doing any kind of meaningful deal virtually impossible and the level playing field the lobbyists claim to want remains elusive.

In any case, is a level playing field an achievable objective or just a convenient bit of rhetoric to argue against change? The international climate negotiations are simply not going to reach the level of specificity required to initiate a global emissions trading scheme or carbon tax where all of the big polluters in all the major emitting countries begin paying exactly the same price of carbon at exactly the same time.

In the absence of perfect synchronicity, there will always be a theoretical reason for a country to exempt its most polluting industries from a carbon price. And as long as one country exempts, this provides a reason for everyone else to do likewise.

The big polluters will always have an excuse to keep on polluting. The weakened emissions trading scheme in New Zealand is testament to the influence these industries can have.

Rather than just saying 'no' to national measures, perhaps it is time the most polluting industries come up with a credible way in which their global level playing field can actually be achieved given disparities in human development across the world and the complexities of an international negotiation.

Perhaps some hard evidence on 'carbon leakage' needs to be presented by polluting companies so that the problem, if it exists, can be properly assessed and a proportionate response devised.

And perhaps those in the business world who support placing a meaningful price on pollution need to take a more pro-active stance against those who don't.

Whatever happens, it is hard to escape the conclusion that we must find a way to break the vicious circle so that national action and international deal-making can complement each other rather than be in conflict.

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A Point Carbon publication

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