How to make your match
Issues for sellers
Carbon Forestry 2011

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Observations to Date

ETS Appears to be Working as Planned

- 31 May 2011 - 8.3 million units surrendered.
- Of these, < 40,000 units issued at the "fixed price" of $25.
- No information about what proportion were CERs v NZUs.

But the market is opaque and volatile

- For sellers, it is largely a domestic market (AAUs are cheap).
- Whereas for buyers it is a very international market.

And it can be challenging for small sellers - asymmetric market

- Demand side – less than 100 participants
- Supply side – fragmented; thousands of potential sellers.
A Small Open Market

Expected NZETS Surrender 2011 – less than 18m, Global CER issuance to date > 600m

- Industrial processes
- Transport
- Stationary energy

8.3m (for 6 months only)

See also UNEP Risoe CDM/JI Pipeline Analysis and Database, July 1st 2011 @ http://cdmpipeline.org/

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Key Issue For Sellers - Uncertainty

Demand is lumpy - Annual surrender creates poor incentives to buy regularly
- Emit throughout 2011, don’t hand in units till 31 May 2012.
- A conservative approach would be to buy as you accrue but this hasn’t been the case to date. Fear of the CER price going lower, and other uses for capital mean some buyers prefer to wait.

A Very OPEN market – CERs remain the real cap, not the $25
- No limit on use of CERs against obligations under the NZ ETS.
- (Different to the EU ETS, which constrains use).
- Unclear what role CERs continue to play medium to long term.
  - Industrial gas CER issue yet to be made clear.
- But for now CERs are no. 1 influence on NZU prices.
Key Issue for Buyers - Uncertainty

- **Pre-1990 – could they be dumped?** - up to 21 million available pre-2013, 34m thereafter - how many will come to market?

- **Post-1989 estate – how much will be available?** Actual carbon sequestered could be 70 - 100m. But that’s far more than will come to market if these forest-owners can’t find a way to hedge their future carbon liability at harvest.

- **CERs - hundreds of millions. How low will they go?**
  - Is there potential for industrial gas CERs to swamp the NZU market post-2013?
  - How real is the level of price resistance below 10 euro?

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The Big Question: Are CERs just going to be supplementary to NZUs?

**Potential Supply and Demand (2008 – 2012 incl.)**

![Graph showing potential supply and demand](chart.png)

Source: Demand, MFE Net Position. Supply, assumes Pre-90 of 21m, EITE of 11.7, Fisheries of 0.7 and Post-89 of 27m
Or could they end up playing a much bigger role than expected?

Potential Supply and Demand (2008 – 2012 incl.)

Source: Demand, MFE Net Position Report, Supply, for illustration only.

How to Sell

- **Decide** what, if any, you can sell (a personal risk assessment).
- **Identify and Acknowledge** the risks you are taking.
- **Know** your counterparty and contract with them directly if you can. If you have small volume (< 10,000), then use an aggregator or broker.
- **On fees**: There is no such thing as “no fees/brokerage”. Just make sure you are clear on what fees apply. Either:
  1. Sell to a bank – they’re putting their balance sheet at risk so expect prices to reflect that – like forex.
  2. Consign to trusted party to aggregate – aggregation is real work, so a fee will apply.
  3. Sell direct yourself on Carbon Match, or through a Carbon Match aggregator if small volume. 5 cent/NZU fee to Carbon Match + what your aggregator charges you.
Carbon pricing is a “behavioural mechanism”. The idea is that by pricing carbon, people can see its impact and alter behaviour.

- To do this we need a transparent market of willing buyers and willing sellers → this is the rationale for Carbon Match
- Buyer and sellers need to contribute to how the carbon price is formed – not just be told what it is today. Be visible.
- No two NZU sellers are the same. Decide what you want.
- Communicate it. To as wide an audience as possible.

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So, please, call us whenever you like, but generally, we’d love you to do a bit less of this...
And More of This...

Carbon Match – NZ’s dedicated online carbon marketplace:

- A cost-effective way of trading;
- A credible market price;
- Direct contracting;
- Public Trust available to hold units safe in escrow.

Thank you for listening.
Lizzie Chambers, Carbon Match