The NZETS: What can we expect for the future?

with the Institutional Bank.
1,750,000,000
4,427,000,000
16,345,000
38,090,000
The NZETS: What can we expect for the future? with the Institutional Bank.
The NZETS: What can we expect for the future?

1. A brief history of the New Zealand carbon market
2. The current New Zealand carbon market
3. The New Zealand carbon market after 2012
NZU vs CER (in NZD): price history

Source: Westpac
Early trading in the NZ market

Source: Westpac
Entities trade the spread between NZUs and CERs

Buy CERs

Sell NZUs

Buy NZUs

Source: Westpac
International units come to the fore

Lower than expected GDP in Europe
Energy efficiency directive in Europe
More offsets through CDM
Russian and Ukraine monetize their AAU surplus
No new demand for CERs

Source: Westpac
The NZETS: What can we expect for the future?

1. A brief history of the New Zealand carbon market

2. The current New Zealand carbon market

3. The New Zealand carbon market after 2012
NZ ETS framework

• Liable entities in New Zealand may surrender up to 100% of their liability in international units;

• New Zealand Government has explicitly stated;

  “… the Government does not intend to introduce a new power that specifically allows for quantitative restrictions on the number of international units that can be surrendered by those with ETS obligations.” EPA

• The Government has kept the ability to exclude certain types of units;

• The NZETS may be reviewed at any time.
A market driven by international offsets

Liable entities in NZ may surrender any of the following:

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Unit (NZU)</td>
<td>NZD 4.85</td>
</tr>
<tr>
<td>Green Certified Emission Reduction (GCER)</td>
<td>NZD 4.65</td>
</tr>
<tr>
<td>Emission Reduction Unit (ERUs)</td>
<td>NZD 4.00</td>
</tr>
<tr>
<td>Large hydro Certified Emission Reduction without WCD Compliance (LHCERs)</td>
<td>&lt;NZD 4.00</td>
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<tr>
<td>Removal Units (RMUs)</td>
<td>&lt;NZD4.00</td>
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</table>
The international offset market

<table>
<thead>
<tr>
<th>Futures Type</th>
<th>Dates</th>
<th>Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grey CERs (not NZ)</td>
<td>Aug-12</td>
<td>€3.00</td>
</tr>
<tr>
<td>Green CERs</td>
<td>Aug-12</td>
<td>€3.10</td>
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<tr>
<td>ERUs</td>
<td>Aug-12</td>
<td>€3.20</td>
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<tr>
<td>Large hydro</td>
<td>Aug-12</td>
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<tr>
<td>RMUs</td>
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<td>€3.40</td>
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</table>

Westpac Institutional Bank

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The international offset market

€3.10 €3.20 €3.30 €3.40

CER Futures

Green CERs

Large hydro

RMUs

ERUs

Commodities, Carbon and Energy – Westpac Institutional Bank
Excess supply pre April 2013
Will a set-aside in Europe change this?

Source: Westpac
The NZETS: What can we expect for the future?

1. A brief history of the New Zealand carbon market
2. The current New Zealand carbon market
3. The New Zealand carbon market after 2012
NZU market post 2012

More supply

- Policy supporting the surrender of NZUs
- New issuance
  - Second allocation to pre-90 forestry
  - Auctioning power.

No new demand

- Maintain transition provisions
- Agriculture not included

Existing NZU surplus

Forward hedging by emitters
The international offset market

<table>
<thead>
<tr>
<th>Date</th>
<th>Grey CERs</th>
<th>Green CERs</th>
<th>Large hydro</th>
<th>RMUs</th>
<th>ERUs</th>
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<td>Aug-12</td>
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<td>Nov-12</td>
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<td>Feb-13</td>
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<td>May-13</td>
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<td>Aug-13</td>
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<td>Nov-13</td>
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</tbody>
</table>
The international offset market

Source: Westpac
Where to from here?

- **Scenario 1**: A low carbon price

- **Scenario 2**: A higher international price
  - More schemes
  - More restrictions on the use of international units
  - Tougher issuance standards by the CDM Executive Board

- **Scenario 3**: A higher NZU price without a higher international price
  - Amendments to the scheme
Thank you

- **Commodities, Carbon and Energy (CCE)**
  
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  Head of Carbon Trading
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  mmckensey@westpac.com.au
Unique credentials...

We are uniquely credentialed to assist companies in the evolving carbon economy.

- 2008: First trade of carbon credits in Australia
- 2010: First bank to trade NZ ETS carbon credits
- 2010: Inaugural Money magazine climate leadership award¹
- 2010: Voted best trading company in Australasia for carbon²
- 2011: Named one of the world’s most ethical companies³
- 2011: Davos Global 100 most sustainable corporations⁴

¹ Money magazine Climate Leadership Award 2010. ² 2010 Environmental Finance Annual Awards. ³ 2011 World’s Most Ethical Companies™ List. ⁴ Davos World Economic Forum ‘Global 100 Most Sustainable Corporations’ List.
The Current Market

The data suggests liable entities are surrendering the least cost unit;

Source: EPA Section 89 Reporting 2012