RECENT DEVELOPMENTS:
June 2008

Emissions Update

Green Paper on AETS Design

Australia has recently thrust itself into the spotlight of the global roll-out of post-EU cap-and-trade emissions trading schemes. In the process, it has become something of a public guinea pig, with the eyes of many foreign governments, major energy corporations and energy consumers watching closely.

The Australian Department of Climate Change has confirmed that the Government will issue in July a Green Paper on the design of the formal Australian emissions trading scheme (AETS). A three-month period will be allowed for industry and public comment. The Green Paper will take into account the recommendations not only of the Garnaut Climate Change Review but of all other governmental sources of advice.

The Garnaut Review attracted 4,000 submissions but the Government is anxious to have further public consultation. The Government realises that a poorly-designed AETS could cause major damage to Australia's vulnerable export-oriented economy, for little global environmental benefit. One could be forgiven for thinking that the Government's anxiety has not a little to do with avoidance of electoral fall-out as well.

AETS Market Size at Start-Up

In 2010, when the AETS is scheduled to start, the size of the Australian market is likely to be 460 mt of CO_2e. This estimate is based on 70% of Australia's emissions being covered by the AETS. Forward trades on the AETS are likely to commence a year prior to scheme commencement.

The AETS, like formal schemes elsewhere, will create an artificial market which will be vulnerable to regulatory risk. The AETS will certainly not solve the climate change problem – but it will provide a mechanism for carbon price discovery. At what price will fuel substitution take place? Perhaps A$35 – 40/tonne. However, it is very difficult to forecast prices (it will be even more difficult if hoarding of permits is allowed by the scheme).

Verified Emissions Reductions (VERs) in Voluntary Markets

VERs are emission reductions or verifiable emission offsets. They do not qualify for allocation of permits under a formal ETS but are tradeable in voluntary markets.

It is imperative to carry out due diligence before buying VERs, largely because of the lack of accreditation standards. The Australian Government has announced that it will establish an Australian accreditation standard for VERs.

It is desirable to register VERs on an established private registry (with identifiable registration numbers). In future, transferability of VERs amongst voluntary registries in various countries may be allowed. It is also possible that the voluntary and the formal compliance markets will converge at an indefinite future time.

The global voluntary market is only a small fraction of the size of the formal EU market but its rate of growth has been exponential, with the market trebling in 2007.

International Issues

No-one can be really certain that Kyoto will continue post-2012. However, it can be taken for granted that the EU and other domestic cap-and-trade schemes will continue. The US also is considered likely to establish such a scheme.

Material discrepancies between domestic schemes pose a risk of border taxes being imposed on imports of energy and energy-related goods. This possibility has already been foreshadowed by the proposed Lieberman-Warner Climate Security bill and other climate-related bills currently doing the rounds of the US Congress.

Growth in Carbon Funds

2007 has seen a massive growth in global carbon funds, with around 70 now established. In its May 2008 review of carbon markets, the World Bank projected that US$14b will be under management by carbon funds by the end of 2008. The New York Times recently foreshadowed a market size of a trillion dollars by 2010.

In their investment strategies, most investment fund managers are following the UN Principles of Responsible Investment (PRI). Most fund managers are also now supporting the Carbon Disclosure Project, which requires industrial companies to report on how they manage their carbon profiles and how this affects their assets and revenues.

Further Information

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