Copenhagen: Implications for Carbon Business

- Investors in carbon mitigation require *regulatory certainty, longevity and a 'real' cost of carbon*
- NZ the first Annex 1 country outside Europe to have an ETS scheme, and thereby, has (to some degree) activated the 3 key elements.
- The NZ ETS is designed for the long haul, The design is unique in its whole economy coverage, includes LULUCF, first up Forestry, last in Agriculture.
- Forestry the key instrument by which NZ can meet CP1 obligations, and post 2012 targets. (Just 10% of NZ farmland established in carbon forests cld offset entire agri sector emissions for next 50 yrs, at \$15-\$40/t CO_2)
- Carbon forestry is long term, with +ve sequestration for 100 years +. Longer term investments require more regulatory (and price) certainty.
- NZ has world leading regulatory regime for enabling private forestry investment play in carbon markets.
- Selling activity is encouraging, c. 1.5 million forestry AAU's traded in last 12 months at \$16-\$20/t CO_2, high pricing, narrow spread, a 'good market'

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Post Copenhagen

- Following Copenhagen business confidence has taken a hit, EUETS prices slipped a little, (within the insulated Phase 2 EU ETS environment). More evident is the drop in interest in greenfields investments in carbon mitigation.
- There is widespread doubt an effective UNFCCC global regulatory/Market agreement will follow Kyoto.
- More likely a jigsaw puzzle of ETS type agreements will follow with unilateral, bilateral, and regional schemes and linkages, heading in the direction of a global agreement, albeit with late delivery and via scary uncharted waters
- Outlook is greater uncertainty and a longer haul before robust global markets emerge.
- Offshore investors in mitigation activities await more certainty (or expect higher returns commensurate with risk), however domestic investors while checked, are perhaps a little more bold due to the relative certainty provided by the NZ ETS.

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