



FRAZER LINDSTROM

CLIMATE CHANGE & ENERGY SECTOR STRATEGIC ADVICE



Climate Change & Business

2nd Australia-New Zealand Conference 20-21 February 2006. Adelaide, Australia

A New Zealand Market Update

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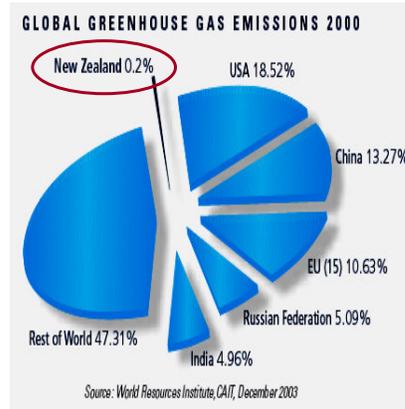


Presentation Structure

1. New Zealand's Kyoto Obligations
2. New Zealand's Unusual Emissions Profile
3. Progress to Date:
 - Policy Measures
 - Market Activities
4. Inventory Reassessment
5. Policy Review and Cabinet Decisions
6. Forecast Outcomes and Conclusions

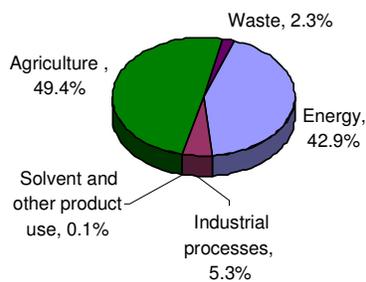
New Zealand's Kyoto Obligations

- New Zealand Ratified 19th Dec 2002
- Obligation to:
 - reduce its 2008 – 2012 GHG emissions to 1990 level or
 - take responsibility for excess emissions

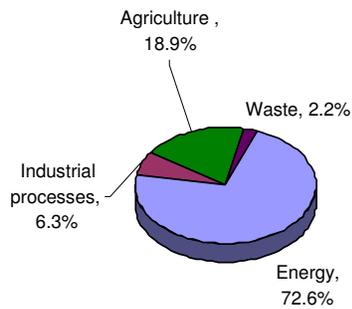


New Zealand's Emissions Profile is Unusual GHG Emissions by Sector

New Zealand



Australia



Source: 2003 National Inventory Reports

Progress to Date (2002-2005)

New Zealand's Domestic Policies



Agriculture

- Pastoral GHG Research Consortium



Plantation Forests

- NZ Government retains sinks (post 1990 planting)
- Takes on deforestation liability up to 21MtCO₂e cap



Indigenous Forests

- Permanent Forest Sink Initiative (PFSI)



Energy, Industry and Transport

- Carbon Tax from 2007 at NZ\$15/tCO₂e
- Negotiated Greenhouse Agreements (NGAs) to protect industry facing international competition

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Progress to Date (2002-2005)

Project to Reduce Emissions (PRE)

- 2 Tender rounds (4 and 6 million carbon credits) + 2 earlier projects
- Projects must be:
 - economically and environmentally additional
 - must be in New Zealand and
 - generate emissions savings in NZ's Inventory
- 42 projects awarded Kyoto compliant credits covering 11 MtCO₂e



Source: Meridian Energy

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Progress to Date (2002-2005)
Market Activities

Kyoto Compliant Trades

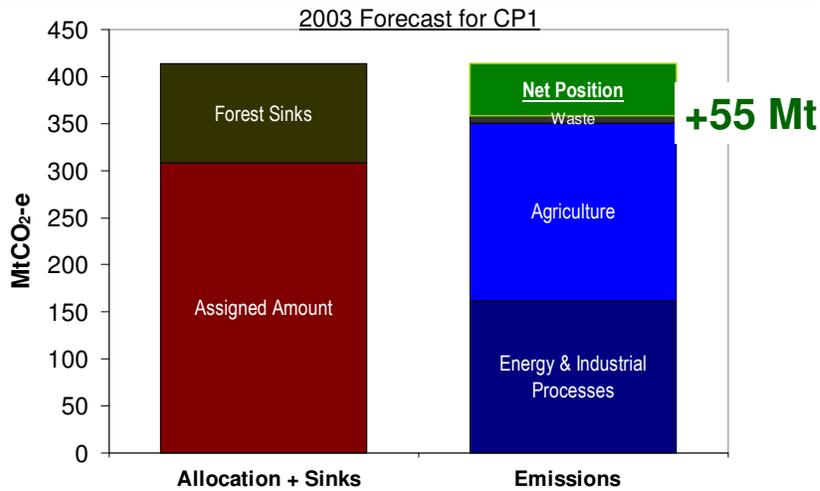
- Meridian Energy (Te Apiti windfarm)
 - Q4 2003: Sale to Dutch Government ERUPT 3
 - average price for ERUPT 3 = €5.5/tCO₂e (NZ\$9.64)
- Palmerston North City Council (landfill gas)
 - Q4 2005: Sale to Austrian Government of 149kt
 - average price = NZ\$8.05
- Other Activity
 - For ERUPT 5, 7 PRE Firms tendered but withdrew
 - Domestic trades between PRE and NGA firms discussed

Progress to Date (2002-2005)
Market Activities

Grey Market Activities

- Waste Management NZ (landfill gas)
 - Contracted sale of non-Kyoto VERs
 - 30kt p.a. 2001-7 and 50kt from 2008-12
- Meridian Energy (Te Apiti windfarm)
 - Q4 2005: Sale to HSBC of 125kt non-Kyoto VERs
 - average price for HSBC = US\$4.43/tCO₂e (NZ\$6.34)
- Landcare Research EBEX 21 (native bush)
 - Purchase and sale programme
 - Sale of 5kt non-Kyoto VERs at NZ\$15/tCO₂e in past 3 years
 - Optimistic will become Kyoto compliant through PFSI

Inventory Revision - The Basics

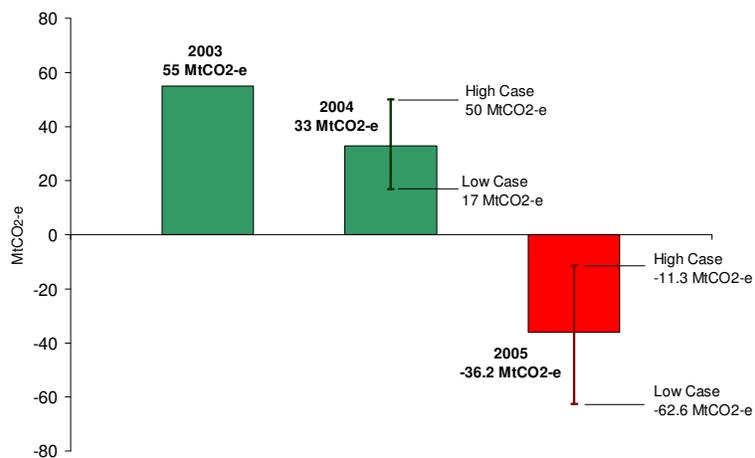


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Inventory Reassessment Projected Balance by year of forecast



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Climate Change Policy Review

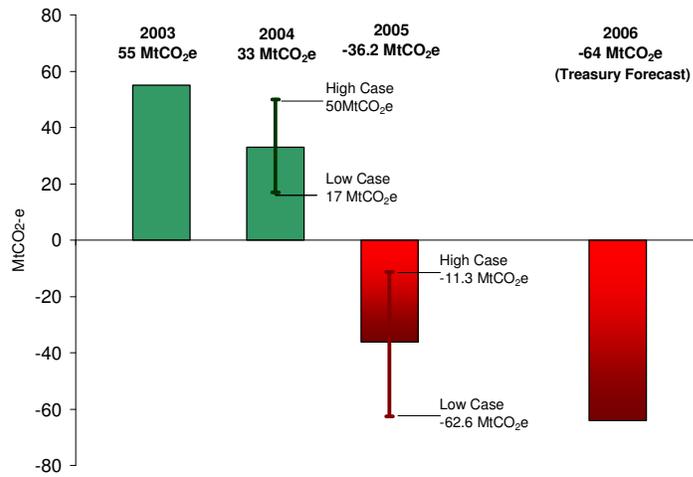
- Key Outcomes:
 - Revisit the “downward path by 2012 goal”
 - now unrealistic
 - Cost effective domestic emissions reductions will be small
 - More cost effective to purchase offshore
- Report Recommendations flowed into cabinet decisions...

Cabinet Decisions

Cabinet Decisions announced 21 Dec 2005:

- Still committed to meeting Kyoto obligation
- Carbon Tax scrapped
- Programmes to be developed include:
 - Alternatives for industry include
 - voluntary agreements
 - narrow based tax with NGA type arrangements
 - emissions trading
 - Forestry policy options to give right signals
 - International unit purchasing strategies
 - Incentivising renewables / disincentivising fossil fuel electricity generation.
 - Need for future shape of a PRE programme

Treasury Update



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Forecast Outcomes

Key Drivers:

- Kyoto Deficit (getting worse - now 64 MtCO₂e)
- International Market – NZ now a buyer
- Domestically desire to cap liability or devolve it:
 - NZ-ETS a longer term prospect
 - Interim industry measures may have some market elements
 - PRE (if any) will be more stringent
 - Forestry a huge dilemma

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Conclusions

The challenge is to ensure that future policies:

- Remain appropriate to the characteristics of its economy and emissions profile;
- Are compliant with the Kyoto Protocol through 2012; and yet
- Are durable beyond 2012 to provide the degree of certainty required for business investment.

NZ Businesses have developed a good understanding and capacity in climate change markets which places them in a good position for the future.



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