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Agribusiness and Carbon Market Opportunities and Risks

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Overview

- Overview of Carbon Markets
- Participating in Compliance Markets
 - The Carbon Pollution Reduction Scheme
 - Forestry
 - Agriculture
- Participating in Voluntary Markets
- Carbon Market Risks

Carbon Markets

- The global carbon markets are built upon legal and regulatory frameworks
- The shape of these frameworks will decide:
 - Who is liable to reduce greenhouse emissions
 - Who has permits and how they can be traded
 - The ability to create and trade offsets
 - How large and liquid the market will be
 - Linkage to other markets
- At present significant gap between agreed scientific targets and current legal targets so will require substantial increase in law and policy to further reduce emissions over time.

Legal Frameworks

- The United Nations Framework Agreement on Climate Change (UNFCCC)
- The Kyoto Protocol
 - Cap and Trade market with international project based credits
 - No end date
- European Union Emissions Trading System
 - Implements Kyoto and is cap and trade market with international project based credits
 - No end date
- Other compliance legal frameworks in UK, US NZ and Australia.
- Voluntary markets such as formal markets like the Chicago Climate exchange and informal offset providers.

Australian Emissions Trading – the Carbon Pollution Reduction Scheme

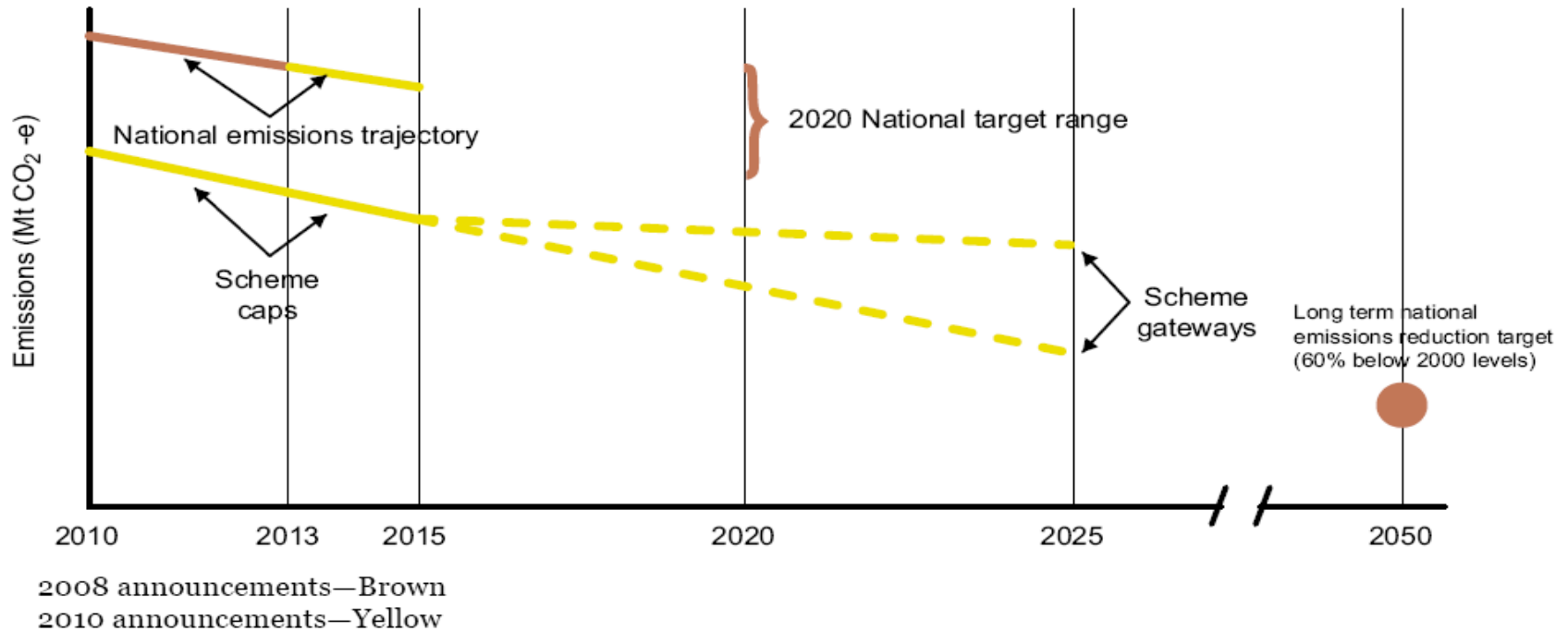
- A comprehensive cap and trade emissions trading regime to reduce national emissions of greenhouse gases as part of our obligation under the Kyoto Protocol



Target and Caps

- Target range for 2020 and the indicative national emissions trajectory for the period from 2010-11 to 2012-13 announced end-2008.
- Caps could be set for five years in advance, or longer if international obligations extend for longer than this.
- Scheme caps would be extended by one year, every year, to maintain a five year cap horizon, with a gateway out to 10 years
- Once set permits need to be purchased to cover your emissions

Figure 4.5 2008–2010 Guidance over scheme caps and indicative national emissions trajectory



Source: Australian Government Department of Climate Change, Green Paper: Carbon Pollution Reduction Scheme

What is a permit?

- Australian Carbon Pollution Permit
- One tonne of carbon dioxide equivalent
- Property rights with compensation
- Legal title if in registry
- Treated as a financial product
- Full banking some limited borrowing

Who will be covered by the scheme?

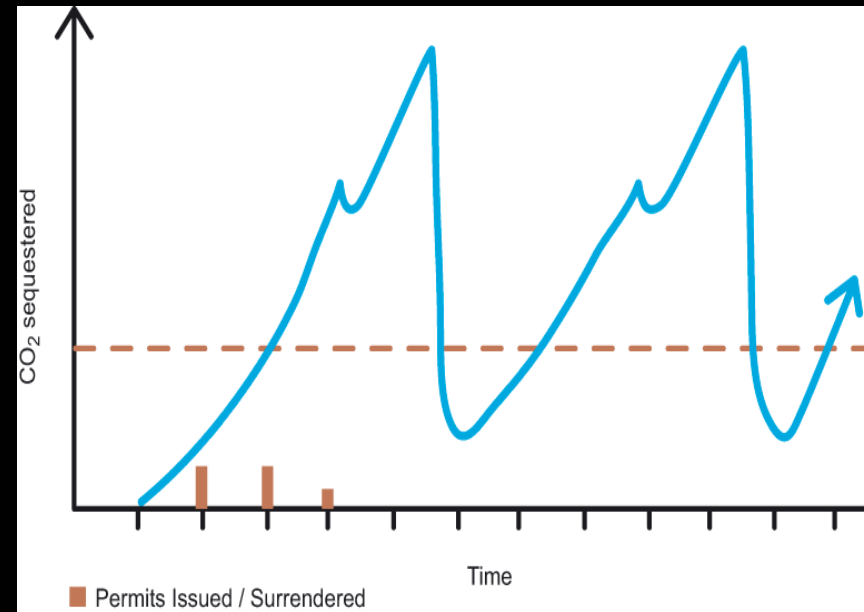
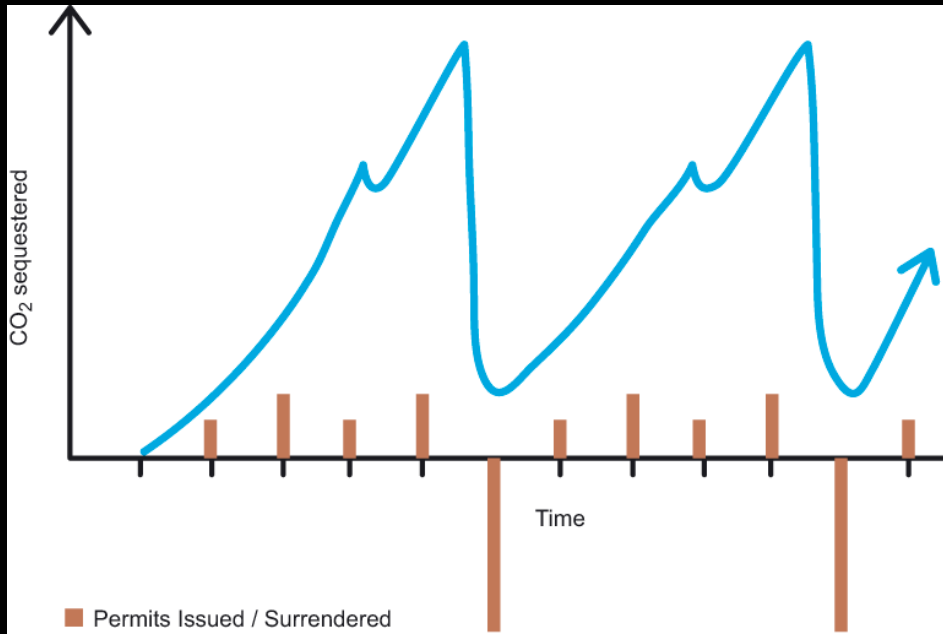
- **Threshold of coverage:** Emissions **exceeding the 25kt CO₂-e** in any given year.
- **Sectors covered:** Stationary energy; transport; industrial processes; synthetic greenhouse gases; fugitive emissions; waste
- **Sectors not covered:** Avoided deforestation; biofuel and biomass combustion.
- **Forestry:** Voluntary opt-in – can generate permits (also liable)
- **Agriculture:** Not covered until 2015 at the earliest.
- **Offsets:** Not available until at least 2013, when final decision made on possible coverage of agriculture.
- **Early action credits:** Nil
- **Liability:** Entities with operational control over covered facilities or activities liable for emission obligations arising from those facilities or activities.

Point of obligation

- General principle: Point of obligation at point of physical emission
- Except where more efficient and/or administratively less onerous to move point of obligation upstream:
 - Transport: Upstream fuel suppliers;
 - LNG / LPG / coal: Possible liability for suppliers of small users; and
 - Waste: Yet to be determined.
 - Agriculture: Yet to be determined – either on-farm or indirectly at another point in supply chain.

Forestry “Opt-in”

- Access to CPRS limited to Kyoto compliant ‘reforestation’
- Permits issued for increases in sequestration after 2010 and to be surrendered for net emissions from forest
- Defining eligible forest owners (landowners vs other legal entities)
 - How to address transfers in ownership
 - Enforcement of CPRS obligations
- Crediting could be on the basis of full or average accounting



Full and average accounting for harvest plantation maintained

Source: Australian Government Department of Climate Change, Carbon Pollution Reduction Scheme Stakeholder Consultation - reforestation

Forestry “Opt-in”

- Considering capping CPRS obligations under the ‘sub-harvest rule’
- Application of 2008 base year for carbon stocks
- Reporting Obligations
 - Annual
 - Periodic
 - Events
- Estimation methods – permits to be issued in accordance with approaches used by NCAS

Agriculture

- Accounting for emissions
 - Under Kyoto Australia accounts for land use and forestry emissions (Art 3.3) and soil carbon under land use change (Art 3.4) not cropland or grazing land management
 - May change for post-2012 (e.g. recognitions of harvested wood products, risks in full 3.4 accounting, opportunities for soil carbon)
- Emissions highly variable in response to management practices and climatic conditions

Agriculture

- Coverage could be:
 - On farm
 - Indirect – upstream e.g. fertilisers or downstream e.g. food processors
 - Mixed depending upon farm size
- Provisional start date of 2015 – decision to be made 2013

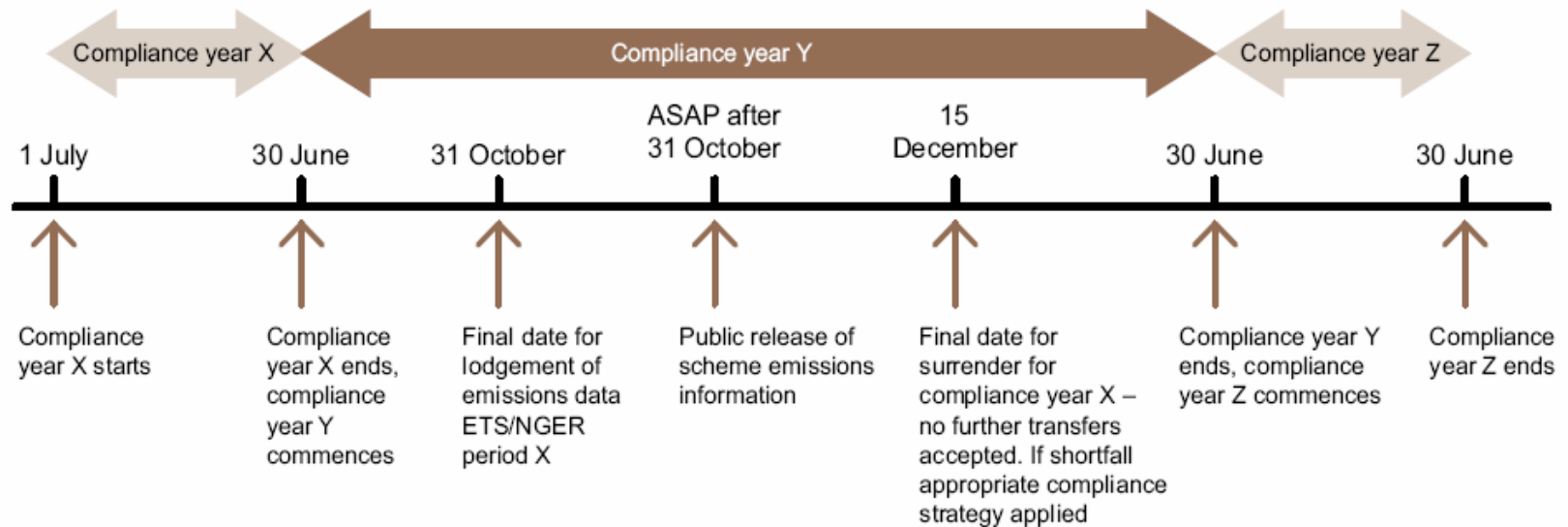
Offsets

- Rewards for reductions in emissions measured against an assumed baseline.
- Only to be considered where it is not possible to:
 - cover a particular source of emissions
 - cost-effectively mitigate through alternative measures
- Need for internationally recognised standards to maximise credibility
- Consider scope for offsets in 2013 (e.g. agriculture, savannah burning and forestry)

Reporting and compliance

- National Greenhouse and Energy Reporting Scheme (NGERS) the framework for monitoring, reporting and assurance, and elements of that system would be strengthened.
- Compliance period would be on a financial year basis with permits to be surrendered 6 weeks after emissions reports are submitted.

Figure 5.1 Compliance timeline



Source: Australian Government Department of Climate Change, Green Paper: Carbon Pollution Reduction Scheme

How to Participate in CPRS?

- Permit Allocation – for Forestry opt-in permits issued as sequestration occurs and is reported. If permits to be surrendered, these will need to be purchased
 - At auction (move towards 100% auctioning under scheme unless EITE or strongly affected)
 - Purchase on secondary market
- Permits may be used for compliance or can be traded

Where to from here?

- September- Final Garnaut Report due
- October- Treasury Modelling
- December- White paper and draft legislation
- March 2009- legislation into parliament
- 1 July 2010 scheme commences
- 2013 decision regarding agriculture and offsets
- 2015 possible inclusion of agriculture in CPRS

Voluntary Market

- Small but growing market driven by businesses seeking to become 'carbon neutral' or demonstrate corporate social responsibility
 - Chicago Climate Exchange
 - Numerous companies and registries developing (e.g. ACX, APX, Blue registry, TZ1, APX)
- Lacks bureaucracy and high transaction costs of regulated markets but this can affect quality of credits and price

Voluntary Market

- Quality of offsets variable but key issues are to ensure:
 - Additionality – offsets make the project viable and project would not have occurred otherwise
 - Credible baselines – what would have occurred in absence of project
 - Permanence – potential reversal not an option for resulting offsets
 - Ownership and registration – to avoid double counting
 - Monitoring and verification over time
- No widely accepted standards and processes for certification and verification of voluntary credits and no requirements for listing in registries but these are being developed e.g.:
 - Voluntary Carbon Standard
 - WWF Gold Standard
 - Climate, Community and Biodiversity Standard
 - Greenhouse Friendly

Voluntary Market

- Within Australia a number of companies are involved in providing voluntary carbon offsets across a range of sectors including forestry \ and more recently soil carbon
- Examples include:
 - Australian Carbon Traders
 - Carbon Planet
 - Climate friendly
 - Greenfleet
 - Carbon Link
 - Carbon Farmers

Carbon Market Risks

- Regulatory and Legal
 - Uncertainty about CPRS coverage and rules
 - Legal title to carbon
 - Changes to the international rules post-2012 (accounting and flexible mechanisms)
- Project based risks
 - Will all emissions count toward Kyoto inventory
 - Physical risks associated with fire, drought, pests, crop failure

Carbon Market Risks

- Contractual risks
 - Warranties about compliance with international or domestic rules or voluntary standards for emission reduction units
 - Undertakings about ability to perform
 - Guaranteed delivery of volume of emission reduction units
 - Price volatility
 - Events of default
 - Force Majeure



Questions?

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