

# Carbon Farming-trading and brokering in practice



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Anthropogenic Global Warming

# THE CHALLENGE

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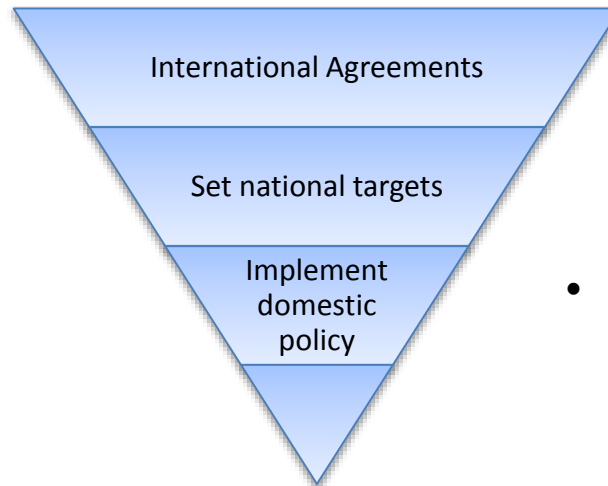
# Why Carbon Markets?

- Climate change is a global issue
- Requires a global response
- Global Policy Response is the Kyoto Protocol
  - International Cap and Trade
- Countries commit to emissions targets
  - Undertake domestic action



# What are Carbon Markets?

- Carbon Markets are created by policy measures designed to
  - reach internationally agreed GHG targets
  - to direct investment to lowest cost abatement
- Political landscape and policy settings affect carbon markets



- Carbon Markets
  - Trade Carbon Financial Instruments to satisfy voluntary or mandatory greenhouse gas emission targets
  - are governed by standards governed by regulators standards set the rules for measuring, accounting and reporting on emissions and abatements (offsets)
  - scheme regulators determine what credits are accepted to their scheme



# Policy options

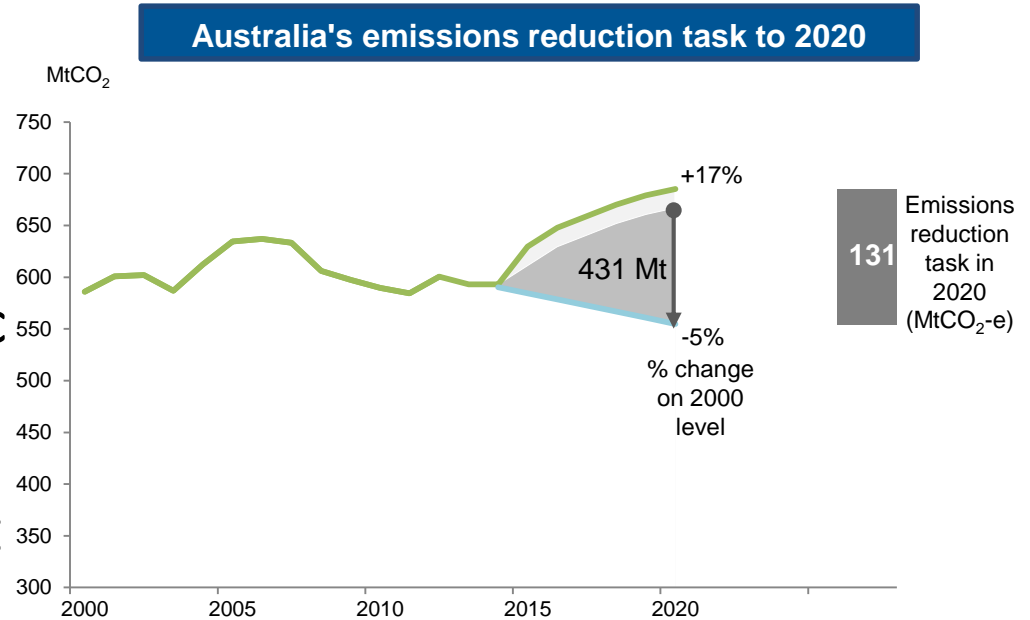
Actions must account towards international targets

- Option A - hit 'em where it hurts
  - Increase the cost of carbon intensive goods and services
  - Change behaviour
  - Let market decide least cost abatement
  
- Option B – buy the carbon
  - Pay for sequestration and abatement
  - Pick the least cost genuine abatement



# Direct Action Plan

- Government sets emissions target
- Government allocates funds to fund activities, using CO<sub>2</sub>e as the metric
- Companies and land managers bid project activities to government
- Government chooses which projects to purchase credits from

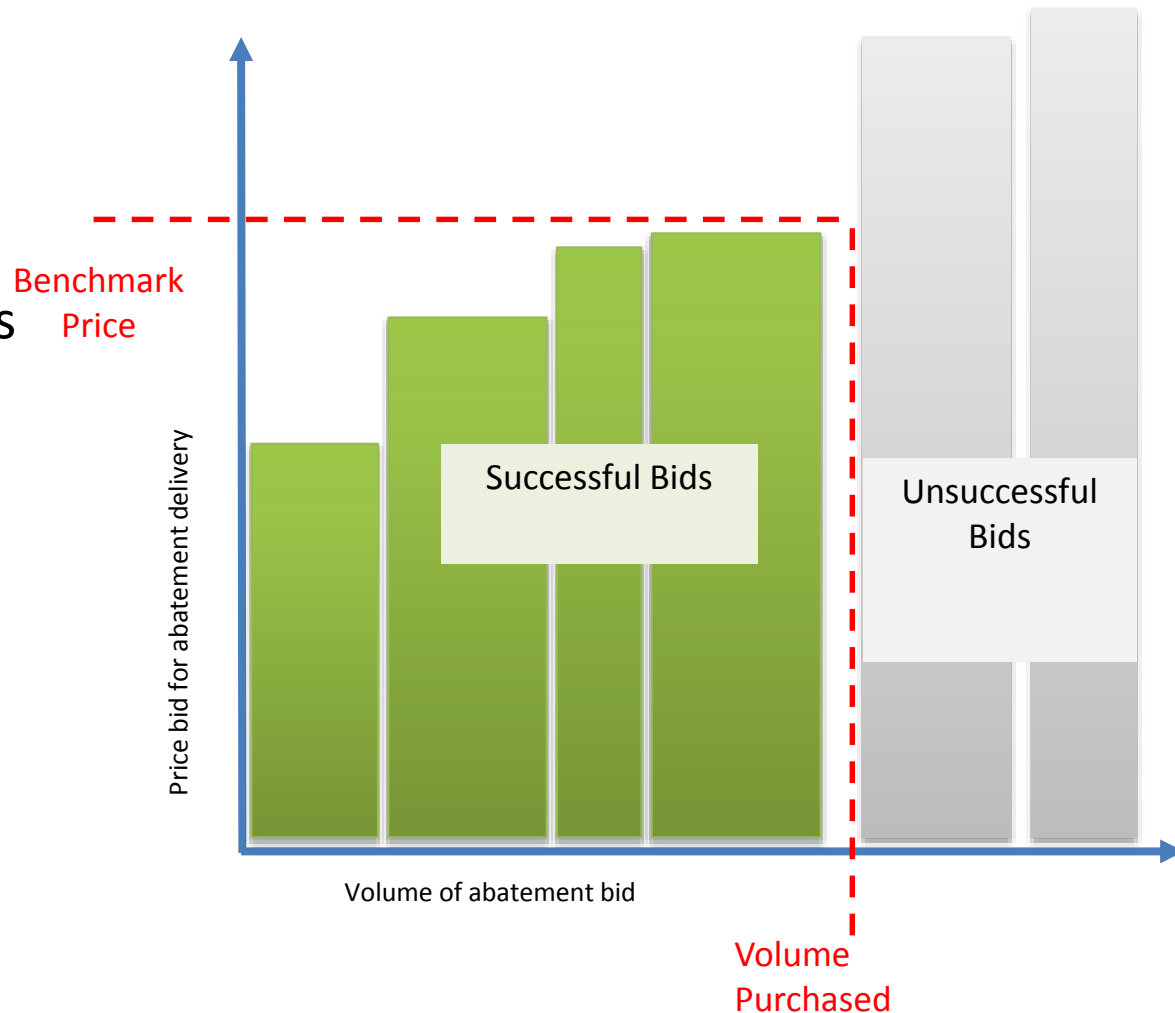


Source: ERF Green Paper - Department of the Environment, *Australia's Abatement Task and 2013 Emissions Projections*, 2013.



# Direct Action Market

- No regulated demand - only government and voluntary buyers
- Reverse Auction Process
  - Benchmark price
  - Fewer larger auctions
  - Minimum bid size
  - Forward contracts
  - Flexible delivery
  - Guaranteed price
- Government Tender
- Any other manner deemed suitable



# A tale of two markets

## Mandatory

### Fit for purpose

- Issued and compliant with mandatory rules

### Price

- Must be a net financial benefit over paying penalty or buying allocated permits

### Volume

- Costs involved in due diligence the same for large or small parcels - large parcels are required from trusted sources
- Will pay significantly less for small parcels

## Voluntary

### Fit for purpose

- Issued and compliant with target scheme

### Price

- Looking for value for money

### Story

- You must tell the story
- Environmental/Social/Economic co-benefits

### Volume

- Volume can vary dramatically between retail and wholesale markets
- Volume impacts price

### Vintage

- Buyers often want to match year of emissions and offsets

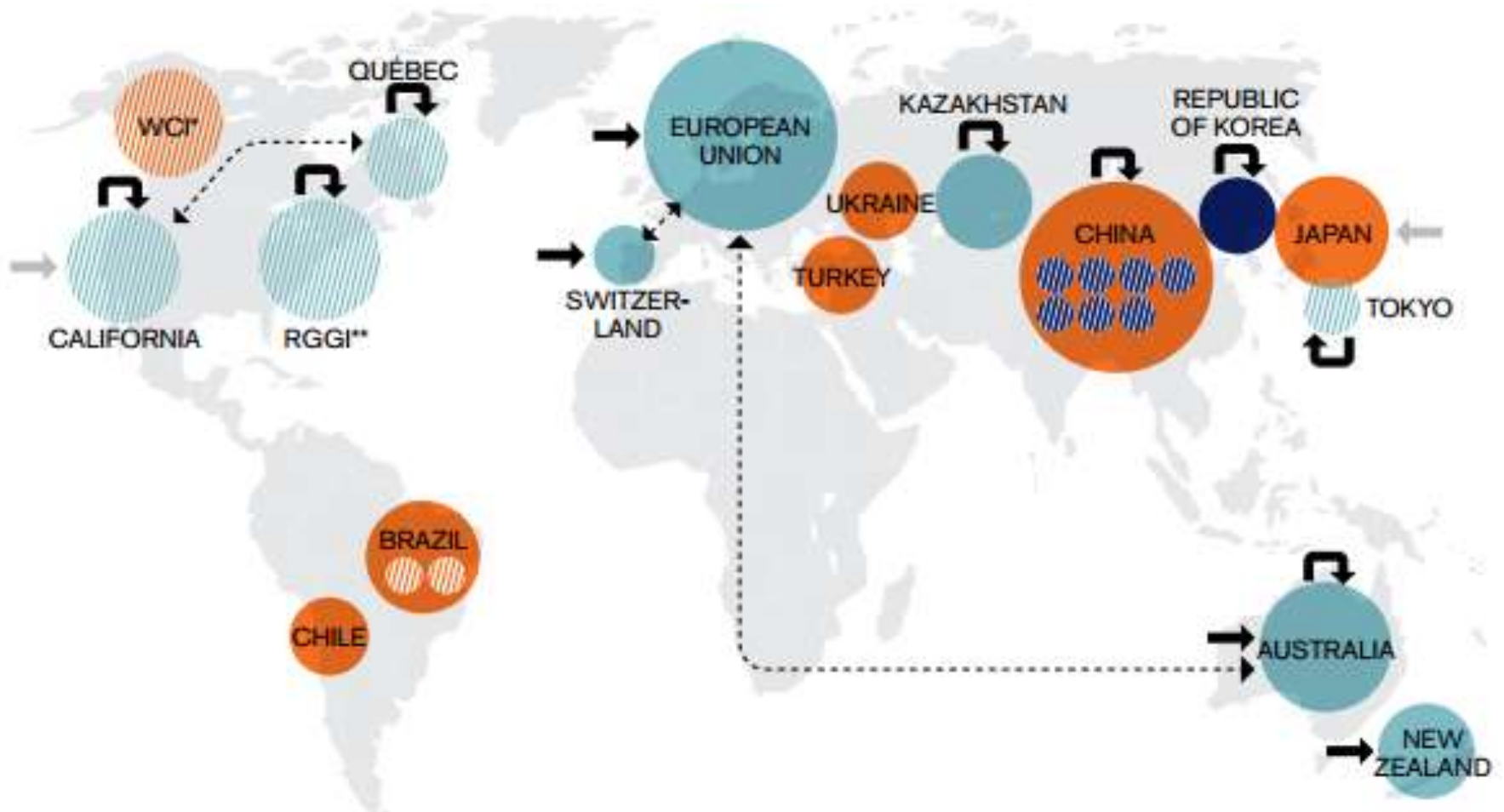
### Low risk

- Purchasers pay more for less risk
- Less likely to invest in start ups

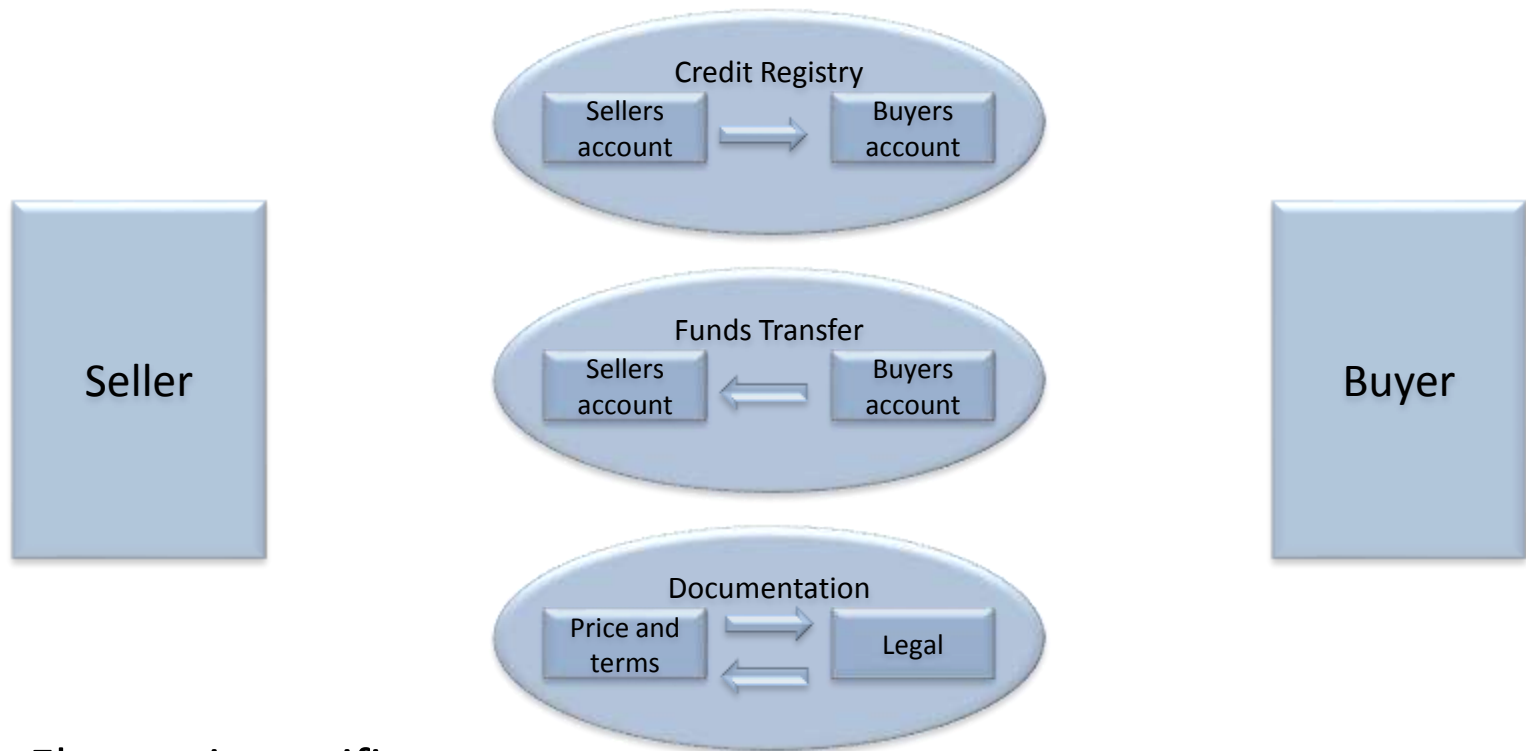




# Global Markets and linkages

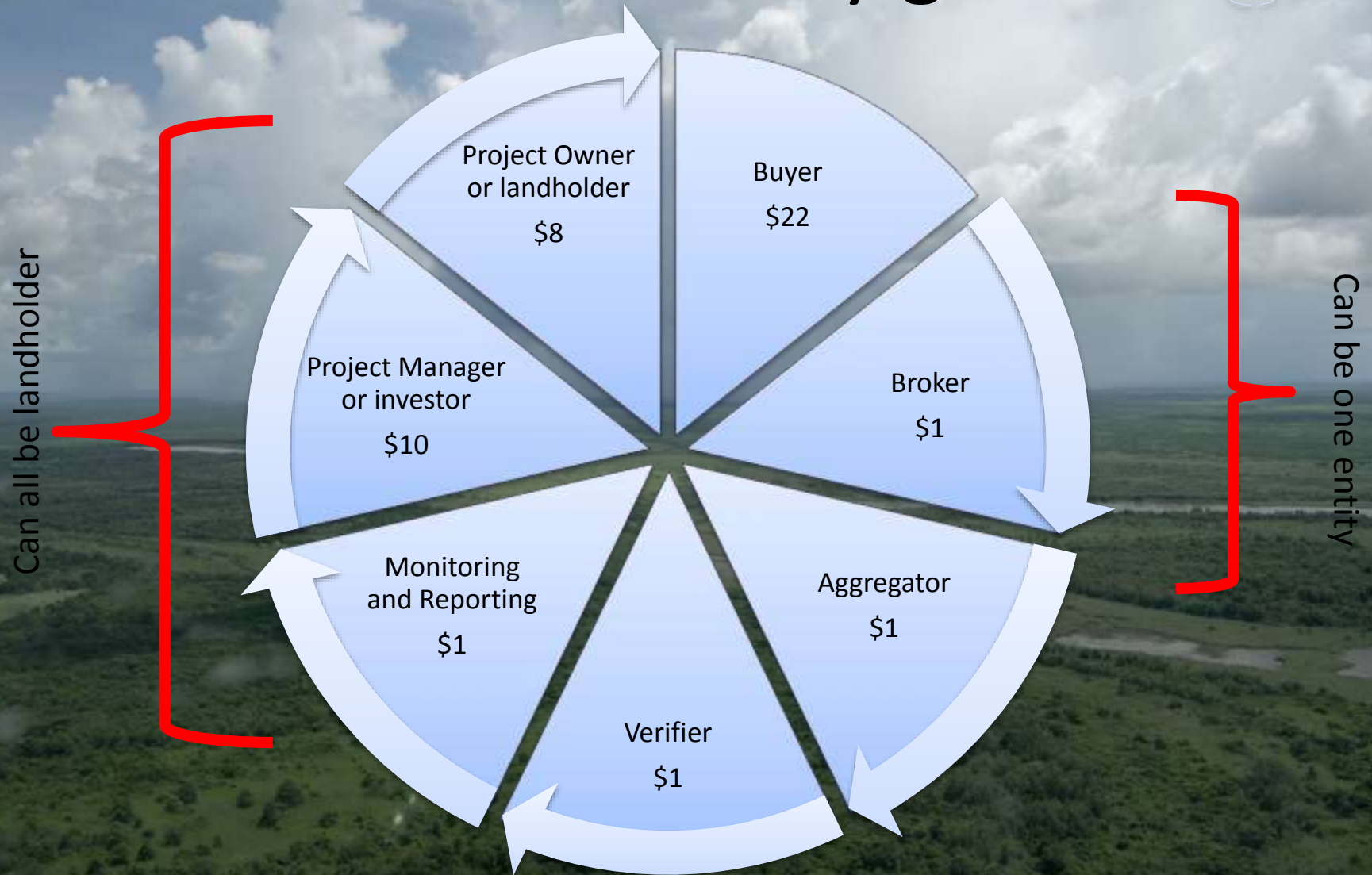


# How do trades occur?



- Electronic certificates
  - represent 1 tonne of CO<sub>2</sub>e abated or sequestered
- Credits are issued by scheme regulators to projects through registries
- Transfers occur within registries
- Transactions governed by financial legislation

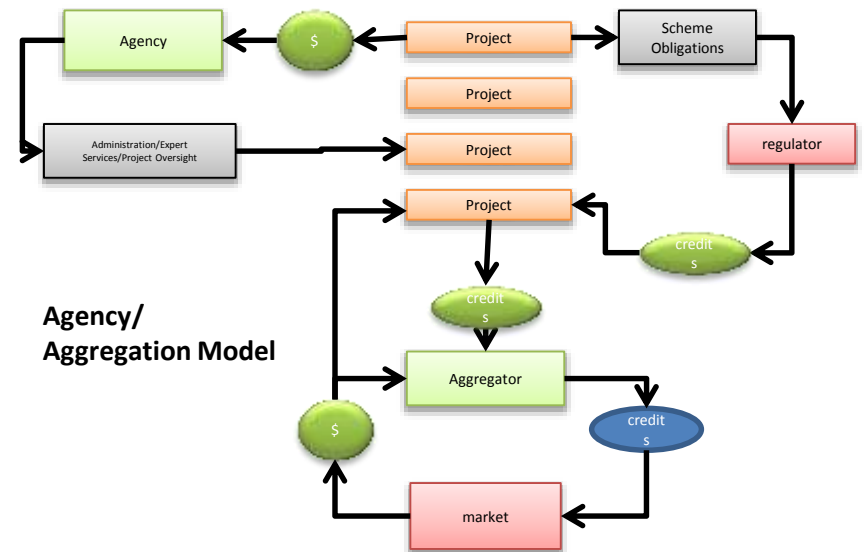
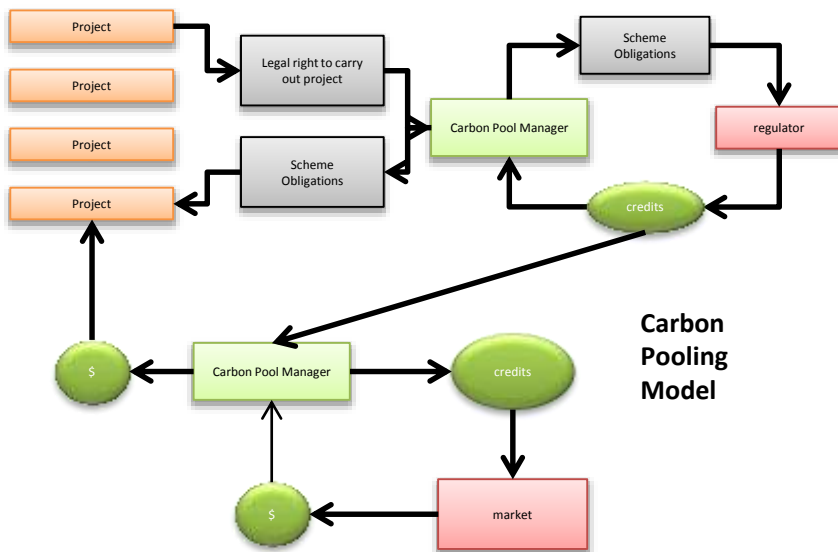
# All aboard the money go round!



# Projects Require Scale

- Self manager/Agency
  - DIY - more paperwork/more benefit
- Carbon Pooling
  - Transfer carbon rights, obligations and % of benefit
  - Set and forget
- Agency - fee for service or % of benefit
  - Provide specialist knowledge
  - Quicker and cheaper

- Aggregator
  - Bundle parcels from suppliers
  - Market presence
  - Create economies of scale - cheaper services
- Traders - buy and sell
  - Hold credits
  - Build parcels
  - factor in holding period to price

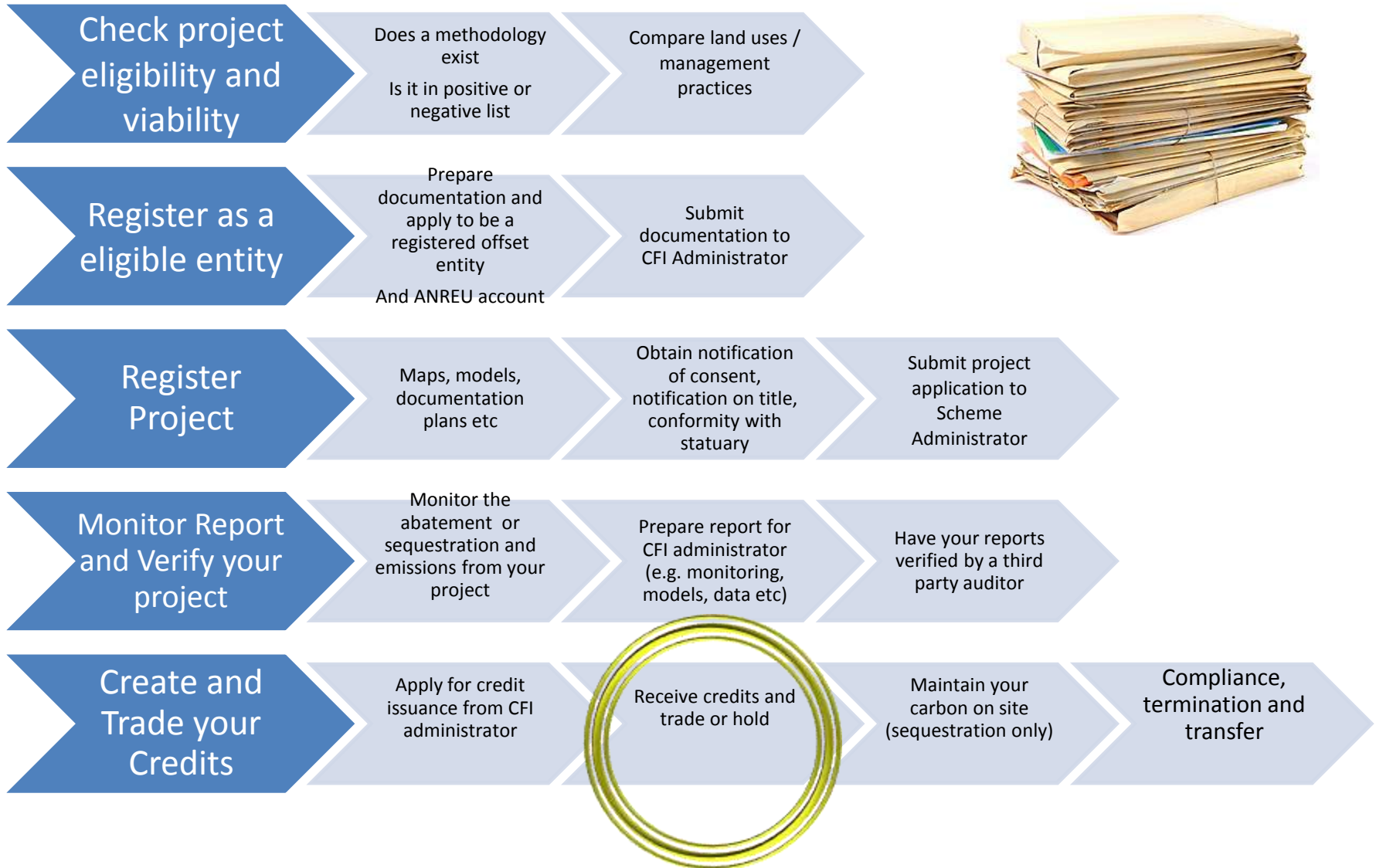


# Why Brokers, Traders and others

- Carbon projects require specific and detailed knowledge of a range of disciplines
- Poolers and Aggregators bring economies of scale to multiple project owners
- Traders and Brokers keep secondary market active, aid in price discovery and market intelligence
- Current compliance buyers under the Carbon Tax
  - Fewer Contracts
  - Less due diligence (KYC)
  - Large parcels - 10k – 100k+
- ERF -
  - minimum bid size
  - Diversify risk across a portfolio - less risk for government
  - Traders hedge against make good policies



# Trading Carbon Credits is at the end of a long process



# Contact

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