

Credits may turn carbon into gold

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By Diana Clement

Last week, The Business looked at the future of investing in water and the benefits for investors that increasing scarcity could have. Today, we consider the opportunities for investing in carbon credits and in alternative energy.

Carbon credits are reductions in emissions of greenhouse gases and are generated from investments in renewable energy, energy efficiency, fuel switching and waste management projects. One credit (unit) equals one metric tonne of carbon dioxide.

New Zealand ratified the Kyoto Protocol in 2002, which means it is legally bound not to emit more than five times the 1990 level of carbon emissions between 2008 and 2012.

Industrial and energy companies will have their maximum emission levels set by our Government. Companies that exceed their limits will be required to buy carbon credits. Joanna Silver, programme director of the NZX's TZ1 carbon credits exchange, says the theory is that it will be cheaper for companies to change their behaviour than to continue polluting and have to buy credits.

Companies that generate credits verified by an independent body can sell their credits on the open market - and this is where private investors come in.

Governments and companies will buy for compliance reasons, but brokers and investors will also trade credits with profit in mind, says Silver.

Just how important are carbon credits? Very, says ABN AMRO Securities NZ. "We believe carbon pricing will be the most important investment theme over the next decade and, if the science is correct, over the next half century. Accordingly, we recommend investors go heavily overweight our preferred carbon plays," says ABN Amro analyst Daniel Kieser in a strategy paper titled *How To Play Carbon*.

Apart from buying credits to trade, the other way private investors can benefit is by investing in those more sustainable companies that generate carbon credits and thus have something to sell over and above their usual services or widgets.

Companies likely to benefit from the carbon trading environment include New Zealand Windfarms, Trustpower, Infratil, King Country Energy and Contact Energy, says Kieser. All of which ABN Amro rates as a buy.

A "left-field" carbon investment, adds Kieser, would be the NZX because of its investment in TZ1, which is scheduled to be launched next year.

When it comes to trading credits, most players are waiting for the launch of the regional market for the Asia/Pacific region, which the NZX hopes will be TZ1. In the meantime, credits are already being traded on Trade Me.

Trade Me's commercial director, Mike O'Donnell, says the credits for sale on the site have been voluntary carbon credits from Meridian Energy's Te Apiti windfarm, not Kyoto credits. Meridian's 2006 voluntary carbon credits were issued by the Gold Standard Foundation, although some competitors classed the sales as PR stunts.

The credits for sale on Trade Me were registered with the M-co Registry developed for the purpose and anyone attempting sell "vapour" carbon credits has had their listing pulled from Trade Me.

But many people do wonder just how carbon credits fit in with saving the planet. As one slightly cynical commentator said: "Indeed, if you're looking for a change of career ... but fear that you've missed the hedge fund and private equity bubbles ... then you might want to consider the carbon offset market instead."

There is an argument that carbon credits were created by governments and could be taken away again, which doesn't add to investors' security.

One Trade Me member commented on the Meridian Energy auction: "The compliance costs for our economy that this Kyoto nonsense is going to create will strangle all Kyoto countries. When one allows the financial markets to solve a perceived environmental problem, there is sure to be a buck in it for someone. China and India do not face such costs, just wait for more NZ jobs to be lost overseas while we shag about and sell carbon credits. I understood that your resource consents for wind farms were to generate sustainable energy, not to speculate such nonsense."

Something more straightforward for investors to get their heads around is investing in alternative energy. If fossil fuels are a finite resource then sooner or later the world is going to have to find sustainable alternatives.

That may be nuclear power - although it's unlikely that New Zealand will head that way in a hurry (and don't shoot the messenger for even suggesting it) - or other alternatives such as methane and wind farms.

As well as the energy companies recommended by ABN Amro as carbon plays in New Zealand, investors will, next year, be able to buy into the Liontamer: KBC Alternative Energy Fund, which will have global exposure to alternative energy stocks. Investors can also invest directly in overseas alternative energy equities.

Investors looking to profit from this approach, says Robert Oddy, director of International Financial Planners, may also consider investing in uranium stocks because nuclear power may be a partial solution to global warming.

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