
Carbon Monitor

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Afforestation Grant Scheme a “Win Win” Option for New Plantings?

The Afforestation Grants Scheme (AGS) is a contestable fund designed to encourage more planting of trees in small forests and on farms. It was announced last year by the Government as part of its package of climate change initiatives and offers an alternative to the Emissions Trading Scheme (Forestry) as a way to encourage greater levels of greenhouse gas absorption by increasing the area of Kyoto-compliant new forest in New Zealand.

There are two funding components under the AGS. Half of the funding will be available to Regional Councils to help them meet their sustainable land management objectives. The other half is available to the general public via a public tender pool.

The majority of this public funding pool (70 percent) will be allocated to species that have high sequestration rates. These will be the usual exotic plantation species such as *pinus radiata* and Douglas fir.

The remaining 30 percent of these public funds will be reserved for species with low carbon sequestration rates. This is as a result of public interest in planting indigenous species, which have low carbon sequestration rates.

Applications for forest establishment grants under the **Public Tender Pool** of the Afforestation Grant Scheme were open until **31 October 2008**. This tender round is for plantings in the **2009 period only**.

It appears that the last round of tenders closed with successful tenders at around \$1800 per ha (ex gst) which is a reasonable level of support.

MAF are quoted as saying that once the 10 year agreement is up that foresters can either deforest without liability or join the NZETS or PFSI and receive carbon credits.

Given the low level of carbon sequestered in the first few years of tree growth the AGS appears to be a significant boost to forest investment in our view.

<http://www.maf.govt.nz/climatechange/forestry/initiatives/ags/>

MAF option 3 is the most interesting option in a document entitled ‘Options for Farm Foresters’

Option Three: tender for a grant through the Afforestation Grant Scheme

The AGS is a grant for planting new forests on land that was not forested on 31 December 1989 (“post-1989 forest”).

The grant system is based on a tender process – 50 percent public pool funding, 50 percent regional council funding.

Benefits: you may receive a grant to plant your trees subject to a 10 year contract; you own the new forests and earn income from the timber; after 10 years you are free to deforest without any obligations and the forest is eligible to join the ETS or PFSI.

Disadvantages: the Government will retain the emissions credits generated under the Kyoto Protocol for carbon stored in your forests for the first 10 years; and there’s always the possibility your tender won’t be successful (that is, no grant).

European Union Clinches Climate Change Deal and Roadmap to 2020

Europe secured the world's broadest agreement yet to battle global warming on Friday 12th December after helping east European states pay for changes that will punish their heavily polluting power sectors and industries.

The rampant economic crisis had at times threatened to derail the European Union's plans to cut carbon dioxide by a fifth by 2020, but a myriad of concessions to industry helped pin down a deal amid criticism from environmental groups.

"This is quite historic," said French President Nicolas Sarkozy. "You will not find another continent in this world that has given itself such binding rules."

The deal takes on a greater importance coming just before Barack Obama assumes the U.S. presidency, amid hopes in Europe of transatlantic cooperation to tackle climate change.



"Our message to our global partners is... Yes, you can do what we are doing...especially to our American partners," said European Commission President Jose Manuel Barroso. "We are asking him (Obama) to join Europe and with us lead the world."

But green groups said that in their rush to get a deal, European leaders had granted too many concessions to industry.

"This is a flagship EU policy with no captain, a mutinous crew and several gaping holes in it," said Sanjeev Kumar of environment pressure group WWF.

Chancellor Angela Merkel and Prime Minister Silvio Berlusconi had fought hard for industries like German steel, chemicals and cement and Italian glass, ceramics and paper, and at one point Berlusconi had threatened to block a deal.

They had already succeeded this year in watering down action to curb emissions from the powerful auto sector.

"We demanded 15 things -- we got practically all, and we are very satisfied," Berlusconi said.

SWATHES

Measures were agreed to reduce the risk that carbon curbs would hurt European industry and reduce its ability to compete with less regulated rivals abroad.

European industries exposed to international competition will receive free emissions permits if they face a 5 percent increase in costs, a measure that is viewed as covering over 90 percent of EU industry.

Critics said the move reduced the main incentive for industry to cut emissions, but a commission official said that a steadily lowering cap on emissions would do the job.

The biggest threat to a deal on Friday was the opposition of nine former communist nations, which feared the deal would ramp up costs for their highly polluting coal-fired power sectors.

To buy their support, two swathes of funding will be distributed to them taken from around 12 percent of revenues from the EU's flagship emissions trading scheme (ETS), which makes industry buy permits to pollute.

The money is partly framed as recognition for the massive drop in emissions they experienced when their industry collapsed in the wake of communism.

Their power sectors were also partially exempted from paying for emissions permits from the ETS, getting 70 percent free in 2013 but those exemptions will be phased out by 2020.

Diplomats reluctantly praised the negotiating skills of Polish Prime Minister Donald Tusk, who later flashed the two-finger victory sign as he left the building.

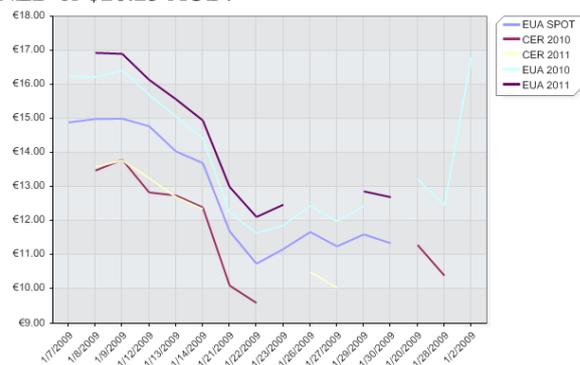
Britain's Gordon Brown came away having secured a boost to funding to around 6 billion euros for innovative technology to capture and bury emissions from power stations underground, such as in depleted North Sea gas fields.

"The sum that is involved is very considerable," he said. "A few weeks ago people were saying it was going to be impossible."

http://communities.thomsonreuters.com/Carbon/160089?utm_source=20081215&utm_medium=email

EU Price Update

All allowances slid heavily as the oil and energy prices slide in the last month. Prices of CER's slid to a 12 month low in all categories below 10 Euro or \$25 NZD or \$20.25 AUD.



www.cantorco2e.com

Commentary on Carbon Markets

To listen to a podcast on the latest developments in the NZETS and Carbon Markets go to southern online

http://www.southern.com/index.php?option=com_seyret&Itemid=47&task=videodirectlink&id=5

We discuss the latest on the NZETS, the new CPRS from Australia and the recent trends in emissions pricing.

New Zealand - No to Carbon Tax

Gerry Brownlee of the national government gave a clear message to press that there would be no carbon

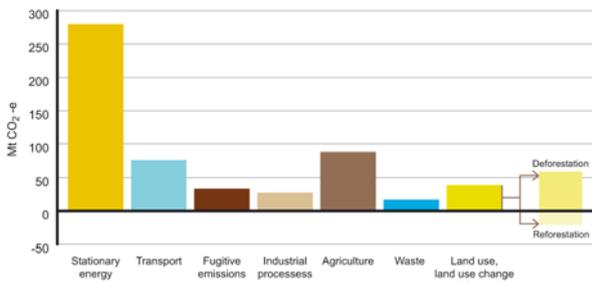
tax as an outcome of the review of the New Zealand ETS.

Speaking in Wellington he was reported to say that the only option was to pursue some form of emissions trading system

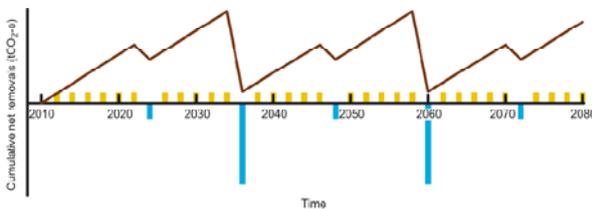
http://www.nzherald.co.nz/politics/news/article.cfm?c_id=280&objectid=10547697

Australian ETS White Paper Released

The graph below shows the relative emissions for Australia under each section, deforestation, once a major contributor to emissions has since dropped significantly.



<http://climatechange.gov.au/whitepaper/summary/index.html>



The above demonstrates the full crediting option for forestry in the CPRS. The yellow bars indicate carbon surpluses and the blue bars the carbon required to be surrendered at harvest.

Also under considerations is an ‘average’ crediting approach allowing credits to accrue up to a maximum level agreed with the regulator.

Stakeholders consulted wanted the option to choose between the two approaches.

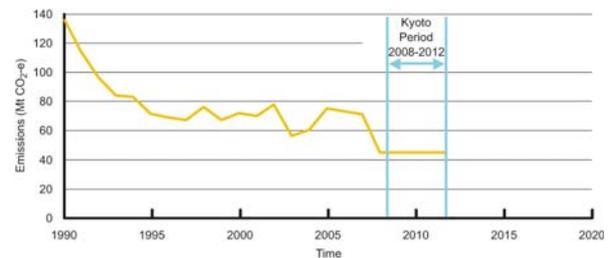
While recognising this preference, the Government will apply the more conservative ‘average’ approach to crediting. While forest entities will not bear the full marginal carbon costs of their actions, this approach will reduce the risks of non-compliance, which would ultimately default to the Government to make good. It

also involves lower compliance costs as permits will generally not need to be surrendered on harvest or following fire and then re-issued as the forest is re-established.

For harvest or plantation forests, the permit limit will be based on the average cumulative net greenhouse gas removals calculated to the end of rotation (immediately prior to harvest) over the longer term, for example 70 years, which is equivalent to about two long rotations.

Deforestation has reduced significantly since 1990 due to initiatives to reduce deforestation, from 132mt to around 40mt. Australia received an allowance of 1990 emissions levels plus 5% due to this deforestation. Now there is another 90mt available to offset emissions.

Due to the reduction in deforestation it has been decided to exclude this from the CPRS.



Australian ETS Tax Treatment of Forestry will Destroy Forest Investment

Part of the CPRS design involves the tax treatment of forest carbon credits. Page 14-18 indicates policy provision 14.7 where the value of created carbon pollution permits is to be added to the taxpayer’s taxable income for that year.

The policy allows a choice of two mechanisms to calculate the value of such permits.

It appears clear to us (not being tax experts) that the deemed value of the carbon permits irrespective of their sale creates an Australian Federal Tax Liability.

Looking back at EITG submissions dated February 2008 to the select committee on the NZETS we find the following:

It is essential the committee is aware that taxation of the unrealized gains in any form of emissions credits issued pursuant to forest based carbon sequestration but not sold will DRASTICALLY impact forest investment.

Using models from GREENPLAN a forest investment promoter adding in a tax on unrealized gains from NZU units even at \$15 per tonne, the bottom end of the scale, the internal rate of return (IRR) would reduce from 7% to less than 1%

This would mean NO ONE would INVEST in forestry due to the nearly ZERO return created by the tax liability. The Forest Industry would die and the infrastructure associated would die along with the industry meaning loss of large numbers of jobs in rural areas of already low incomes.

The committee may be of the view that such foresters could 'opt out' of the NZETS thereby avoiding receipt of NZU and any taxes. While this is technically correct, officials during consultation meetings indicated that they cannot guarantee the credits will be available at harvest if foresters 'opt out' and respectfully current Governments cannot bind future Governments.

The only reasonable conclusion therefore is forest owners must opt in to the NZETS.

One has to trust that the committee has advice from Inland Revenue that this Act in effect EXCLUDES NZU units from any tax on unreleased gains, that is no tax arises until sale of the units.

So the Australians have ignored this and will in effect destroy the forest investment industry in Australia with taxes on unrealised gains from forest investing.

Deforestation Reporting Deadline

If you own forest land established before 1 January 1990 you must notify the Ministry of Agriculture and Forestry (MAF) of any deforestation greater than two hectares of forest since 1 January 2008.

The deadline for notification of deforestation that occurred in 2008 is 31 January 2009. The deadline for the notification of deforestation that occurred since 1 January 2009 is 20 working days from the date of the deforestation.

To notify MAF, download and complete the form at: <http://www.maf.govt.nz/sustainable-forestry/ets/forms>
Return the completed notification form either to the email or postal mail address provided on the form.

You will also need to apply for a New Zealand Emissions Unit Register holding account.

You can do this at www.eur.govt.nz

Failure to notify deforestation of more than 2 hectares by 31 January 2009 may result in the landowner

committing an offence under section 129 of the Climate Change Response Act 2002.

Exemptions

If you own less than 50 hectares of forest land you may be entitled to an exemption. To find out about the "less than 50 hectares" exemption visit:

www.maf.govt.nz/sustainable-forestry/ets/guide

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'Carbon Monitor' is a client service of EITG. EITG develops, facilitates and engineers Carbon Mitigation projects and strategies.

EITG corporate advisory provides high-level briefings and advice on building robust responses to emerging regulatory structures.

EITG Carbon Pool provides forest owners with a robust platform to access local and international markets while dealing with harvest and other liabilities.

EITG provides trading platforms and strategies based on extensive mitigation and avoidance platforms under JI and CDM, with matched offset packages for emitters.

EITG is part of an international consortium with representation in Asia/Pacific, UK, USA and South Africa

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