
Carbon Monitor

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ETS moves ahead as Forest Owners register and are issued NZU units

Post-1989 forest land

This land is eligible to receive NZU (new Zealand units) under the Emissions Trading Legislation. If the land was not forestry prior to 1/1/1990 and converted to forest thereafter owners can register and receive 'carbon credits' NZU under the ETS.

MAF has received 174 ETS participant registration applications covering 52,581 hectares of post-1989 forest land. Verification of eligibility has been completed on 95 applicants who have been registered as participants.

As at May 6 2009, 79 applications are still being verified with many of these waiting for additional information from land owners.

Emissions returns are filed much like GST returns claiming NZU units from carbon dioxide removed from the atmosphere according to pre approved 'tables' issued by MAF.

MAF received 45 eligible emissions returns, claiming 692,583 NZUs. 687,000 NZUs have already been transferred into participants holding accounts over the past four weeks.

The timeframe for submitting an emissions return in 2009 has now passed. However, registered participants will be able to submit an emissions return during the first quarter of 2010 and claim any NZUs to which they were entitled back to 1 January 2008.

Pre-1990 forest land

Deforestation of land previously forested as at 31/12/1989 incurs a charge UNLESS the land is replanted within a specified time after harvest, and participants must surrender credits equivalent to all the carbon stored in the forest. This amounts to approximately 800 NZU per hectare or over \$40,000 in today's prices!

Participant (Deforestation) Notifications - three mandatory participants have notified that they undertook deforestation during 2008/09 and have been registered.

These participants are required to submit an emissions return during the first quarter of 2010 specifying the area deforested and quantifying the number of emissions units they are obliged to surrender. Those units must be surrendered by 30 April 2010.

Forestry Allocation Plan

This is the allocation of a tranche of NZU credits set aside by the Government for pre 1990 forest owners to cover deforestation. Granted to the capital account these credits do not attract tax or GST.

The issue of a Forestry Allocation Plan (FAP) is subject to probable delay.

Submissions on the draft FAP closed on April 30. MAF now has to analyse the submissions and brief ministers on them. This could result in changes to the FAP compared with the draft that was consulted on.

This process will take some weeks. MAF expects that the time frame for issuing a final FAP will be clearer in early June.

<50 hectare Exemptions

Owners of pre 1990 forest with less than 50 hectares are able to claim an exemption from the ETS and therefore deforest without having to surrender credits.

The delay in issuing a Forestry Allocation Plan (FAP) affects who can currently apply for <50 hectare exemptions. The only people eligible to apply for a <50ha exemption at present are those who have already deforested. No-one else is eligible to apply until a FAP is issued.

In February, the Government signalled its intention to push out the closing date of 30 June 2009 for <50ha exemptions. There is no intention to leave foresters with insufficient time to consider whether to apply for an allocation or a <50 hectare exemption. The legislation provides a mechanism to grant extensions to the date by which <50 hectare exemption applications can be made.

<http://www.beehive.govt.nz/release/submissions+draft+ets+forestry+allocation+plan+extended>

MAF - Carbon Accounting Areas Mistakes Exposes Bad Advice

Carbon Accounting Areas are the fundamental building blocks of the NZETS for forest owners. These areas are defined for the purposes of assessing the change in carbon over time.



Once the area is established it cannot be changed unless the owner exits the ETS (and surrenders credits) due to the complexity of the systems.

At recent MAF briefings officials warned against casual selection of CAA. In fact many participants were irate that their 'consultants' had misled them in correctly establishing such areas.

To effectively select your CAA you need an understanding of the ETS and its nuances plus a silvicultural and measurement regime in place.

Commentary

We warned of 'Carbon Cowboys' in the December 2007 CM. Again in December 2008 we highlighted the misuse of the VCS standard by amateur carbon advisors.

What we are seeing here is the 'expertise' of people and organisations that jumped into the carbon space seeing a quick buck when the ETS was announced in September 2007.

Some carbon advisors know nothing of forestry and forestry practices and this is an example of this lack of expertise in action.

None of these businesses have generated any of the windfall profits they expected in 2007 and we are now seeing their lack of investment in thinking about and understanding the issues involved.

Beware of the carbon agents who will sell you down the river by trading your forest credits for a commission and not offering a credible strategy for dealing with the need to surrender credits at harvest!

If you would like to fully understand the strategies needed for proper CAA selection get in contact with us.

Australian Government Delays ETS

Following lack of support and a perception the legislation would fail in the Senate, Rudd effectively delayed the ETS another year.

Emitters clearly accepted this as a success for industry at risk.

To further seek support a Price Cap of AUD \$10 for the first year was also added

Commentary

This is an ETS without an ETS in our view. There is a significant risk for Australian business that they will not be prepared for post 2012 with the ETS in effect being implemented in 2011.

The price cap will do nothing to encourage mitigation projects developing in Australia.

In a recent interview with Reuters, EITG expressed the view that mitigation projects particularly with forestry will not be affected by a year 1 cap due to the minimal credits issued for a year 1 forest.

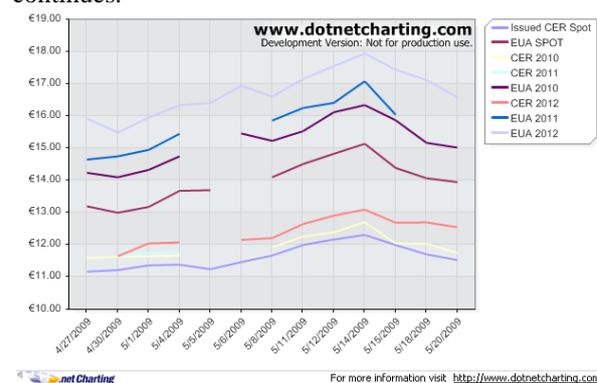
However the lack of discoverable price is likely to delay investment due to the uncertainty of returns.

Pure forest carbon plays will be less attractive than other hybrid projects.

EU Price Update

Allowance prices continued a general upwards trend with prices in Euro for CER units increasing to nearly \$29.77 NZ, meanwhile the EUA forward price peaked over 18 euro during the month.

The long term trend indicating a strong recovery continues.



www.cantorco2e.com

Onslow Carbon Forest

High profile successful forestry entrepreneur Roger Dickie is offering a 'carbon forest' for sale.

Packaged by Dickie and reviewed by PF Olsen the 370ha Douglas Fir forest is projected to sequester 854,348 tonnes of CO₂ over its 99 year life prior to harvest.

Registered under the PFSI - Permanent Forest Sinks Initiative (not the NZETS) the forest will receive AAU credits rather than NZU (ETS) units.

Dickie and his advisors argue that these units are saleable on an international market rather than just the domestic NZU market suggesting a price of \$25NZD. They suggest that having AAU units means the project is independent of the ETS review and not subject to the commitment period reserve restrictions. These restrictions prevent overseas transfer of units which they say would be achieved by stopping conversion of NZU to AAU units.

Depending on the price of AAU units (or NZU as the AAU can be transferred back to NZU at anytime) the IRR is projected to be as high as 10.2% and is stated as 9.05%.

The IRR varies very little based on the price of the timber harvested over a range of 50-150k per ha.

Freehold land of 770ha is included in the \$2.14m NZD asking price.

According to Richard Bourne, Marketing Manager for Dickie the prospectus is currently with the Companies Office registrar and at this stage they would prefer an outright sale.

We congratulate Roger's vision and initiative to enter this space at such an early stage and wish him success.

Investors at 'Massive Risk' from Overestimates of Forest CO2

Most Australian carbon offset providers are seriously overestimating the amount of carbon sequestered in their forest sinks, placing investors at "massive" risk, Landcare CarbonSmart's Matthew Ready has told *Carbon Extra*.

Players in the Australian carbon offset market were insisting on using their own software to estimate carbon offset forests because using their proprietary models meant they could "estimate more carbon", Ready said.

But investors ought to know the carbon credits generated by measurement tools that did not comply with international standards could not be traded under the carbon pollution reduction scheme (CPRS) or in the international market.

Nor could they be used in Australia's international reporting on greenhouse gas (GHG) emissions, Ready said.

Federal climate change minister Penny Wong revealed the government would spend \$A16.1m further developing a national carbon accounting toolbox (NCAT) to measure carbon sequestered in forests carbon sinks in the federal budget announcements on

Tuesday.

NCAT would be trialled in 2011 as an estimation tool for agriculture, and help the government decide whether the sector would come under the CPRS in 2015.

The toolbox would be "operational for forestry before its voluntary coverage within the CPRS from July 2010", Wong said.

Before then, it would be further developed "to meet the requirements for estimating and reporting emissions and sinks", she said.

In effect, NCAT would become the Australian standard for estimating carbon sequestration in forest sinks to ensure carbon offsets complied with the CPRS and international standards set by the IPCC for countries reporting their GHG emissions.

Ready said as far as he knew, Landcare CarbonSmart was the only carbon offset provider already using the national standard.

"We use NCAT so if we want to generate credits that are going to be accepted internationally we must abide by methodology that Australia uses for its international reporting."

Alternative methodologies other offset providers were using "don't assist Australia. They're not compliant with our tool and so therefore shouldn't be accepted", he said.

Investors being unaware of the issue was a "big worry", Ready said.

Why hadn't organisations disclosed to the Australian Securities Exchange they had business models based on something not compliant with NCAT? he asked.

"They are not being transparent; they are not saying ... our methodology is not going to be accepted under the CPRS. This is a very big worry."

Developed by the Commonwealth Scientific and Industrial Research Organisation, Australian National University and NASA with the Australian Government, the free [NCAT](#) software "is an amalgam of several different software models and using algorithms and spectral analysis it placed into a single unit".

Ready said there was no excuse for offset companies to not use NCAT.

"Not only is it free, this forest estimation software is now being used in PNG, it's being used in other countries including America - it might well become

the global standard."

It was essential providers adopted NCAT to measure forest carbon to supply growing demand for offsets, Ready said.

"There's no way we can supply by ourselves the volume of offsets that are required by Qantas, Origin, etc. What we do need is for these companies to get their heads out of the sand, stop overestimating carbon and actually start using the real data, and provide the marketplace, including the investors, with the truth," Ready said.

CO2 Australia's Andrew Grant told *Carbon Extra* most providers did not want to use NCAT because computer-based measurement of forest carbon was not as accurate as evidence-based assessment, even though it was internationally compliant.

"Our preference is that the [CPRS] regulator allows alternative methods using evidence-based assessment. That's the highest standard" of measurement, Grant said.

"It is unacceptable to us and most operators if NCAT was the only approach, because it is not accurate at site-by-site level. It's too conservative."

He said CO2 Australia was providing data to the government and continued to discuss the issue.

"The government has left the door open to alternative approaches," he said.

Find out more about Carbon Extra, Thomson Reuters' independent weekly news service in Australia that reports on climate change and carbon risk issues, by visiting <http://www.thomsonreuters.com.au/browse/carbonextra/default.asp>

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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, Europe, USA and South Africa

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This blog is designed to discuss all aspects of emissions trading and GHG as well as the Kyoto Protocol

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