



November 2009 - Carbon Trading Up-date

This newsletter is an informational update on all issues of climate change policy and carbon trading within New Zealand and internationally. If you have any questions about these issues and how they could affect your business, please don't hesitate to contact IFS or Carbon Market Solutions.

Recent Events

Agreement on Amendments to the Climate Change Bill

On the 14th of September 2009, the Government, with Maori Party support, announced it would revise the Emissions Trading Scheme. The revised Bill passed its first reading and the Government has stated its desire to have the legislation passed on or before 26th November 2009, the last sitting day of parliament prior to the Copenhagen UN climate change conference in December.



This will be good news for forest owners as it will pave the way for emitters of greenhouse gases to enter the trading scheme and provide forest owners with an outlet for their NZUs (carbon credits).

Changes to the Climate Change Bill

The changes to the Climate Change Bill generally comprise the following:

- Revised entry dates of 1 July 2010 for transport, energy and industrial sectors and 1 January 2015 for agriculture.
- A transitional phase until 1 January 2013 with a \$25 fixed price option for NZUs for the transport, energy and industrial sectors.
- A phase-out of industry support aligned with trading partners and the Government's long-term 50% emissions reduction target by 2050.
- Incentives for people to plant forests created by a domestic and international market for carbon credits.
- Greater transitional support for the fishing industry.

The changes will result in fuel prices increasing by 3.5c/l and electricity prices increasing by 1c/kWh.

What will happen now?

Owners of Native Bush

Native bush is not included in the ETS. Owners of native bush will not be eligible to claim credits for carbon sequestered by native bush nor will they receive a one off allocation through the Forestry Allocation Plan.

Owners of Pre-1990 Forested Land

All owners of pre-1990 forested land will automatically become participants in the ETS if they deforest (deforestation means removing trees and changing the land use from forestry to another activity) more than 2 hectares of forest in any 5 year period and will, except where exemptions apply, be liable for deforestation of the land. As participants they will be required to calculate and report their deforestation emissions and surrender units equal to those emitted. However owners of pre-1990 forested land who intend to keep the land in forest, including replanting after harvesting will not be affected by the ETS.



Owners of pre-1990 forested land will receive a one off allocation of credits to compensate them for the impact the ETS may have on the value of their land. The exact number of credits to be allocated will be set out as part of the final Forestry Allocation Plan when it is issued (expected December 2009 / January 2010). It is estimated that this allocation will be between 18 & 60 NZUs per hectare of pre-1990 forested land. Under current Government proposals it is anticipated that the owners of pre-1990 forested land will receive 38% of their allocation in the 2008-2012 period and the remaining after 2012.

Owners of pre-1990 forested land who deforested more than 2 hectares during 2008 and 2009 must notify MAF on or before 31 January 2010. Landowners who intend to deforest more than 2 hectares of pre-1990 forest land are required to notify MAF within 20 working days of commencing deforestation.

Unless exempt an owner of pre-1990 forest land (greater than 2 hectares) which has been deforested must submit an emissions return after 1 January 2010 and no later than 30 March 2010. This will require them to surrender the number units equal to those emitted as a result of the deforestation activities.

Owners of 50 hectares or less of pre-1990 forested land which has been deforested in 2008 or 2009 can apply to be exempted from the ETS. MAF are currently

accepting applications from pre-1990 forested land which has been deforested in 2008/2009 to be exempt from the ETS scheme.

Owners of 50 hectares or less of pre-1990 forested land who wish to deforest but have not yet done so can apply for an exemption from the ETS as part of the final Forestry Allocation Plan. This application can take place once the Final Forestry Allocation Plan has been issued (expected December/January 2009/2010) and before 1 July 2010.

Owners of pre-1990 forested land can deforest up to 2 hectares of forest land in any five year period starting 1 January 2008 and not incur any liability from the carbon released.

Owners of Post-1989 Forested Land



Owner of post-1989 forested land can choose to be part of the ETS or to remain outside the scheme. Should the owner of post-1989 forested land decide to remain outside the ETS they will not receive any credits for the carbon sequestered in their forests and will have no liability to repay the credits at harvest or should the land be deforested.

Owners of post-1989 forested land who enter the ETS will receive credits for carbon sequestered during forest growth and will be able to trade them to carbon emitters.

Receiving Carbon Credits

In order for a pre-1990 or post-1989 forested land owner to receive credits they need to set up a holding account through the New Zealand Emission Unit Register (NZEUR). This will be required by all pre-1990 forested land participants who do not have an exemption and deforest more than 2 hectares in any five year period starting 1 January 2008 and all post-1989 forest land owners who want to become participants in the ETS. Owners of pre-1990 forested land will also require the holding account to receive the one off allocation of credits.

The carbon credits issued under the ETS will be broken down in to 5 year blocks with the first 5 years starting on 1 January 2008 and running until 31 December 2012. Owners of post-1990 forested land who wish to partake in the ETS should register their forests before 31 December 2012 to receive credits for this period. Applications made after 2012 will only start receiving credits from 2012 and will

forego the credits which they may have been entitled to from the period of 2008 to 2012.

NZEUR holding accounts can be opened now and IFS can assist with the application process.

In addition to requiring a NZEUR holding account, owners of post-1990 forestry land who wish to partake in the ETS are required to register their forested lands. This registration can now be carried out through MAF.

Owners of post-1990 forestry land can contact IFS to assist with the registration of their forests so they can claim their NZUs and be ready to sell once trading begins.

[How the ETS Will Work](#)

As it currently stands the owners of post-1989 forest who wish to partake in the ETS will receive 1 carbon credit per 1 tonne of carbon sequestered by the forest. The sequestered carbon is calculated by surveying the forest. The owner of the credits will then have the opportunity to sell these credits to greenhouse gas emitters. However at the time of harvest the carbon will be taken as being released from the forest and the forest owner will have to surrender (repay) the carbon credits they have received equal to the amount of carbon released but capped at the number of credits received.

Forestry will be a net generator of carbon credits and the other sectors involved in the ETS will be net purchasers of credits and include:

- stationary energy
- industrial processes
- liquid fossil fuels
- agriculture

A transitional phase is proposed until December 2012 which allows for the following:

- a progressive obligation requiring stationary energy, industrial processes and liquid fossil fuel participants to surrender only one unit for every two tonnes of carbon dioxide emitted.
- a \$25 fixed price option whereby stationary energy, industrial processes, liquid fossil fuel and forestry participants can satisfy surrender obligations by paying \$25 per unit.

From 2013 the support given outlined above will gradually be reduced and the fixed price option will be removed. At this stage the cost of carbon units will be dictated by market forces.

Management of Carbon Stocks

For owners of forest land who wish to participate in the ETS we see the ETS as a integral part of their Forestry Management. We see being registered as part of the ETS provides forest owners the opportunity to maximise the profit they receive at harvest time through the financing of silviculture works from the sale of the carbon credits. This will result in the value of the final product being maximised through the creation of clear wood from pruned butts. Currently prices for c. 30 year old Prad are running at up to c. \$26,000 per hectare for pruned butts and up to c. \$16,000 per hectare for unpruned butts. Proper Carbon Credit and Forest Management is required to ensure that any liabilities at harvest time are minimised while maximising the return from the forest.

At IFS we can provide our clients with forest specific Carbon Management systems designed to meet your requirements.

In order for Carbon Management to be successful it requires detailed records of the forests, a knowledge of the clients future plans and knowledge of the silviculture and harvesting works proposed for the forest. This information can then be used to estimate the carbon stored in the forest as well as identify where liabilities may occur from thinning and/or harvesting.

For those who IFS currently provide Forest Management services we have stand records for the forests we manage and as such assessment of the stored carbon within the forests would be relative straight forward. For those clients who do not have Forest Management in place information will be less readily available and therefore there will be more work involved in calculating the carbon stored in the forest. It would be recommended that those wishing to partake in the ETS employ Forest Management in order to properly manage their carbon stocks in conjunction with their forests. This will allow a holistic approach to the forest management thus helping to obtain the best returns and help limit liabilities.

Who to Sell To?

As it stands from the 1 July 2010 the stationary energy, industrial processes and liquid fossil fuels sectors will enter into the ETS. These will be the first buyers of carbon credits from the forestry sector.

IFS has had interest from a number of parties with regard to the purchase of carbon credits from the forestry sector. We are currently further discussing the requirements of these companies as well as trying to identify and contact more purchasers of carbon credits.

In addition to the above our association with Carbon Market Solutions will provide our clients many outlets for the sale of their carbon credits.

Registering to be Involved with the ETS

Should you wish to become registered as a participant in the ETS you will be required to open a New Zealand Emissions Unit Register (NZEUR) holding account and apply to MAF for registration. This process can now be completed and IFS can assist with opening a NZEUR holding account and registering forest owners with MAF. Information required as part of the application process includes, but is not limited to the following:

- the name and contact details of the participant
- an NZEUR holding account number
- the details of the property
- an electronic shapefile of the forest (map)
- evidence that the forest was planted after 31 December 1989
- application fee payment.

For those interested in joining the ETS you should consider starting the process of becoming registered to receive carbon credits. This will allow you to be in a position to start trading credits when purchasers are looking to buy them.

For anyone interested in identifying what carbon credits they would be entitled to or would like to setup a holding account and become registered for the ETS please give us a call. We will be happy to provide some or all of the following services:

- complete the application forms
- complete the required mapping
- estimate the carbon sequestered by the forest
- source buyers for the carbon credits
- provide Carbon Management
- provide Forest Management
- calculate any liabilities from deforestation, harvesting or other activity which may reduce the carbon stored in the forest

International Carbon Trading News

For owners who are eligible to receive carbon credits which can be traded internationally (AAUs) IFS can assist with the sale and management of these units also. AAU holders are able to sell accumulated units both within New Zealand and overseas. This opens more options for these forest owners and allows them take advantage of a larger market. The current trading price for carbon credits in Europe is around NZ\$26. €13 per unit.

What Else is on offer?

Afforestation Grant Scheme

The Afforestation Grant Scheme allows foresters to receive a government grant for planting new forests on Kyoto-compliant land (that is, land that was not forested as at 31st December 1989). In the last 2 tender rounds IFS has been successful in applying for a significant amount of funding for the planting of new forests.

This scheme is gaining in popularity with a finite level of available funds. So we encourage landowners who wish to receive funding to establish new forests to contact IFS now, so that applications can be submitted promptly.

Permanent Forest Sink Initiative

The Permanent Forest Sink Initiative allows landowners to receive internationally tradable units for entering their eligible forest into a covenant with the Crown. The forest must be maintained for a minimum of 50 years with limited harvesting allowed.

The advantage of the Permanent Forest Sink Initiative is that it allows landowners to derive an income from previously uneconomical land through the sale of internationally tradable units called AAUs.

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