
Carbon Monitor

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Update on Forestry in the New Zealand Emissions Trading Scheme

Forestry is the first sector to enter the scheme (effective 1 January 2008) because it plays a core role in managing New Zealand's carbon footprint.

Under the legislation:

Forest landowners who deforest pre-1990 forest land any time from 1 January 2008 incur emissions liabilities. New Zealand Units (NZUs) can be earned for net increases in carbon stocks in post-1989 forest land from 1 January 2008, at a rate of one NZU per one tonne of carbon dioxide.

****Key points of the scheme****

Forest landowners and certain other persons will either automatically or may voluntarily become participants in the ETS depending on:

- the date the forest was established
- the type of forest owned, leased, or held under a forestry right whether there has been any deforestation.

Forest land is defined as being at least one hectare with forest species that have, or are likely to have at maturity:

- a crown cover of more than 30 percent on each hectare a crown cover with an average width of at least 30 metres.
- Forest species are tree species capable of reaching at least five metres in height at maturity in the place they are growing.

There are two forest classifications: pre-1990 forest and post-1989 forest.

Pre-1990 forest land is land that contained predominantly exotic forest species on 31 December 1989 and 31 December 2007. Pre-1990 forest landowners may apply to be allocated NZUs under the Forestry Allocation Plan (see 'Draft Forestry Allocation Plan released for consultation' below).

Some pre-1990 forest may be eligible for exemption from the ETS if the land holding is less than 50 hectares of pre-1990 forest land or includes deforestation of tree weeds. However exempt pre-1990 forest land will not be eligible for an allocation

of NZUs. Exemptions are not automatic and must be applied for.

Indigenous forests established before 1 January 1990 are not included in the ETS. Owners of these forests have no liabilities under the ETS, even if they deforest. Equally, they are not entitled to an allocation of NZUs.

Post-1989 forest land is land that contained exotic or indigenous forests established after 31 December 1989 on non-forest land.

Post-1989 forest landowners and certain other persons can choose to enter the ETS. If they do, they become Participants and are entitled to receive NZUs for net increases in carbon sequestered in their forests as they grow. Participants may choose to register part or all of their forest area in the ETS, at their discretion. Additional forest areas can be added at any time.

As part of their obligations under the ETS, post-1989 forest landowners will be required to report to MAF at least once every five years on the change in the amount of carbon stored in their registered forest area. If the net carbon stored in their forest falls (for example, due to harvesting), they may be required to surrender any units previously allocated to them.

****Essential information****

MAF has launched new web pages specifically for Sustainable Forestry and the ETS (Forestry):
<http://www.maf.govt.nz/sustainable-forestry>

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These pages contain information about the forestry sector's involvement in the scheme, including:

A Guide to Forestry in the Emissions Trading Scheme

This is a comprehensive booklet detailing how the ETS applies to the forestry sector. It includes information on forest classification, carbon sequestration, carbon measurement approaches, allocation of New Zealand Units, deforestation issues and tax treatment. Hard copies of this guide can also be obtained by calling 0800 CLIMATE (254 628).

Tools and information

A webpage devoted to tools and information around the ETS (Forestry) and other sustainable forestry initiatives including the Climate Change (Forestry Sector) Regulations 2008, fact sheets, carbon sequestration rates, measurement information, key dates and frequently asked questions.

Additional guides and user manuals and standards

The detailed administration of the ETS (Forestry) will be covered in a series of guides and user manuals and standards. These documents will provide guidance to, and in some cases, further detail of, the prescribed rules and procedures that a Participant must follow in order to comply with the ETS and related legislation.

These manuals and standards will be progressively available from December 2008 at

<http://www.maf.govt.nz/sustainable-forestry>

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1. The Land Eligibility Guide will give practical guidance on how to determine whether an area of forest is pre-1990 or post-1989 forest land under the Act.
2. The Mapping Manual and Standard will describe how to define an area of forest using either the online mapping tool or by submitting existing data in electronic form, for example, shapefiles.
3. The Look-Up Table Guide will describe how to use tables to determine the amount of carbon (the 'carbon stocks') within a Participant's forests.
4. The Field Measurement Manual and Standard will describe how to carry out standard forest inventory field measurements to provide data that can be used to assess forest carbon stocks using an online Carbon Calculator supplied by MAF.
5. The Carbon Calculator Guide will describe how to calculate the carbon stocks and how these change over time within a Participant's forests based on data obtained by Field Measurements.

Draft Forestry Allocation Plan released for consultation

The Minister Responsible for Climate Change Issues has given public notice of the Draft Forestry Allocation Plan and supporting Information Document: New Zealand Emissions Trading Scheme Draft Forestry Allocation Plan and Deforestation Exemption Policies for Pre-1990 Forest Land for consultation and submissions.

The Draft Forestry Allocation Plan outlines the proposed approach to allocating New Zealand Units to pre-1990 forest landowners under the ETS.

The supporting Information Document: New Zealand Emissions Trading Scheme Draft Forestry Allocation

Plan and Deforestation Exemption Policies for Pre-1990 Forest Land explains the rationale for that intended approach in more detail and also outlines the intended approach for granting exemptions.

Under the ETS, all owners of pre-1990 forest land will need to decide in the first half of 2009 whether to:

apply for an allocation of NZUs; or
if eligible, apply to have land permanently exempt from the ETS (under the "less than 50 hectare" threshold exemption or the "tree weed exemption").

The Draft Forestry Allocation Plan establishes criteria and process for allocations and exemptions.

Call for submissions

Submissions on the Draft Forestry Allocation Plan are due by 28 February 2009. Submissions can be made on the form attached to the Plan (see www.maf.govt.nz/sustainable-forestry) and submitted by email to FAPsubmissions@maf.govt.nz or sent to FAP Submissions, Ministry of Agriculture and Forestry, PO Box 2526, Wellington.

More information

The Draft Forestry Allocation Plan and supporting Information

Document: New Zealand Emissions Trading Scheme Draft Forestry Allocation Plan and Deforestation Exemption Policies for Pre-1990 Forest Land can be downloaded from www.maf.govt.nz/sustainable-forestry

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Copies are also available from the Climate Change contact centre – 0800 CLIMATE (254 628), MAF's head office, 25 The Terrace, Wellington, or the head office of the Ministry for the Environment, 23 Kate Sheppard Place, Wellington, (tel +64 4 439 7400).

Public workshops about forestry and the ETS will be held around the country early in the New Year. The workshops will include details of the Draft Forestry Allocation Plan and the pre-1990 forest land exemption policies. Dates and venues will be provided in future issues of the Sustainable Forestry Bulletin and posted on www.maf.govt.nz/sustainable-forestry

To subscribe to the Bulletin, please email sustainableforestrybulletin@maf.govt.nz with 'Subscribe: Sustainable Forestry Bulletin' in the subject line and your contact details in the body of the email.

If you have any questions relating to anything in this Bulletin or other forestry matters, please email your enquiries to: climatechange@maf.govt.nz or ring 0800 CLIMATE (254 628).



CDM Project Capability now Available in New Zealand

EITG has recently been approved as a service provider under the Clean Development Mechanism of the Kyoto Protocol by the CDM Bazaar part of the UNFCCC UNEP RISO Centre

<http://www.cdmBazaar.net/default.asp>

Under the Kyoto Protocol Annex B countries, the so called 'developed countries' can promote and invest in projects to reduce emissions in developing countries such as South Africa. Approved projects received certified emissions reductions or CER from the UNFCCC. The CDM Bazaar is a central site listing leading companies such as EITG that offer CDM project services.

These carbon credits will be added to the extensive project and forestry credit portfolio either managed or owned by EITG further cementing its role as the leading supplier of Carbon Credit solutions and projects under the Kyoto Protocol in the region and to the NZETS.

Further accounts to hold these CER credits have been opened with the NZEUR (New Zealand Emissions Units Register) www.eur.govt.nz

Joint Implementation Study in Australia

EITG appointed Tsakounis Global to investigate Joint Implementation Projects for Coal Mine Methane in Australia.

Under the Kyoto Protocol Annex 1 countries, the so called 'developed countries' can promote and invest in projects to reduce emissions in other Annex 1 countries such as Australia. Coal Mine Methane involves capturing methane from coal mining and using the methane to generate electricity. Significant reduction in GHG emissions are achieved as the global warming potential of methane is 21 times that of carbon dioxide.

Projects have been completed to earn carbon credits under the UNFCCC clean development mechanism in Non Annex 1 developing countries, qualifying to do so on the basis they are not economic without carbon credits. With the extensive use of coal in the electricity industry in Australia coal mine methane is typically vented into the atmosphere contributing significantly to Global Warming.

www.tsakounisglobal.com

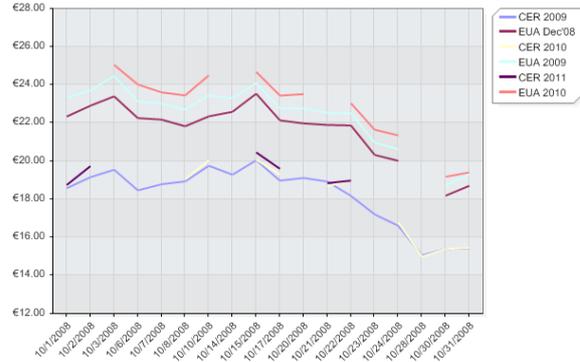
EU Price Update

All allowances slid heavily as the uncertainty of the banking crisis hit oil and energy prices in the last

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month. Prices of CER's slid to an 8 month low in all categories.



www.cantorco2e.com

New Zealand ETS More Detail

Royal assent was given on 25th September and the New Zealand Emissions Trading System is now Law.

Pre 1990 'free' allocations

The legislation appears to prohibit the transfer of these units granted 'free' to pre 1990 forest owners from NZU to AAU.

In our view this restricts the sale to the local market at least before 2012. This involves some 34mt of NZU.

Pre 1990 Forest deforested at 1/1/08

MAF, in its papers and in diagrammatic form suggests 'pre 1990' forest deforested prior to January 2008 is eligible for the NZETS.

This will create another category of potential participants in the ETS. It's not at all clear as to what deforestation means in this context as it is only defined in terms of the liability for clear felling.

Restriction on Entry of CDM CER's to NZETS

The legislation appears moot on the amount of CER credits permitted into the NZETS. The Kyoto Protocol limits CER use for compliance to 2% of the allocated target in the case of New Zealand, around 7mt.

LCERs not Permitted in ETS

The NZ emissions registry does not accept Long term CER's from forest activities in the CDM, or LCERs. Temporary CERs or tCERs are however permitted. These expire after a specified period and are issued from forest projects in developing countries.

Price Discovery

Recently 100kt of 2009 delivery NZU was offered at 17 euro per NZU, with bids quoted at 12 Euro. Apparently bids went as high as 13 Euro. The vendors reduced the asking price to 15 Euro late in October as



the NZD fell against the Euro. No takers yet!

This contrasts with solid international AAU sales at 13 Euro with bidders wanting over 250kt parcels. Proof at this stage that the overseas market is the place to be.

With no bid/ask spread quoted the market in New Zealand has yet to show the depth necessary to function without severe volatility.

MAF Charges

MAF has proposed a charge of \$550 per participant registering in the ETS, or 4.25 hours work, and \$100 per emissions return filed as a processing fee.

Our view is that these charges are based on a manual processing system and should drop rapidly over time. On line return filing the same as GST returns should be implemented without delay.

EITG pool customers will be joining the system en masse, and we will be working with MAF to get an actual cost scenario in place.

New Zealand Election and the NZETS

The National Party, the only likely contender to oust the incumbent Labour Government in New Zealand, announced clearly that it would retain the ETS.

It further announced that it would review support for industry at risk from overseas competition and align more closely with the AUETS. This policy of protecting at risk parties is one of the core principles of the proposed AUETS.

National also supports the flexible land use alliance and has promised to lobby for the second commitment period to allow substitution of land deforested with land elsewhere.

A quirk of the protocol presently is that the carbon density of an area of land is that which is measured and if the land use remains, i.e. as forest then the carbon is assumed to be constant even after clearfelling. Of course this is correct if you look at an overall average.

However the policy has created a storm over those who want to benefit from land use change. So the question is 'are national prepared to write a \$2bn cheque' for CPI to cover this off? One would think the answer is no.

Australia Forest Credits restricted to use in AUETS

Part of policy in the AUETS discussion documents proposes to restrict any unit issued in the AUETS

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from forest sinks to be restricted to the AUETS alone and not able to be exchanged for AAU units.

This differs from the NZETS where exchange of Kyoto forest NZU units for AAU units is by right.

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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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