

Dear Forest Owner

November 2007

Between October 8<sup>th</sup> to 10<sup>th</sup>, Matthew and I attended workshops on Climate Change hosted by MAF. As it transpired they were not really workshops but opportunities for Government to tell us what they had decided to do.

You will have read about this subject and Government proposals for climate change and I am not going to go over all the background material nor am I going to criticise the decisions that the Government has made. That is already starting to appear as in Colin James' column in the NZ Herald October 23<sup>rd</sup> and again on the 24<sup>th</sup>.

What I am going to do is explore what's in it for you the owners of post 1989 forests – known as Kyoio forests. The most noticeable thing is that Government has done a complete turnaround and you will now have 18 months from when legislation is passed, possibly June/July 2008, to decide whether to enter your forests into the ETS or emissions trading scheme. Previously Government had been claiming ownership of the carbon credits in your forest. Now they are saying they are yours.

If you don't enter them in to the ETS, then Government will essentially take them. You can enter the ETS and never sell or trade your credits but there will be an initial and ongoing annual administrative cost of doing this. We don't know yet what that will be.

There is also much speculation as to how the IIRD will treat the sale of carbon credits. We expect forest owners to have to pay tax on any income received from the sale of credits. What we do not know is how the IIRD will treat those that elect to enter the ETS but not trade. There is some suggestion that IIRD will tax you on credits even if not traded.

That would have the effect of forcing you to trade to pay the tax – not an acceptable situation. More to come on this aspect for sure.

Before I go any further lets get some idea of what we are talking about in dollar terms. This is not precise calculus because MAF still haven't worked it all out yet but roughly speaking here's how it goes.

A hectare of trees sequesters 30 ton of carbon a year which equals 30 carbon credits. In a 30 year lifetime a hectare of forest earns 900 carbon credits.

The price of carbon credits is set by the world market. At the workshop I went to I heard prices from \$15 per ton to \$140 per ton. Treasury would appear to be using \$15 per ton but readily accepts up to \$25 per ton. International advisory groups are very confident carbon prices will exceed this \$15 to \$25 range.

Greenplan investors own in round figures 8000 hectares of forest which annually earns 240,000 credits which at a mid-range point of say \$20 per unit means \$4.8M p.a before tax.

The carbon credits that your forest earned between 1989 and 2007 are not eligible to enter the ETS. We understand (but not sure) that these can trade on a "grey" market. The number of credits earned by your forests in that period is 2,044,650 and at \$20 per ton is worth \$40.89m or about \$5,170 per investor on average.

But all this is guessing. We are still waiting for the fine print. There is however some serious money involved.

What is also very unclear is the decision to make the land owner (not the forest owner if they are different parties) responsible for the liabilities at harvest. So if a forest that has earned 900 carbon credits per hectare is harvested then those 900 tonnes of carbon are supposedly released and the land owner must pay for them.

Now this bit we at Greenplan don't like. If by harvest time you the forest owner have had the carbon credits and if you've traded them then you have had the money. We the landowner have had no credits and no money, but when you harvest we get a bill for 900 carbon credits per hectare – or at \$20 per ton a bill for \$18,000 per hectare.

Obviously that is an unacceptable situation and because the ETS is registered against the title of the land, and we have to agree to that, then it is not going to happen. We cannot allow that situation to happen. The cost and risk to us the landowner is far too much for us to accept.

Greenplan doesn't want to see you miss out on what seems to be a windfall from Kyoto forests. We certainly don't want to see your absence from entering the ETS being used by Government to subsidise possibly the aluminium or steel industry. These are after all the culprits in the global warming saga and direct competitors of wood.

Rather we think there has to be possibilities for both of us to work together to capitalise on the situation and increase the return on your investment. The simplest example of this would be to sell credits annually, deposit the funds in the bank and earn compound interest. At harvest the bank would release the fund to pay the landowners liabilities and the surplus goes to the investor.

But it may be better to use the proceeds of carbon credits sold to plant more forests which in turn generate more units to sell. Because forest expenses are tax deductible this further enhances the investment since the deductible expense negates the tax liability of the carbon credit proceeds.

There are other possibilities but until we can see the detail there is really no point getting into serious planning. Some of that detail, such as the carbon accounting system is to be completed by end of October 2007. The detail and tools for measuring carbon are expected by July 2008. MAF has also released a Question and Answer sheet. You can view this by going to [www.greenplan.co.nz/stay-informed/investment-news/carbon-credit-update.aspx](http://www.greenplan.co.nz/stay-informed/investment-news/carbon-credit-update.aspx)

Please rest assured we are following this with intense interest and will keep you informed as and when appropriate. At this stage we are optimistic that there are some interesting and exciting times ahead for forest owners.

Best wishes for the festive season.

John Barton  
Managing Director  
Greenplan Forestry Limited

**SECONDARY MARKET**

November 2007

The following units are for sale. Units marked \* are subject to the clause two procedure, whereby partners in that partnership have a 28 day first option period in which to apply. The units not marked are available for sale to anyone. Please contact Shirley (invest@greenplan.co.nz) at Greenplan for more details.

Partnership Name	Number of Units	Planted	Price
Aratoro No. 13	1	1995	\$11,400.00
Aratoro No. 14	2	1995	From \$11,250.00
Waipa Valley No. 15	1	1995	\$11,500.00
Awakino River No. 16	3	1995	From \$11,250.00
Awakino River No. 19	2	1996	\$9,500.00
Slab Hut No. 21	1	1996	\$9,800.00
Slab Hut No. 22	1	1996	\$9,650.00
Tin Whare No. 26	2	1996	\$10,000.00
Rhodes No. 29	1	1997	\$10,000.00
Stockyards No. 32*	1	1998	\$8,800.00
Miners Creek No. 37	1	1998	\$8,500.00
Huntaway No. 40	1	1999	\$9,000.00
Minormore No. 49	1	2001	\$4,500.00
Headwaters No. 52	2	2001	\$7,200.00
Ducksfield No.53	4	2002	\$7,300.00
Glen Afton No. 54	2	2002	\$7,000.00
Hidden Valley No.56	2	2002	From \$7,000.00
Greatwood No. 57	3	2003	From \$7,000.00
Whalecliffs No.59	1	2003	\$8,000.00
Wayleggo No. 62	1	2004	\$7,300.00

**INDICATIVE NEW ZEALAND RADIALATA PINE LOG PRICES**

Returns to small growers may be lower than those recorded here owing to scale and buyers' margins. These log prices are historical and indicative only and may not correspond to actual prices paid, or grades used, in market transactions. A "best fit" is applied by survey respondents to align company log grade specification with the generic specifications. Direct comparisons with actual market prices may not apply, due to difference between the specification sets. The prices are subject to changes when further data becomes available. The sources for this information are Ministry of Agriculture and Forestry industry contacts.

**2nd Quarter and 12-Quarter Average****As at: July 2007**

Generic Log Type & Pricing Point	June 2007 Quarter	12-quarter Average
<b>EXPORT (NZ\$ per IAS m<sup>3</sup> fo.b.)</b>		
Pruned	112 -133	170
Unpruned A Grade	96 -120	95
Unpruned J Grade	107 - 118	86
Unpruned K Grade	90 -108	83
Pulp	57 - 70	59
<b>DOMESTIC (NZ\$ per tonne delivered at mill)</b>		
P1	123 -141	140
P2	98 - 111	110
S1	91 - 98	87
S2	90 - 94	83
L1 and L2	73 - 96	65
S3 and L3	68 - 82	64
Pulp	40 - 55	43