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GREENPLAN FOREST NEWS

John Barton
Managing Director

I started out to write a fairly detailed but understandable account of emissions trading – that is the ETS or the Emission Trading Scheme. In order to do that I attended two conferences and heard papers by at least two dozen experts. I've read well over a thousand pages of reports – one report, The Carbon Challenge by the Sustainability Council of New Zealand was itself 140 pages. And I've searched the Internet almost daily trying to perfect my knowledge of the subject – emission trading.

But I failed!. I still don't fully understand the subject and frankly I'm not too ashamed to admit that. I have learnt enough to know that some of the commentators in the newspapers don't fully understand either. And some of the submitters to the Select Committee don't understand and I'm sure a lot of our politicians haven't come to grips with the subject.

The whole subject of emissions trading and the all important Kyoto Protocol is complex. Even more so when Europe for example have a different sort of emissions trading to what our government is proposing. Complex too when you realise that New Zealand's fall-back position is afforestation and that is something the rest of the Kyoto signatories, apart from Australia, aren't really into!

What I do know and understand is that a large part of the world, 174 nations in fact, have signed up to Kyoto. And that means 174 nations are committed to reducing their emission of greenhouse gases (GHG's) below the level of emission in 1990.

New Zealand signed the protocol in 1997 and when the protocol was ratified in 2002 this committed New Zealand to a target of reducing emission to 1990 levels during the First Commitment Period from 2008 to 2012, known as "CP1".

[Incidentally you've got to get used to acronyms – I've included a list of some that relate to Kyoto - see page 5].

In the CP1 New Zealand must achieve an annual average emission output over the 5 years of no greater than our 1990 level. The Protocol allows a country to comply with its target by either cutting its own emissions and / or by purchasing credits from other countries – assuming other countries have credits for sale.

So the first thing to get our heads around, and I don't think a lot of New Zealanders have is that the Kyoto Protocol is going to cost all of us a lot of money. And I mean a lot of money!!!

The projected excess over what our government, and we as nation, have committed to is 45 million tonnes (mt) of greenhouse gas. That is 45 mt of gas we have to stop emitting. If we had to buy these credits off-shore what is the likely cost?. Government tends to use $15 per tonne. Most other commentators are at $30. The Europeans who have an active market trading in carbon credits are selling at around €24 E at mid May – that's NZ$50.

Simple multiplication shows that 45 mt is going to cost us between $675 million and $2.25 billion. –that could be as much as $500 per head of population annually or say $2,000 to $3,000 per family!!!

WHAT ARE WE DOING ABOUT EMISSIONS TRADING?

As I write this chapter, the news is that National has withdrawn support for the legislation. Select Committee submissions have been bad for the proposed ETS and there are hints that the scheme may be radically changed. That's okay, the forests just keep on absorbing greenhouse gases!!!

We are concentrating our energy's into what we can do with the emission stored in the forest between planting and the end of 2007. These are not eligible to enter the ETS and we are having difficulty getting them verified for the "Grey Market". With the recently released regional tables we have recalculated the stored emission in Greenplans Forests at around 1.3 million tonnes.

For reasons put forward in our last newsletter we would like to see proceeds for the sale of these, invested in more forests which in turn would enter the ETS and earn more credits as well as growing more timber.

Whilst the politicians and civil servants make up their minds on the shape and detail of the final scheme, there is little we can do or should do. We should keep on learning all we can and keeping up with the developments here and overseas. There are various legal, financial and taxation issues for us to analyse and sort out.

We hope this newsletter makes emission trading much clearer. I have only covered the subject from a foresters perspective but if you want to further your knowledge go to *www.newcarbonfinance.com* and download "Forging a frontier" The State of the Voluntary Carbon Market 2008.

In conclusion and from a very selfish view, the 50,000 plus hectares of forest that has been converted to dairy farms mean less timber for future markets and that's good news for the value of your forest investments.

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There's money in muck!

Greenplan gets a daily email called Carbon Market News from Point Carbon (www.pointcarbon.com) One recent example of a CER or Clean Development Mechanism (which is a nice name given to cleaning up someone else's act) is:

"Japan's Sumitomo Bank will launch a fund focussed on aggregating carbon credits from methane gas capture from 100 Brazilian pig farms which will yield 2 to 3 million CER's – yoink yoink!!"

THE EMISSION TRADING SCHEME (ETS)

The ETS was announced in September 2007 and is currently being made into law, retrospectively effective from January 2008. It is an emissions tax payable in vouchers rather than cash.

Each tonne of emissions released by the sectors covered by the scheme must be paid by surrendering to the Government one unit of an acceptable carbon currency. The acceptable currencies are-

1/ A New Zealand Governments Unit – the NZU.
2/ AAU's issued by the UN to the NZ Government in amounts sufficient to cover our agreed 1990 emission.
3/ RMU's Issued by the UN to the NZ Government for each tonne of carbon sequestered by a Kyoto Forest.
4/ ERU's are awarded for each tonne of emission reduction resulting from a JI (a Joint Implementation agreement).
5/ CER which are issued by the UN for Clean Development Mechanisms in developing countries.

IS THE ETS A TAX?

The NZUs to be traded are not shares in a fixed total volume of allowed emissions. They are simply emission tax vouchers that can be used to cover liable emissions. The scheme is price based and the price is set by the world carbon market. Provided the vouchers are bought and transferred to Government there is no quantitative reduction.

The ETS places no limit on the nations allowed emission nor on those of any sector. It simply says you purchase the vouchers (or credits) with which to pay for your excess emission – if you do you can emit as much as you like. It's a tax on emissions but not a control on emissions.

INVESTOR PROFILE

I bought my trees in 1994 with money left to me by my mother. My mother had become environmentally conscious later in life and I felt that a Greenplan investment would honour her memory.

I had lived in Australia for much of the time since 1994 so hadn't ever have an opportunity to take advantage of a Field Day or visit.

That all changed last weekend when I travelled to Te Kuiti as a part of my birthday celebrations and met up with Matt Barton who had offered to show me around.

I had suggested that we go to the forest floor on a motorbike so you can imagine my surprise when Matt said he had lined up a Polaris bike and wet weather gear to make it possible. (Yes it was wet!!)

Seeing my trees for the first time was amazing. They are tall, big and strong and seem to be enjoying their environment at Arapito Station.

Matt was a wealth of information and I came away understanding a great deal more about my trees and the investment I have made.

I am extremely proud to be involved in forestry all be it in a small way. The forestry investment is one of several things I have in my retirement basket and one that I am immensely proud of. A huge thank you to Matt and his family for spending a Sunday showing me around - if you get the chance to do this go for it!

Liz Inch - Wellington

"Arapito Partnership 4"

INDICATIVE NEW ZEALAND RADIATA 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 differences 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.

(Source: www.maf.govt.nz).

1st Quarter and 12-Quarter Average
As at: April 2008

Generic Log Type & Pricing Point	March 2008 Quarter	12-quarter average
EXPORT (NZ$ per JAS m^3 f.o.b.)		
Pruned	121 - 165	158
Unpruned A Grade	92 - 96	98
Unpruned J Grade	80 - 85	89
Unpruned K Grade	76 - 82	84
Pulp	45 - 62	62
DOMESTIC (NZ$ per tonne delivered at mill)		
P1	118 - 141	135
P2	92 - 107	106
S1	82 - 87	86
S2	57 - 88	83
L1 and L2	57 - 70	67
S3 and L3	57 - 69	66
Pulp	40 - 51	45

Forestry in the Kyoto Agreement

A cynic, after reading about Kyoto should be forgiven for suggesting that forestry is an unwanted participant in the global warming battle. I gather that our negotiators had to battle to get New Zealand's forests accepted as a valid offset ie as distinct from an activity that reduces emissions.

Forestry is an offset – a factory could carry on emitting whilst owning a forest that sequests or locks up an equal amount of emission.

The Europeans in particular don't understand forestry as we know it ie short rotation plantation forestry. They think in terms of indigenous rainforest and forests that might have clothed Europe centuries ago but which they cut down. They are now talking of a new carbon based Kyoto qualifying investment program called REDD (Reducing Emissions from Deforestation and Degradation) whereby rich countries pay poor countries not to cut their trees down.

As one commentator cynically noted "underdeveloped countries with some native forest left can now win on two counts: one when they are paid not to cut down their trees and again when they actually cut down their trees and sell them".

But without forestry offsets, New Zealand's emissions would be in a bad way. Ironically due to forestry, New Zealand is in a bigger mess than we thought we were.

To explain – in 2002 after ratifying the Kyoto Protocol, the Hon. Pete Hodgson told Parliament that "NZ will be a net seller of forest sink credits" Tables showed the country had 110 m ton of annual GHG credits due to forestry offsets (take a bow Greenplan partners) The figures were then annually revised as follows:

2002	110 mt	2005	71 mt
2003	105 mt	2006	57 mt
2004	95 mt	2007	58 mt

The last four years show the effects of deforestation and conversion to farming. And this activity hasn't finished with the big players, Graeme Hart and Kiwi Forests, still converting forests to farms (see deforestation alive and well page 5).

The fact is NZ's forestry has been accepted as a valid offset but our government has been warned not to depend on forestry – ie we must make a reduction in our gross emissions as well as increasing our forestry offsets. Otherwise we could lose Kyoto's recognition of forest offsets.

Only what was planted after 1989 is called a Kyoto forest. They will sequester about 78 > mt's annually.

New Zealand has approx 500,000 ha of Kyoto forest. In addition we have 1.2 million ha of pre-1990 exotic forest and 6.4 million ha of indigenous forest of which 77% is owned by the crown.

So that's 7.6 million ha of forest which don't qualify as a Kyoto Forest because it was there in 1990 and obviously contributing to our 1990 emission levels. The name of the game is to get our present emission levels down to 1990 levels so it's only what has been planted since 1990 that is relevant.

MISSING PERSONS

Does anybody know the whereabouts of these people?
If so please contact the Greenplan office on 0800 800 154

INVESTOR	AREA LAST RECORDED	INVESTOR	AREA LAST RECORDED
Daniel Herbison	NT, Australia	Judi Jones	Alaska, USA
Gerald & Lyndley Field	Milford, Auckland	Peter Aitken	Kamo, Whangarei
Hee Soon Lee	Seoul, Korea	Anthony Higton	Queensland, Australia
Jin Yub Lee	Korea	Amir Angullia	Singapore
Shaun Daly & Phillipa Millanta	Henderson, Auckland	Robert Hard	Trentham, Upper Hutt
Sarah Wood	Torquay, Australia	Tim & Susan Stephenson	New Plymouth
Hwan Man Park	Korea	Brendan & Monica Johns	Ellerslie, Auckland
Craig Letham	Browns Bay, Auckland	Selena Peri	Trentham, Upper Hutt
Darren Turnbull	Surrey, England	Shane Watters	Wellington
Manaia Fenton	Floreat, Western Australia	Joel MacKenzie	Mooroolbark, Australia
Tam Or	Epsom, Auckland	Graeme & Rosalind Brenssell	Beckenham, Christchurch
Yi Suk Jeong	NSW, Australia	Andrew & Davina Bruere	Whakatane
Sung Mi Kim	Seoul, Korea	Jung Whan Choi	Korea
Scott Wenborn	Christchurch	Barry Dalton	Hamilton
Bart Braat	Sunnynook, Auckland	John & Tania Drower	Christchurch

HOW DO GREENPLAN'S FORESTS FIT IN?

You, our Greenplan forest owners, have some 1.3 mt of credits for your forests planted between 1994 and 2008. The Kyoto Protocol doesn't recognise them (until you cut them down) but there is a voluntary market which sort of recognises and values them but for one impediment – that is a curious word called "additionality".

There are quite a few standards that have been created to ensure by ratification that a "tonne of carbon is a tonne of carbon" To name a few there is the:

- Gold Standard
- Chicago Climate Exchange (CCX)
- Greenhouse Friendly Initiative – an Australian one
- ISO 14064
- Voluntary Carbon Standard
- Plan Vivo
- And others

All of them have a standard titled "additionality".

Basically what it says is " this emission reduction would not have occurred without receipt of payment for the credits created".

Using forestry as an example – the standards say that NZ plantation forestry planted between 1990 and 2008 was planted for timber – it was a timber investment and would have been planted whether there was an ETS paying for Carbon Credits or not!. Now that is quite correct. All our investors entered Greenplan to grow timber.

But this sort of ignores the fact that these forests have sequested and stored millions of tonnes of carbon between 1990 and 2008 and it's still being stored. If we cut them down we would have to pay a price for the carbon released so why not reward us for the carbon stored?

This is where the Voluntary Market comes in.

The ETS is part of Kyoto which is what we can call the regulatory market. Kyoto as we have stressed is a legally binding agreement between nations and administered by the UNFCC, the United Nations Framework Convention on Climate Change. The regulatory market is based on a cap and trade model which means a country will agree to cap emissions at a certain level and use trade in carbon credits to incentives emitters to reduce emission or else be disadvantaged financially.

There is no such compulsion to enter the voluntary market. Every participant is doing so for different reasons. A recent survey listed the most common reasons as being:

- Sustainability reporting / internal goals
- Corporate responsibility / environmental ethics
- Public relations / branding
- Sales of carbon neutral products
- Anticipation of regulation
- "Walking the talk"

In New Zealand the voluntary market is being promoted by the likes of Landcare Research. Others such as Contact Energy and Intercity Buses are also offering, for a few dollars to offset your carbon footprint.

Its sort of fashionable to say I've just flown in from London and I know the plane used a lot of fuel and caused a bit more pollution but its okay because I paid a bit of money to the airline to plant a tree for me on a hillside in upper Mongolia!!!

And this sort of thing is catching. The largest public utility in the US, Pacific Gas and Electricity recently launched its "climate smart" program whereby its customers are given the opportunity to voluntary offset their carbon emission directly via their power bills. Also Dell, Delta, Google, Yahoo, Nike, Sky and Origin energy have announced they will be buying millions of tonnes of carbon offsets from voluntary markets.

So at this stage we at Greenplan are looking hard at the Voluntary Market in respect to the 1.3 mt of Carbon we have stored between 1994 and 2008.

I have already referred to additionality as being a problem and it would appear to be that at the moment we have no way round it. We argue that whilst our partners may have planted trees for timber and not for carbon offsets, these trees have nevertheless captured 1.3 mt of the stuff and just as we will be paid after 2008, why shouldn't we be paid for the 1.3 mt received before 2008.

Russia is selling millions of tonnes of carbon credits right now. Some of it is being sought by the NZ Government. They have a lot of credits because with the collapse of Communism hundreds of factories and manufacturing plants closed down or reduced output. Consequently their emissions now are much less than they were in 1990. That creates credits which once verified can be sold.

Sounds crazy but its true. The market calls them "Hot Air Credits". They are worth about $6 per tonne compared to $30 for credits originating in a wind farm, for example. But they are saleable and I find it hard to accept the so called lack of "additionality" for our forests when compared to the Russian Credits.

There is a ray of hope out there. We understand a new standard is being formulated in New Zealand which hopes to reflect more accurately the New Zealand short rotation plantation forestry offset.

Deforestation

KYOTO ACRONYMS

AAU Assigned Amount Unit, a Kyoto credit issued free by the UNFCCC to countries such as New Zealand, in amounts sufficient to cover each country's negotiated Kyoto target emissions.

BAU Business-as-usual, the projected future path of the economy in the absence of policies to affect emissions.

CDM Clean Development Mechanism, a Kyoto Protocol mechanism allowing industrialised countries with greenhouse gas reduction commitments to invest in projects that reduce emissions in developing countries, as an alternative to more expensive emission reductions in their own countries.

CER Certified Emission Reduction, a Kyoto credit issued by the UNFCCC to reward Clean Development Mechanism (CDM) projects in developing countries.

CP1 The First Commitment Period of the Kyoto Protocol, running for five years from 2008 to 2012.

CP2 The Second Commitment Period of the Kyoto Protocol, commencing in 2013.

CPR Commitment Period Reserve.

ERU Emission Reduction Unit, a Kyoto credit awarded for one tonne of emission reduction resulting from a Joint Implementation (JI) project.

FCCC Framework Convention on Climate Change; see also UNFCCC.

GHGs Greenhouse gases.

GPC Greenhouse Policy Coalition.

JI Joint Implementation, a Kyoto Protocol mechanism under which any Annex 1 country can invest in emission reduction projects (referred to as "Joint Implementation Projects") in any other Annex 1 country, as an alternative to reducing emissions domestically.

LULUCF Land use, Land-use Change, and Forestry.

Mt Million metric tonnes of carbon-dioxide-equivalent emissions.

NZU New Zealand Unit, the New Zealand Government's proposed emission credit, to be issued by the Government and then accepted back as an alternative to the Kyoto currencies as a means for emitters to cover their greenhouse gas emissions.

PFSI Permanent Forest Sinks Initiative.

RMU Removal Unit, a Kyoto credit issued by the United Nations to reward the absorption of greenhouse gases from the atmosphere into "carbon sinks".

tC Tonne of carbon.

t CO2-e Tonne of carbon dioxide equivalent emissions.

UNFCCC United Nations Framework Convention on Climate Change.

DEFORESTRATION ALIVE AND WELL

Matthew & I recently visited much of the huge 160,000 hectare Kinleith Forest in and around Tokoroa. Formerly owned by CHH Forests before being sold to Graeme Hart (New Zealand's only Billionaire) who on-sold a large amount of it to an overseas pension fund. Hart retained most of the easier forest land and has over the last 2 years been clearing the forest off it and converting it to dairy farms.

©GREENPEACE/John Cowpland

"Taupo Deforestation"

Our contacts suggested 50,000 Ha of Kinleith Forest will be grazing dairy cows within a year or two – a lot of it will be milking this season.

In the future and under the proposed Emission Trading Scheme, Graeme Hart and others will have to pay the Government for Greenhouse gases released into the atmosphere as a result of clearing the forest. The amount released is calculated by regional tables and for Kinleith, if the trees removed averaged say 25 years of age, then 50,000 ha equals 33 mt of GHG.

Because most of this deforestation was done before 1st January 2008 there is no emision tax to pay but if further clearing continues there will be. But for the NZ Government that 33 mt contributes greatly to our projected 45 million tonnes of excess emissions over 1990 levels and that means the Government and the taxpayer will pay the cost.

There is also another way of looking at deforestation.

If that 50,000 ha hadn't been cleared, the forest would still be offsetting GHG,s at the rate of about 1.5mt per year.

And then there are the dairy cows that will be grazing the land. We reckon about 100,000 cows. Now the national dairy herd of 5.1 million dairy cattle produce about 17% of all NZ's GHG's. We calculate that 100,000 cows could produce about 700,000 tonnes of GHG's so the effects of 50,000 ha deforestation on NZ's emission balance sheet going forward are-

Reduction in offsetting ability 1.5 million tonnes
Increase in agricultural gases 0.7 million tonnes
2.2 million tonnes

At $30 per tonne that's $66 million. And the bad news is that deforestation will probably continue.

SECONDARY MARKET UNITS FOR SALE

SECONDARY MARKET

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
Arapito No.12*	1	1995	$11,000
Aratoro No.13	1	1995	$11,400
Aratoro No.14	2	1995	From $10,500
Waipa Valley No.15*	2	1995	From $10,500
Awakino River No.16*	3	1995	From $10,000
Awakino River No.17	1	1995	$11,000
Awakino River No.19*	3	1996	From $9,200
Slab Hut No.21	1	1996	$9,800
Tin Whare No.26	1	1996	$10,000
Touchwood No.27*	2	1996	From $8,995
Rim Rock No.33*	1	1997	$4,900 1/2 ha
Jones No.39	1	1999	$4,750 1/2 ha
Wild Boar No.43	1	1999	$4,500 1/2 ha
Centurion No.45	1	2000	$7,850
Tunnel Rock No.46	1	2000	$7,500
Minormore No.49	1	2001	$4,500 1/2 ha
Twin Rivers No.51	1	2001	$7,500
Ducksfield No.53	4	2002	From $6,995
Greatwood No.57	3	2003	From $7,000
Woodview No.58	3	2003	From $6,350
Whitecliffs No.59	3	2003	From $7,500
Pinegrove No.61	2	2003	From $7,150
Wayleggo No.62	2	2004	From $7,000
Scotts Bush No.63	2	2004	$7,500

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