



## Introduction- First Newsletter

PFI has decided to produce a regular newsletter to help the growing community of PFSI participants and their advisers keep informed about issues and developments in carbon forestry that will affect their interests.

Launching a newsletter is timely because of the current consultations on the Field Measurement Approach, and the pending review of the PFSI by a MAF appointed committee.

This issue will summarise a number of topics but will focus on the Field Measurement Approach (FMA).

## Field Measurement- Public Consultation

MAF have distributed two FMA documents for public consultation. **Submissions close 5pm 16<sup>th</sup> November 2010.** The FMA documents and the submission forms can be accessed at [www.maf.govt.nz/mafnet/consultation.htm](http://www.maf.govt.nz/mafnet/consultation.htm).

PFI have two main concerns with the proposed FMA and we urge PFSI forest owners to make submissions. The FMA as formulated may meet the needs of MAF and large scale commercial ETS forests but falls short for PFSI participants who are growing dedicated carbon forests.

### *Summary of Field Measurement Proposal & PFI Concerns:*

- FMA only applies to participants who own more than 100ha of ETS/PFSI forests. Owners of less than 100ha cannot opt to measure their forest
- FMA imposes an 'averaging approach' across a forest owners entire forest holding treating the entire forest estate as one strata for sampling ignoring different species/age/regimes/and geographic location.

We believe it is important for PFSI participants to have the option, regardless of their forest holding size, to measure their forests to maximise carbon issuance and confidence levels. It is also important for the credibility of the PFSI mechanism. Accurate measurement is one of the fundamental attributes expected by international forest carbon standards and from discerning carbon buyers.

In our submission we suggest a higher standard of measurement should be allowed as an option for PFSI participants. This should be a matter of choice as incurring additional expense to improve accuracy is a commercial decision for individual participants to make. It should not be mandatory.

If forests smaller than 100ha cannot use field measurement this may impose considerable underestimates of carbon stocks (and a corresponding loss of income) on many forest owners.

### Contents:

- Introduction
- Field Measurement- Public Consultation
- PFI Carbon Sales- Review
- PFSI Carbon Market- Outlook
- Revised Indigenous Lookup Table
- MAF Review of the PFSI
- UN Climate Change Conference- Cancun

This rule will also remove any incentive for PFSI forest owners with less than 100ha to manage their forests so as to maximise carbon sequestration. It would remove commercial reward for best practice carbon forestry.

We also argue for a stratification option for PFSI participants. When forest types vary significantly, breaking these variations into sub groups greatly reduces sampling error and improves accuracy.

To balance costs versus accuracy we also propose that where parties opt for greater stratification the minimum number of plots should be lowered for smaller strata. The current FMA proposes a minimum of 30 plots for 100ha, however if small strata (<25ha) are allowed then a smaller number of plots should be permissible (e.g. 10 plots).

In summary we urge PFSI forest owners to submit that all PFSI participants should be given the option to measure their forests, and additionally to have the option to stratify distinct forest types to improve accuracy of measurement

We are limiting our request to apply to the PFSI only because we believe the issues we raise are more important for PFSI forests and MAF are more likely to allow for this flexibility if ETS forests are not involved. Field measurement options for numerous smaller ETS forests will impose significantly more cost and time upon MAF.

## PFI Carbon Sales - Review

As we approach the end of 2010 we are pleased to announce that all the carbon that forest owners have entrusted with PFI to market has been sold.

We have sold over 330,000 tonnes of carbon from 18 of the 20 registered PFSI projects. We believe this represents over 95% of all PFSI carbon sold to date.

Over the last 12 months PFI have achieved a number of milestones which reflects not only our efforts but also the integrity of the PFSI as a special carbon forestry mechanism.

We have established relationships with many global carbon buyers and with a large number of emitters with



compliance obligations under the NZ ETS.

We continue to have success marketing our PFSI voluntary emissions unit (Pre-PFSI VERs) with ongoing large sales in Europe and North America and in July we negotiated our first sales into New Zealand. While the NZ transactions were relatively small it was a good sign to see local interest in this product.

### Market Education

Over the past two years we have focused on educating overseas markets to accept PFSI AAUs and recognise them as a premium carbon unit. Marketing forestry based AAUs is especially difficult because both AAUs and forestry are excluded from most of the global trade including the EU Emission Trading Scheme which accounts for about 80% of the market.

In addition to problems with market access we have also faced difficulty with pricing. Because of the vast abundance of 'Hot Air' AAUs from Eastern European Countries prices paid for AAUs is generally quite low compared with other Kyoto units. Over the past 6 months the CER carbon price has averaged around €13 while the average AAU price was €6/tonne.

Educating overseas buyers and policy makers is an important strategy for de-risking future sales by ensuring PFSI forest owners have access to the best priced markets and are not solely reliant on the NZ ETS.

Our efforts have paid off, with a number of important transactions with overseas buyers, and with some European sovereign buyer's approving PFSI AAUs for future purchase. We have also achieved premium prices for PFSI forest owners over the prevailing the NZU price in all these transactions. Last month we also concluded a major sale of PFSI AAU's with a NZ emitter at a good price.

### NZ Carbon Market

Back in New Zealand the price of NZU's has recently increased significantly and now sits around the \$20/NZU mark which comes closer to where we believe PFSI AAUs should be transacted in the spot market.

Overall most NZ emitters have shown little interest in paying more for carbon units from PFSI projects. As they grapple with the first ETS period their focus is compliance at the least cost possible.

We believe as the NZ ETS matures this viewpoint will change and more emitters, especially those with a public profile, will dedicate some of their carbon compliance strategy to supporting deserving projects.

There are positive signs this is starting to happen. As mentioned we made our first significant transaction of PFSI AAUs to a high profile NZ emitter in October. The sale involved an aggregation of PFSI AAUs from 6 different projects.

### PFSI Carbon Market- Outlook

Demand for our voluntary product remains strong with interest growing in Europe and North America. Pricing remains competitive against other voluntary units.

With regard to PFSI AAUs the New Zealand carbon market is looking increasingly attractive given three factors; the slight slump in the international CER price, the strengthening NZ dollar, and the rise in the NZU spot price.

In addition, the overseas demand for Kyoto units has slowed to an almost standstill as most of the Kyoto countries are now fully contracted to meet their compliance targets. However, many of the contracted credits are on a forward basis and originate from high risk projects in developing countries and Eastern Europe. Delivery failure is expected on a large scale. From our discussions with overseas parties we expect demand to pick up in the second half of 2011 as delivery failures become more apparent. A number of buyers have approved the use of PFSI AAUs for substitutes against future delivery failure of Kyoto CERs and ERUs.

In the meantime we believe the NZ market is close to a high point for pricing. Buyers are not willing to push prices up and it is fair to say that as ETS post-1989 foresters receive their NZUs early next year a large volume of NZUs should enter the market and prices will drop.

We believe now is timely to negotiate with Buyers for forward sales with delivery for February- March 2011. We have commenced negotiations with a number of NZ emitters around this option.

Contact us if you are interested in participating in one of our aggregations for forward sales.

### Revised Indigenous Look Up Table

On the 01 October 2010 amendments to the Climate Change (Forest Sector) Regulations 2008 came into force implementing a revised Look-up table for indigenous forest to replace the simplistic 3tCO<sub>2</sub>/ha per year model.

The new model is intended to represent NZ average sequestration rates however it is widely considered as much too optimistic.

When the new model was proposed by MAF we submitted



strongly that the model was far too generous for many sites across NZ and that a preferred approach would be to have at least 3 different sequestration rates based on varying site productivities.

Given that the generous approach has been adopted in the Regulations we urge indigenous forest owners to be very careful they do not oversell their carbon stocks and risk having to repay carbon when actual yields are confirmed by field measurement.

Owners of indigenous forest should discuss with their forestry consultants about how much carbon can be safely sold from their forest. We are also happy to discuss this issue with you.

### **MAF Review of the PFSI**

When the Maori Party agreed to support the National governments amendments to the NZ ETS last year it was conditional upon MAF undertaking a review of its sustainable programs which includes, the East Coast Forestry Project, the Afforestation Grant Scheme, and the Permanent Forest Sink Initiative.

This review will begin before the end of 2010. We understand that a committee has been appointed and terms of reference have been agreed to.

We do not anticipate any major changes to the PFSI and the review should mostly be procedural. However, we are currently asking all parties involved with the PFSI to write letters of support reiterating its importance as a unique and high integrity carbon forestry mechanism separate from the ETS.

We are reaching out for support to a wide range of contacts that we have worked closely with including; international and New Zealand carbon buyers, non-governmental environmental organisations, international carbon forestry associations, NZ political parties, NZ forest consultants, and PFSI forest owners.

PFI will update all concerned parties as to how comments for the review committee can be conveyed.

### **UN Climate Change Conference- Cancun**

The United Nations Climate Change Conference (COP 16) is being held at the end of November in Cancun, Mexico. Mark Belton has attended the last three UNFCCC conferences; twice as part of the NZ Government delegation, and last year as a guest of Victoria University. Mark will be attending once again as a Victoria University delegate.

The annual COP meetings provide a unique opportunity for engaging with UNFCCC post-Kyoto negotiations and developments in carbon markets, carbon forestry methodologies, project developers and carbon buyers.

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