



## Introduction- Special Update

It has been 8 months since our last newsletter at the end of December 2010. Needless to say a lot has been happening in Christchurch over this last year and business as usual has been somewhat disrupted with the earthquakes.

There have been many developments this year in regards to carbon markets (local and international), international policy, and updates relevant specifically to the Permanent Forest Sink Initiative.

We will be releasing an update within the coming week summarising the major developments, including the outcome of our trip to Europe and North America in June promoting the PFSI to overseas policymakers and carbon buyers.

This issue is a special update to announce the release of the Review Panels report on the Review of the MAF Afforestation Schemes, including the Permanent Forest Sink Initiative.

The full report can be found at [www.maf.govt.nz/Default.aspx?TabId=126&id=1124](http://www.maf.govt.nz/Default.aspx?TabId=126&id=1124).

## Release of Review of MAF Afforestation Scheme

The Review Panel Report on the Review of the MAF Afforestation Schemes was completed on 23 June 2011 and publicly released on 15 August 2011.

The Review Panel received 52 submissions. We requested copies of the submissions and had access to 48 of them. The PFSI had submissions in support from a wide ranging group including NGOs, such as Greenpeace and the Sustainability Council, existing PFSI landowners, carbon market buyers, consultants, and local councils.

Overall the Review Panel recommends the continuation of the PFSI. The report is favourable and positively frames the PFSI within the context of its original objectives and also in terms of its achievements to date.

We had concerns with the Consultation Document as outlined in our December 2010 Newsletter, because it implied the PFSI was not achieving its objectives. It stated the objective was to encourage new plantings and that only 147ha had been established. We believe this prejudiced some of the submissions against the PFSI.

The Review Panel affirms that the PFSI objective is in fact to allow landowners to access the value of carbon in their forests and that up to 1000ha of new forests have been registered.

The Report notes that 31 Covenants have been registered

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(as of March 2011) covering 7141ha with a further 8 approved but not yet registered. While applications have declined since the introduction of the ETS there are a number of applications in the pipeline. (According to the latest MAF information 15 projects totalling 5,000ha are currently being processed).

We are pleased with the outcome of the Review Panel Report with the key recommendations supporting the continuation of the PFSI, maintaining the current covenant, keeping the PFSI under separate legislation from the ETS, and not diluting the harvesting restrictions.

## Panel Recommendation

1. Continuing the PFSI;
2. Maintaining separate legislation for the PFSI and the ETS (Forestry) until the post-2012 situation becomes apparent;
3. Maintaining the current covenant and harvesting option;
4. Engaging in dialogue with the Maori Land Court to establish a clearer basis for adopting PFSI covenants under Trust orders;
5. Introducing eligibility criteria for regenerating indigenous forests that operate on a management unit basis and focus on human activities to achieve land use change;
6. Progressing work with Landcare Research to revise the indigenous forest lookup table, and considering the reliability of the radiata pine tables;
7. Investigating a self-insurance scheme with either the Government withholding some carbon credits from individual participants or facilitating the development of a scheme administered by the participants;
8. Addressing administrative improvements identified in Table 6 (page 29);
9. Recording and monitoring the actual costs of administration.

The Report recognises that the mechanism is being delivered at a minimal cost to the Crown and that it delivers "co-benefits to the Crown, local authorities and landowners in terms of biodiversity, water, soil and carbon values and



contributes to sustainable land use.”

The Panel conclude:

*“In summary, the PFSI has provided a small-scale, niche mechanism built around permanency of forests that is regarded as having less uncertainty than the ETS (Forestry), and has enabled landowners to access regulatory and voluntary markets for carbon. It is premature to draw definitive conclusions on the success of such a different forestry scheme after only 3 years.”*

### Further Issues Raised

In addition, the Panel list a range of other topics which were raised by submissions that went beyond the scope of the Review but are deemed potentially relevant. These are:

- Should the harvesting restriction apply to the whole sink area rather than each hectare?
- Recognition that access beyond 2012 to AAUs is uncertain, but that ongoing access to international units has significant advantages (although NZUs may be okay if they can be tracked back to the project).
- Government could guarantee a minimum carbon price, or set a floor price for a certain quantity of carbon from a project, which would transfer the risk of start-up investments to the Crown and encourage participation.
- The portion of land purchase price attributable to standing timber can only be deducted against proceeds from harvesting, but a PFSI forest may never be harvested and can earn taxable income from carbon immediately.
- There is a taxation anomaly where no deductions are permitted for contingent or potential liabilities arising from the sale of carbon sinks which could be addressed by an accrual assessment allowing for the future cost of replacement, adjusted annually to reflect the potential liability arising.
- Under current rules anyone switching from the ETS (Forestry) to the PFSI must repay all issued NZUs which can pose a significant obstacle (if the NZUs have been sold and there is a lag in earning AAUs).
- Better promotion of the fact that riparian strips alongside a stream qualify for the PFSI if the stream width (or gap between the two riparian strips) is less than 15 metres.
- Administration is too conservative regarding scrub land eligibility and more flexibility would not encounter international opposition.

- There is a lack of any one visible MAF person leading and championing the PFSI, and a lack of strong promotion and publicity of the PFSI compared to other schemes.
- There is a lack of MAF team skills with respect to understanding the intricacies of indigenous forest regeneration, and centralising processing (rather than regionalising) could assist develop these skill.

Our company has raised most of these issues with MAF and IRD and will continue to do so to try and improve the PFSI mechanism for all participants.

### Next Steps:

Now that the Review Panel has completed its report the Minister, Hon. David Carter will consider what changes if any are to be implemented.

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