

GreenAir



*Take advantage of the
New Zealand carbon forestry
opportunities*



www.greenairgroup.com

The emerging New Zealand carbon forestry market

The New Zealand Government's Permanent Forest Sink Initiative and the Emissions Trading Scheme provide forest owners with opportunities to generate revenue by maintaining existing forest or developing new forest projects.

GreenAir Ltd specialises in carbon credit projects and can assist New Zealand forest owners to take advantage of carbon opportunities with virtually no risk or upfront costs.

Carbon credits and forestry

Under the Kyoto Protocol, carbon 'credits' are created by either reducing emissions of greenhouse gases or sequestering (absorbing) carbon through forests. Carbon credits can be bought and sold in national and international carbon credit markets, at a price determined by the market.

Businesses or countries purchase carbon credits to offset the greenhouse gas emissions they may have produced through activities such as:

- Deforestation (conversion of forest land to non-forest land),
- Burning fossil fuels for energy use, or
- Other activities that emit greenhouse gases into the atmosphere.

The unit of measure for carbon credits is tonnes of carbon dioxide equivalent (tCO₂e) of greenhouse gas emissions reduced or absorbed from the atmosphere.

As forest sequesters CO₂, carbon credits can be generated from activities such as sustainable forest management, afforestation and reforestation.

Kyoto definition of afforestation and reforestation

Afforestation is the direct human-induced conversion of land that has not been forested for a period of at least 50 years to forested land through planting, seeding and/or the human-induced promotion of natural seed sources.

Reforestation is the direct human-induced conversion of non-forested land to forested land through planting, seeding and/or the human-induced promotion of natural seed sources, on land that was forested but that has been converted to non-forested land. For the first commitment period of the Kyoto Protocol (2008-2012), reforestation activities are limited to reforestation occurring on those lands that did not contain forest on 31 December 1989.

New Zealand carbon forestry opportunities

In New Zealand, there are two schemes that generate forest carbon credits.

The New Zealand Emissions Trading Scheme (ETS) awards forest owners carbon credits called New Zealand Units, or NZUs, for carbon sequestered in a forest sink.

NZUs can be sold on the domestic market or potentially converted to international Kyoto carbon credits called Assigned Amount Units (AAUs) for trading offshore. AAUs are currently valued more highly than NZUs.

The Permanent Forest Sink Initiative (PFSI) awards forest owners AAUs rather than NZUs for carbon sequestered in a *permanent* forest sink, which is required to be maintained for a minimum of 50 years. Due to the permanency of the forest these AAUs attract a premium on the international market.

NZUs and AAUs can be forward sold as soon as the project is registered with GreenAir, with payment made once the credits have been received by the buyer.

The ETS and PFSI schemes both have advantages depending on the project objectives and GreenAir will work with forest owners to select the most appropriate option.

Trading AAUs on the international market

A key factor in trading NZUs and AAUs that has implications for carbon credit revenue is the potential limit that will apply to selling AAUs offshore.

Under the Kyoto Protocol's Commitment Period Reserve the Government must retain 90% of its assigned amount or allowed emissions in the Emissions Unit Registry at any one time during the first commitment period (2008-2012).

Because of this the maximum amount of Kyoto units that can be traded offshore between 2008-2012 is limited to approximately 30.9 million (10% of New Zealand's total allocation of 309 million), of which approximately 7.5 million have already been allocated to participants in the Government's Projects to Reduce Emissions (PRE) scheme.

This means approximately 23 million units are currently available for trading offshore during the first commitment period on a first come first served basis.

This amount may increase if Kyoto units are bought into the country (increasing the total amount in the Emissions Unit Registry) however there are no guarantees this will occur.

Once the limit of 23 million has been reached, forest owners will not be able to convert NZUs to AAUs or trade AAUs offshore.

Forest owners who move to forward sell and register their projects quickly will ensure they are best positioned to trade AAUs offshore and maximise revenue opportunities.

Kyoto definition of forest

"Forest" is a minimum area of land of 1.0 hectare with tree crown cover (or equivalent stocking level) of more than 30 percent with trees with the potential to reach a minimum height of 5 metres at maturity in situ. A forest may consist either of closed forest formations where trees of various storeys and undergrowth cover a high proportion of the ground or open forest. Young natural stands and all plantations which have yet to reach a crown density of 30 percent or tree height of 5 metres are included under forest, as are areas normally forming part of the forest area which are temporarily unstocked as a result of human intervention such as harvesting or natural causes but which are expected to revert to forest.

As well, the forest must be greater than 30 metres wide (this additional restriction excludes windbreaks and some riparian forest areas, which are common in New Zealand agriculture).

Carbon forestry opportunity 1: Permanent Forest Sink Initiative scheme (PFSI)

Under the PFSI, forest owners can generate carbon credit revenue from new or existing forest established since 1 January 1990.

The scheme awards AAUs for carbon sequestered from 1 January 2008 in a permanent forest sink (a forest sink covenant applies for a minimum of 50 years). Forest owners must submit an annual carbon stock return to receive credits annually.

To be eligible to earn AAUs under the PFSI, the land must not have contained forest on 31 December 1989, and there must have been a change in land management practices since then to promote forest growth.

The owner will be required to surrender AAUs to the Government equivalent to any decrease in the carbon stock of the forest, however with a carbon management plan any liabilities can be balanced against the AAUs generated.

Key points:

- The PFSI is ideal for land suited to indigenous reversion,
- AAUs from the PFSI are likely to attract a higher premium than AAUs from the ETS, due to the permanency of the forest.

Obligations

- A forest sink covenant will be registered against the land title for a minimum of 50 years,
- While the forest owner can terminate the covenant after 50 years they must repay all AAUs issued (no penalty applies if the forest owner transfers to the ETS prior to 25 March 2010),
- The forest sink must be maintained through continuous canopy management (harvesting restrictions apply),
- The forest owner is liable for any negative carbon stock changes from the date of joining, however this is capped at the amount of AAUs issued.

Carbon forestry opportunity 2: Emissions Trading Scheme (ETS)

The New Zealand ETS allows forest owners to generate carbon credit revenue from new or existing forest established since 1 January 1990.

The scheme awards NZUs for carbon sequestered from 1 January 2008 and there is also a one-off allocation of NZUs for pre-1990 exotic forest.

Potential ETS projects fall into three categories:

1. Pre-1990 exotic forest,
2. Existing exotic or indigenous forest established since 1 January 1990,
3. New exotic or indigenous forest.

All owners of pre-1990 forests will automatically be in the ETS, but owners of pre-1990 forests of less than 50 hectares can apply for an exemption.

Owners of land that became forest after the beginning of 1990 or new forest can apply to join the ETS. If the forest is not owned by the landowner and a registered forestry right or registered lease applies the holder of that forestry right or lease will be the participant, however both parties will need to agree to the forest entering the ETS.

1. Pre-1990 exotic forest

Under the ETS, owners of exotic forests that were planted pre-1990 are entitled to a one-off grant of NZUs from the Government. The allocation is to compensate owners for future deforestation responsibilities, which are incurred if the land is converted to non-forest land.

The amount of the allocation is based on the size of the forest and depends on when the forest was purchased. If purchased prior to 31 October 2002, the allocation will be approximately 60 NZUs per hectare. If purchased after this date, the allocation will be approximately 39 NZUs per hectare.

The allocation will be made in three tranches and is expected to be issued by the Government in late 2009. The first of the tranches will be allocated for forests closest to harvesting age, and the other two will be post-dated for medium to young age forests respectively, to be used closer to harvesting age (after 2012).

To avoid future deforestation liabilities, the owner will need to ensure the forest is maintained. The trees can be harvested however, provided the forest is subsequently replanted, or allowed to regenerate.

Key points

- Owners of exotic forest planted pre-1990 will receive a one-off grant of NZUs based on the size of the forest and the date the forest was purchased,
- The allocation is low-risk provided the forest owner intends to maintain the forest,
- NZUs can be traded domestically and potentially converted to AAUs for trading offshore,
- The NZUs will be allocated in three tranches and this is expected to occur in late 2009.

Obligations

- The forest owner will be subject to emission liabilities if the forest is deforested (converted to non-forest land).

2. Existing forest established since 1 January 1990

Owners of existing forest established since 1 January 1990 on eligible land (land that was not forest land as at 31 December 1989) will be awarded NZUs for carbon sequestered from 1 January 2008. Forest owners must submit an annual carbon stock return to receive credits annually.

The owner will be required to surrender NZUs to the Government equivalent to any decrease in the carbon stock of the forest, however with a carbon management plan any liabilities can be balanced against the NZUs generated.

Key points

- No harvesting restrictions apply,
- NZUs can be traded domestically and potentially converted to AAUs for trading offshore.

Obligations

- While the forest owner can exit the scheme at any time they must repay all NZUs issued,
- The forest owner is liable for any negative carbon stock changes from the date of joining, however this is capped at the amount of NZUs issued.

Carbon forestry opportunity 2: Emissions Trading Scheme (ETS) – Continued.

3. New exotic or indigenous forest

For new forest established from 2008 through afforestation or reforestation activities, or the promotion of natural regeneration of forest (provided it meets the Kyoto definition of forest), the owner will be awarded NZUs for carbon sequestered each year. Forest owners must submit an annual carbon stock return to receive credits annually.

Only forests that are established on eligible land can earn NZUs, and only for carbon sequestered from 1 January 2008. For this type of project, eligible land is:

- Land that was not forest land as at 31 December 1989,
- Forest land that was deforested between 1 January 1990 and 1 January 2008,
- Forest land that was deforested after 1 January 2008 and for which any liabilities incurred by the Crown (for carbon emitted) have been remitted to the Crown.

Key points

- No harvesting restrictions apply,
- NZUs can be traded domestically and potentially converted to AAUs for trading offshore.

Obligations

- While the forest owner can exit the scheme at any time they must repay all NZUs issued,
- The forest owner is liable for any negative carbon stock changes from the date of joining, however this is capped at the amount of NZUs issued.

What is the investment associated with a carbon forestry project?

The owners of existing or new forest who wish to take advantage of carbon opportunities will need to undertake the following:

- Confirmation of the forest location boundaries and stocked area,
- Assessment of the land/forest eligibility,
- Quantification of the carbon stock and future sequestration rates,
- Registration costs associated with the PFSI or ETS,
- Brokerage and transacting costs to sell the carbon credits.

As part of GreenAir's end-to-end service, we can fund the upfront investment required to develop a forest carbon credit project in New Zealand.

What are the future obligations?

Forest owners who register under PFSI/ETS could face the following future obligations:

- Maintaining pre-1990 forest,
- Submitting AAUs or NZUs to cover negative carbon stock changes in post-1989 existing or new forest.

GreenAir can work with forest owners to develop a suitable carbon management plan to meet any future responsibilities.

What are the risks?

Carbon is a new industry based on the Kyoto Protocol and government regulations within New Zealand. As with any new market, there are some potential risks for forest owners:

- The Government may change the laws relating to carbon over time,
- The price of carbon is based on supply and demand,
- Owners are committing to long-term sustainable forest management.

With expertise in the carbon credit market, GreenAir will focus on getting the best outcome for forest owners by providing the most up to date information available at the time.

Who is GreenAir?

One of the world's fastest growing carbon credit companies, GreenAir is involved in every aspect of the carbon credit value chain.

A global company with a strong presence in New Zealand, GreenAir provides initial funding and expertise to commercialise projects, and brokering services.

The company has a number of established projects in Asia, South America, Australia, New Zealand and the Pacific.

How can GreenAir help forest owners?

GreenAir offers a complete service to commercialise carbon credit projects. These services are provided in exchange for a percentage of the revenue generated by the resulting carbon credits, enabling forest owners to commercialise a carbon credit project with virtually no risk or upfront costs.

Specifically, GreenAir can:

- Provide services and funding to complete the quantification and registration of a potential forest carbon credit project in New Zealand,
- Provide brokering services to sell forest carbon credits on the national and international market.

Broking expertise that delivers a better sale price

With established relationships with leading carbon brokers as well as direct buyers, GreenAir will ensure forest owners receive the best price for carbon credits on the national or international carbon market.

GreenAir commercialises and trades the major types of carbon credits:

- Assigned Amount Units (AAUs),
- New Zealand Units (NZUs),
- Certified Emissions Reductions (CERs),
- Verified Emissions Reductions (VERs).

Why GreenAir can deliver successful projects

A partnership with GreenAir provides forest owners with the funding and technical expertise to successfully commercialise forest carbon credit projects:

GreenAir offers:

- Special expertise in the carbon credit market,
- End-to-end service that covers upfront costs if required,
- Access to national and international buyers,
- Expertise in the forest sector.

What does GreenAir charge?

GreenAir offers a complete service to forest owners who can choose to use GreenAir for some, or all of this process.

We offer a flexible pricing system based on which elements of the process forest owners need assistance with and which elements they would prefer to do themselves.

The agreed costs of these services are deducted from the revenue generated by the resulting carbon credits, in addition to GreenAir's standard commission.

What is the GreenAir process for the PFSI or ETS?

1. Complete registration form

Once an initial registration form has been completed, GreenAir will provide a preliminary 'desk-top' carbon quantification of the forest and generate a basic carbon profile. This is provided at no cost and enables the forest owner to make a decision about the viability of a carbon forestry project.

To obtain a registration form, please contact one of GreenAir's agents or visit our website www.greenairgroup.com.

2. Sign legal agreement

GreenAir's legal agreement specifies the rights and obligations of the forest owner and GreenAir, including GreenAir's commission rate and applicable project costs (that can be covered upfront by GreenAir). This must be signed by the forest owner in order to proceed with the project.

The agreement also requires the forest owner to elect if they would like GreenAir to perform the quantification of the carbon sequestered in the forest.

3. Complete client application form

GreenAir will then work with the forest owner to assess the project and complete the client application form.

At this point the preliminary 'desk-top' quantification will also be reviewed and confirmed, and this will be used as the basis for a forward sale and the first carbon stock report to Government.

4. (a) Register project

If required, GreenAir can work with the forest owner to develop and submit the project application for registration under either the PFSI or ETS schemes, including covering the cost of registration.

4. (b) Forward sell the credits

GreenAir can begin the process to forward sell the credits in parallel with registering the project under either the PFSI or ETS.

The sales process involves the following activities by GreenAir:

- Developing documentation for presenting a formal offer to market,
- Actively promoting the offer through relationships with carbon brokers and directly to buyers,
- Managing all interactions with potential buyers,
- Negotiating indicative terms and price for approval by the forest owner,
- Arranging the sale and purchase contract between the buyer and the forest owner,
- Overseeing the delivery of the credits from the forest owner to the buyer, and payment to the forest owner.

GreenAir has established relationships with leading carbon brokers and direct buyers to ensure forest owners receive the best price for NZUs/AAUs on the national and international carbon market.

5. Submit annual carbon stock report

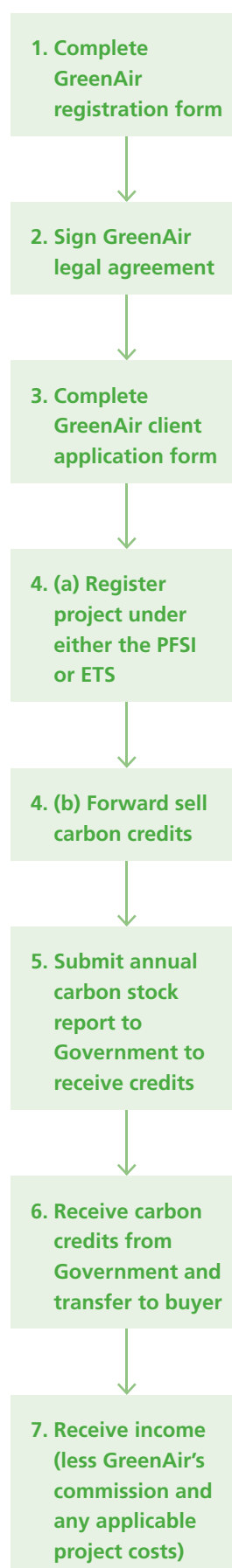
GreenAir can assist with quantifying and submitting the annual carbon stock calculation to the Government in order for the forest owner to receive their carbon credits on an annual basis (not relevant for pre-1990 projects under the ETS).

6. Receive and transfer carbon credits to buyer

As soon as the NZUs/AAUs have been received into the forest owner's account from the Government (expected to be in April of each year, with the exception of pre-1990 projects), GreenAir will oversee transfer of the relevant amount of credits to the buyer's account.

7. Receive income

GreenAir will arrange payment for the credits direct to the forest owner within 10 business days of receiving the payment from the buyer (less GreenAir's commission and any applicable project costs that have been agreed).



To find out more about how to generate revenue from a forest carbon credit project, please contact one of our agents directly to complete a registration form, or visit our website

www.greenairgroup.com

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