
PERMANENT FOREST SINK INITIATIVE APPLICATIONS

1. Purpose of Report

The purpose of this report is to seek the Committee's agreement to register Council land into the Permanent Forest Sink Initiative (PFSI).

2. Executive Summary

The Council has registered over 1,270 hectares of forest land into the PFSI as part of the Council's Climate Change Action Plan. As part of the PFSI, a protective forest sink covenant is placed on Council land and in return, the Council receives tradable carbon credits on an annual basis for the carbon dioxide absorbed by the vegetation. The Council has recently completed its first carbon sale for its PFSI land (a sale of voluntary carbon credits) and received \$120,000 (net) for the sale.

It is recommended that the Committee agrees to register an additional 111 hectares of Council land into the PFSI (see Appendices 1 and 2 for maps), which includes parts of Awarua Street and Kilmister Top reserves, which already have areas with PFSI covenants in place. There is also around 16 hectares of Town Belt land near Mt Albert that is recommended for the PFSI.

The Council has until 31 December 2012 to register any additional land into the PFSI or Emissions Trading Scheme (ETS) in order to obtain five years' worth of carbon credits from 2008-2012. The recommendation above is consistent with previous Council decisions to place Council land (currently being managed as a reserve) into the PFSI. If the land proposed in this report is registered in the PFSI, it will provide the Council with carbon credits with an estimated value of \$19,730.

The Council is currently managing the land in Appendices 1 and 2 as scenic reserve and facilitating reversion to native forest. The PFSI scheme provides Council with a source of revenue to partially offset the costs of managing these reserve areas. The PFSI is recommended over the ETS because there are more revenue opportunities with the PFSI scheme and the PFSI is more complementary to the objectives of the Council's management plans of protecting and preserving native vegetation.

3. Recommendations

Officers recommend that the Strategy and Policy Committee:

- 1. Receive the information.*
- 2. Note that the Council has registered over 1,270 hectares of Council land into the PFSI since 2011 and that registering Council land into the Permanent Forest Sink Initiative (PFSI) and the Emissions Trading Scheme (ETS) is part of Council's Climate Change Action Plan.*
- 3. Note that Council has until 31 December 2012 to register any additional land into the PFSI or ETS in order to obtain five years' worth of carbon credits from 2008-2012.*
- 4. Note that carbon credits can either be traded on the carbon market for revenue or used to offset any cost liability Council has for its landfill activities under the Emissions Trading Scheme.*
- 5. Agree that the Council register the land areas identified in Appendix 1 and 2 into the PFSI.*
- 6. Delegate to the Chief Executive all the authority necessary to finalise agreement with the Ministry of Agriculture and Forestry for registering the land in Appendix 1 and 2 into the PFSI.*

4. Background

The PFSI scheme involves placing a protective 'forest sink' covenant on forests (native or exotic) that are established after 31 Dec 1989. The covenant is a 50-year agreement between the Crown and the landowner to protect and enhance forest growth. In return for the forest protection, the landowner receives tradable carbon credits¹ annually for the carbon dioxide stored in the forest. If any forest is removed (i.e. through fire or harvesting) the landowner has a legal obligation to pay back carbon credits equivalent to the carbon lost and restore the forest.

The PFSI has identical eligibility rules to the Forestry Emissions Trading Scheme (ETS) and like the PFSI, the ETS provides carbon credits annually. Landowners have until 31 December 2012 to register land into the PFSI or ETS in order to get five years' worth of carbon credits (2008-2012). Landowners can register after this but they will only receive carbon credits from 2013 onwards.

Following the adoption of the original 2007 Climate Change Action Plan, the Council agreed in 2008 to apply to put Council land into the PFSI scheme and since then around 1,270 hectares of land have been registered. The vast majority of Council land entered into the PFSI scheme has scenic reserve status and is

¹ One carbon credit is equivalent to one tonne of carbon dioxide equivalent (CO₂-e).

managed under the Northern Reserves Management Plan or Outer Green Belt Management Plan. These management plans include policies that promote active management to restore and protect native vegetation.

The Council has recently completed its first carbon trade associated with the PFSI forests resulting in \$120k net profit. The trade – brokered by a New Zealand based firm – involved trading voluntary carbon credits (VERs) to overseas buyers. The VER credits relate to the carbon sequestered in the PFSI forests between 1990 and 2008 (1990 is the benchmark measurement year of the Kyoto protocol and 2008 is the year forestry entered the ETS).

5. Discussion

5.1 Recommendation to register Council land in PFSI

There is approximately 111 hectares of additional Council land that is eligible for the PFSI and ETS. The eligible land is split into two areas:

1. 95 hectares located in the Awarua Street Reserve and Kilmister Tops Reserve. This land has recently received scenic reserve status. Under the Outer Green Belt Management Plan, the land is actively managed so that the land reverts to native forestry from farmland. These areas already have PFSI covenants on the titles.
2. 16 hectares located in the Town Belt near Mt Albert².

These areas were not submitted in previous applications as officers were taking a conservative approach to its initial PFSI applications. The parts of Awarua Street and Kilmister identified in Appendix 1 do not have complete fencing protection from grazing stock and this can impact on forest growth rates. However, officers discussed the eligibility issues with staff from the Ministry of Agriculture and Forestry and they are now satisfied that the land in Appendix 1 met the eligibility rules.

The options available to Council for this land are:

1. Status quo or no change
2. Apply to put the land into the PFSI
3. Apply to put the land into the ETS.

It is recommended that Council pursue option 2 and register the 111 hectares of land in the PFSI. This is consistent with previous Council decisions relating to its reserve land that meets the PFSI eligibility criteria. Other benefits and reasons for registering the land in the PFSI include:

- Awarua Street and Kilmister Top reserves already have PFSI covenants in place

² We are seeking legal advice as to whether there are any issues for registering a covenant on Town Belt land.

- placing the land into the PFSI is consistent with Council's Climate Change Action Plan, biodiversity goals and with the Council's broader objectives for managing these areas
- ability reduce the amount of costs for reserve activities funded from rates through carbon credit sales
- ability to trade in the voluntary carbon market, which is not an option available to Council if it put the land into the ETS
- there is potential to receive a price premium for PFSI carbon credits (which have social and environmental benefits associated with volunteer groups and biodiversity restoration) compared to the ETS carbon credits acquired
- the risks and costs associated with entering land into the PFSI are relatively low and are outweighed by the benefits
- the Council needs to register land in the PFSI by 31 December 2012 in order to claim five year's worth of carbon credits form 2008-2012.

5.2 Costs and benefits

Table 3 below provides an overview of the net benefit of joining the PFSI with a carbon price of \$7/tonne, which is close to the current carbon price. The table shows that even with a relatively low carbon price, it is financially beneficial to Council to register the land in the PFSI.

Table 3: Costs and benefits of the PFSI to 31 December 2012

Costs	Application	\$500
	Emission return fees	\$180
	Field measurement	\$1,500
	Sub-total	\$2,180
Benefits	Carbon credits accrued from PFSI (2008-2012) at \$7/tonne	(\$11,550)
	Estimated value of voluntary credits from PFSI	(\$10,000)
	Sub-total	(\$21,550)
Net		(\$19,370)

5.3 Risks and liabilities

The Council may have liabilities under the PFSI. The Council is legally obliged to surrender carbon credits to the Crown equivalent to any carbon lost from the PFSI forest area. The most significant risk to the proposed PFSI areas is fire and the historical fire risk is relatively low in Wellington. As part of the Council's Carbon Management Policy, Council will hold 10% of its carbon credit holdings for self-insurance purposes to manage risks relating to fires.

5.4 Climate Change

The recommendations form part of the Council's overall response to Climate Change. The development of carbon sinks on Council land is part of the 2010 Climate Change Action Plan.

6. Conclusion

As part of the Council's Climate Change Action Plan, the Council has already placed around 1,270 hectares of land into the PFSI scheme.

This report recommends that Council register an additional 111 hectares of eligible forest land into the PFSI, which is consistent with Council policy and previous Council decisions.

The forest land must be registered in the PFSI by 31 December 2012 in order for Council to claim five years' worth of carbon credits from 2008-2012.

7. Appendices

Appendix One: Map of Awarua Street and Kilmister Reserves

Appendix Two: Map of Mt Albert

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Supporting Information

1) Strategic Fit / Strategic Outcome

The proposal to register land in the PFS is part of the Council's overall response to the challenge of climate change, as agreed in the 2010 Climate Change Action Plan.

2) LTCCP/Annual Plan reference and long term financial impact

The carbon credits received by Council will be treated as intangible assets and valued at the fair-value market price at the time they are acquired.

3) Treaty of Waitangi considerations

The draft policy does not raise any specific issues related to mana whenua or the Treaty of Waitangi.

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

There has been no consultation for this specific paper however the Council's 2010 Climate Change Action Plan was consulted on with the wider community. The concept of creating forest sinks with native forests was supported.

b) Consultation with Maori

The draft policy raises no specific Maori or Treaty of Waitangi issues.

6) Legal Implications

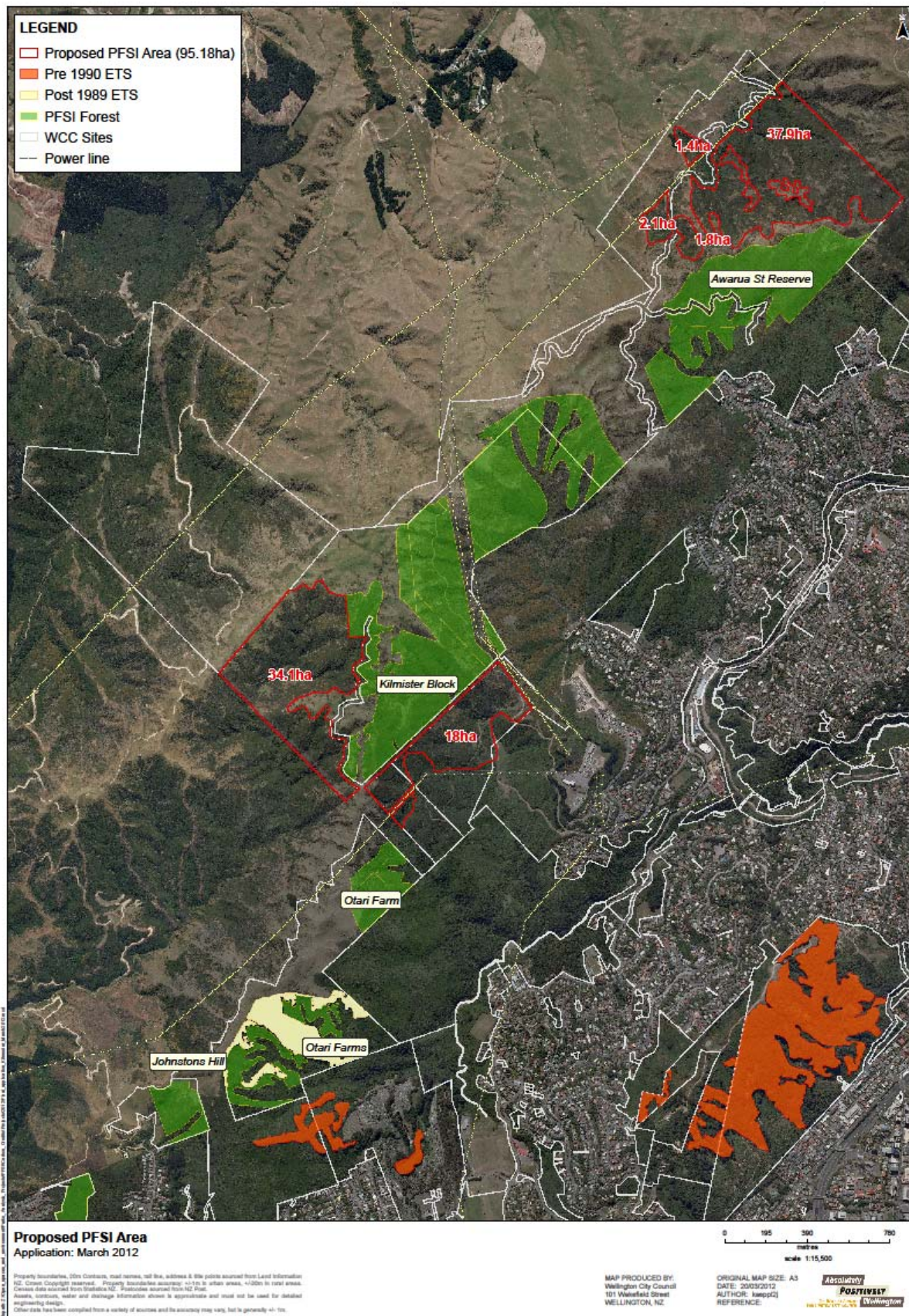
Officers will confirm that there are no legal impediments to registering Town Belt land in the PFSI.

7) Consistency with existing policy

Registering land in the PFSI is a sub-set of the Council's wider climate change action plan.

The recommendations of this paper are consistent with previous decisions Council has made in the past with respect to registering Council land in the PFSI.

Appendix 1 – Proposed PFSI area for Kilmister and Awarua Street Reserves



Appendix 2 – Proposed PFSI area for Mt Albert

