



November 11, 2005

Emissions Trading Working Group Secretariat,
The Cabinet Office
GPO Box 5341
Sydney NSW 2001

By Email: emissionstrading.cabinet.nsw.gov.au

Dear Sir/Madam,

RE: Comments of New Forests Pty Limited to Inter-Jurisdictional Working Group on Emissions Trading Background Paper for Stakeholder Consultation

New Forests Pty Limited is a Sydney-based forestry asset management and advisory business. We support investment by institutional investors (eg super funds, pension funds, insurance companies, foundations) in the forestry sector, and manage those investments on behalf of our clients. We have a specialized business which focuses on the potential for forests to support carbon credit trading and other commercial environmental markets such as dryland salinity, biodiversity conservation and renewable energy development.

We find that investors are increasingly interested in finding investments that will contribute to solutions to climate change, land and water degradation and biodiversity conservation. Forestry investments can be unique in contributing to all three of these challenges. Our role is to source investments and manage those investments to generate returns to the investors from these emerging opportunities.

Accordingly we strongly endorse the establishment of a national emissions trading regime, and particularly one which incorporates reforestation projects as an offset within the scheme. We have closely monitored and support the approach taken by the NSW Greenhouse Gas Abatement Scheme for incorporating sinks projects compatible with Article 3.3 of the Kyoto Protocol. We believe that the controls in the scheme provide confidence that carbon stocks in the forests will be retained for a period of 100 years. The use of suite of instruments, including an accreditation process, a maintenance obligation deed and land title restriction, combine to provide an effective framework to support 100 year retention of carbon stocks.

We have, however, been concerned that in NSW any future loss of the carbon stock must only be replaced with other forestry sequestration credits. It seems reasonable to ourselves and our clients that if forestry projects generate credits that incur a liability over 100 years, that the proponent of the project should have the capacity to buy their position back from the market in future at the market price. This allows forest managers to manage these long term obligations and ensures that

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any depletion to the carbon stock must be acquitted by the purchase of other abatement certificates. We do not see the rationale for requiring that the certificates must come specifically from sequestration, as this creates an artificial barrier in the market.

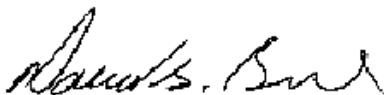
Our other major concern is the concept of additionality as raised in the consultation sessions. We have always advised our clients that the carbon accounting rules for sinks projects would be based on the Provisions of Article 3.3 of the Kyoto Protocol. That is, that additionality is defined as land use change from non-forest to forest vegetation since January 1, 1990. There has never been a requirement for financial additionality to be demonstrated in the NSW scheme, and we would urge the Working Group not to introduce further additionality hurdles for reforestation projects.

Adding further additionality hurdles, whether based on some concept of financial additionality, intent, or even what the business as usual reforestation rate might be, are artificial, difficult to prove, and ultimately not discernable by the atmosphere. For example two identical reforestation projects, side by side, might have different outcomes for accreditation based on the original records of the two owners. This is not adding to the rigour of the scheme, and may well create confusion or competitive advantage to certain forest owners.

As an example, one of our clients has bought land ownership and paid for the carbon rights to a portfolio of Kyoto qualifying forests, located in Victoria, South Australia and Western Australia. If some form of new additionality were to be implemented, these investors risk financial loss from the payments that they made for the carbon sequestration rights in these forests. The State governments in designing an emissions trading scheme should be seeking to reward those investors who have decisions to be innovators and invest in climate change solutions in advance of the implementation of the scheme. Otherwise the scheme rewards those who have done nothing and only take action once they are regulated or required to buy offsets.

In summary we strongly endorse the need for a national emissions trading regime, and believe that long term institutional investors need clarity in the policy environment related to climate change. A price signal is the single most effective tool to do this, and will affect the investment decisions of institutional investors. We recommend, however, that the scheme, as applied to forestry offsets remain aligned with the Kyoto Protocol rules, and not introduce new hurdles related to additionality,

Regards,



David Brand,
Managing Director,
New Forests Pty Limited