

CNI Iwi Holding Limited

Consideration in relation to ETS submission

02 May 2016

Strictly private and confidential

Executive Summary

Overall summary

- The overall objective of CNI is for CNI to be kaitiaki (guardians) over our whenua (land). ETS has made it financially un-viable for this to occur.
- To be kaitiaki means to provide strategic direction that protects and sustains the settlement land while providing for our people. The environmental impact on our land is a core value of kaitiakitanga (guardianship) and is a fundamental part of our strategy direction.
- The CNI settlement allows CNI to be owners of the whenua but the ETS restrictions have taken away our right to be Kaitiaki of the whenua.
- CNI have strategic plans to increase the social, cultural, and economic position of the communities who are part of the CNI iwi while upholding our environmental responsibility. These plans would require land development strategies that increase the economic activity of the land. This will require the removal of settlement land from the ETS.
- CNI is researching the highest and best use of the settlement land and would like to have the freedom to chose the land developments that will assist CNI in meeting our strategies. The cost of removing settlement lands from the ETS is restricting these strategies.
- CNI consider the following to be key steps in achieving kaitiakitanga over the whenua and allowing CNI to achieve it's strategic plans.
 - Look at removing CNI lands from the ETS.
 - Allocate to CNI the NZU's required to deforest the land.

Next Steps

CNI Iwi Holdings Limited would like to discuss with the MfE the points in the documentaiton provided.

Executive Summary

Background

- CNI iwi Holdings Limited (CNI) has 165,651 hectares (Ha.) of their 176,000 Ha. of land within the pre-1990 Forest Land Allocation Plan. This represents 94.1% of the land currently under CNI ownership.
- As part of the Climate Change Order 2010 all Crown forest license (CFL) land on 1 January 2008 that was transferred to iwi as part of a Treaty of Waitangi settlement on or after 1 January 2008 was allocated 18 New Zealand Units (NZUs) per Ha.
- When NZU's were allocated to pre-1990 land owners the allocation was based on the following:

Credits Allocated	Criteria
60 per Ha	Land that has not changed ownership since 31 Oct 2002
39 Per ha	Land transferred to the landowner on or after 1 Nov 2002
18 per Ha	CFL land on 1 Jan 2008 that was or will be transferred to an iwi under Treaty of Waitangi settlement after that date

- The CNI settlement deed was signed on 28 June 2008, therefore CNI have been allocated 2,981,718 NZUs as part of the return of the settlement lands. The land settlement was valued at \$225,600,000 at the time of settlement.
- Trees within the CNI land forest are typically harvested between year 25 and 30. Based on the Ministry of Agriculture and Forestry look up tables for Forestry in the Emission Trade Scheme (ETS) within the BOP region this would require between 631 – 760 NZU's if CNI were to deforest more than 2 Ha in any 5 year period.
- The price of NZU's at the date of this report is \$13.25.
- In considering the net amount of credits needed to deforest the CNI lands, deforestation requires the surrender of 613 – 742 NZU's per Ha. This is a financial cost of \$8,122 - \$9,831.

Key considerations

We have identified some of the key considerations in the allocation of NZU's.

- CNI settled with the Crown on 28 June 2008 before the finalisation of the Climate Change Order 2010 and before the Ministry of Agriculture and Forestry look up tables identifying the required retirement of carbon stock for the deforestation of pre-1990 forests. This was vital information to understand before entering into the ETS.
- CNI's development strategies require removal of settlement land from the ETS. The ETS is viewed as a contingent environmental liability based on these plans.
- CNI believes that the financial impact of the ETS was not considered in the valuation of the settlement land.
- Was CNI adequately informed of the allocation of 18 credits to CNI based on the above criteria.
- The table below shows the cost to remove the ETS obligation on 165,651 Ha. at the current market price of \$13.25.

Harvested Tree Age	Net NZU's/Ha.	Total NZU's required	Cost
25 Year old tree	613	101,544,063	\$ 1,345,458,835
30 Year old tree	742	122,913,042	\$ 1,628,597,807

- At the current lease value of \$15,072,000 per annum for CNI lands this would take between 89.2 – 108.1 years of foregoing lease at an average market price of \$13.25 per NZU to remove the ETS obligation from CNI.
- With the allocation of 18 credits per Ha. this would allow for up to 4,018 – 4,864 Ha. in total to be removed from the ETS. This is between 2.4% - 2.9% of CNI's total land in the ETS.

Summary of Findings – Ministry of the Environment – Emissions Trading Scheme

Key Finding	Observation	Recommendation
<p>Timeline of Events – The Settlement Deed was negotiated and signed before the Draft Forestry Allocation Plan had been issued</p>	<ul style="list-style-type: none"> • Clause 9.12.3 does refer to 18 NZU's being allocated to CNI although it acknowledges that the allocation is subject to the Climate Change Emission Trading Bill that was currently being passed. • It was agreed between the Crown & the Collective that NZU's to be allocated "will be the same as the rate to apply to the allocation of the issue of NZU's to be made to Māori owners of pre-1990 forest land....represented by the Climate Change Iwi Leadership Group or otherwise." • There is no "allocation of the issue of NZU's to be made to Māori owners of pre-1990 forest land." There is no blanket NZU allocation to Māori land owners collectively. Māori land owners were allocated NZU's based on the timing of when the land was in Māori ownership. 	<ul style="list-style-type: none"> • To re-open the discussion on the allocation of NZU's between CNI and MfE.
<p>Timeline of events – Hui was held with Māori up to the finalisation of the Climate Emission Trading Bill but no conclusions were reached.</p>	<ul style="list-style-type: none"> • From the consultation with Māori the following was noted: <ol style="list-style-type: none"> 1. No conclusions were reached as to whether the allocation regime for pre-1990 forests should be changed. 2. Proposals included targeting higher compensation to forest owners who purchased post 2002, or targeting higher compensation to owners of higher value land, and a couple of other options. 3. The total pool of compensation was not subject to change. 	<ul style="list-style-type: none"> • To re-open the discussion on the allocation of NZU's between CNI and MfE.

Summary of Findings – Crown Specific Findings

Key Finding	Observation	Recommendation
<p>CNI considers that the land return to the collective had a contingent environmental liability based on the strategy plan of CNI to diversify land use.</p>	<ul style="list-style-type: none"> • CNI received 18 NZU's per Ha. for 165,651 credits. To remove the land from ETS, CNI are required to surrender between 631 – 760 NZU's. • Based on CNI's strategic direction to look at a highest and best land use for better opportunities for communities who live in and around the CNI the ETS is now a contingent environmental liability. • The land settled between CNI and the Crown was \$225,600,000. • The ETS liability of NZU's was not factored into the valuation of land settled. • The settlement occurred on 28 June 2008. 	<ul style="list-style-type: none"> • Re-open discussion with the Crown around the fair market value of the CNI settlement. • Look at obtaining valuation expertise on the cost associated with the the ETS environmental obligation based on CNI's future strategies.
<p>The settlement with the Crown is a final settlement and is Binding and discharged the Crown from all obligations and liabilities before 21 Sept 1992.</p>	<ul style="list-style-type: none"> • Clause 2.2 and 2.3 of the settlement document make the Settlement dead final and binding and discharges the Crown from all obligations and liabilities in respect of the "Historical CNI Forest Land Claims." • "Historical CNI Forest Land Claims" relates to every claim or part of a claim...that the collective or a Member of the Collective...had...that is, or is founded on, a right arising from,,the Treaty of Waitangi...and...arises from or relates to acts or omissions before 21 September 1992...by or on behalf of the Crown..." 	<ul style="list-style-type: none"> • Re-open discussion with the Crown around the fair market value of the CNI settlement. • Look at obtaining valuation expertise on the cost associated with the the ETS environmental obligation based on CNI's future strategies.

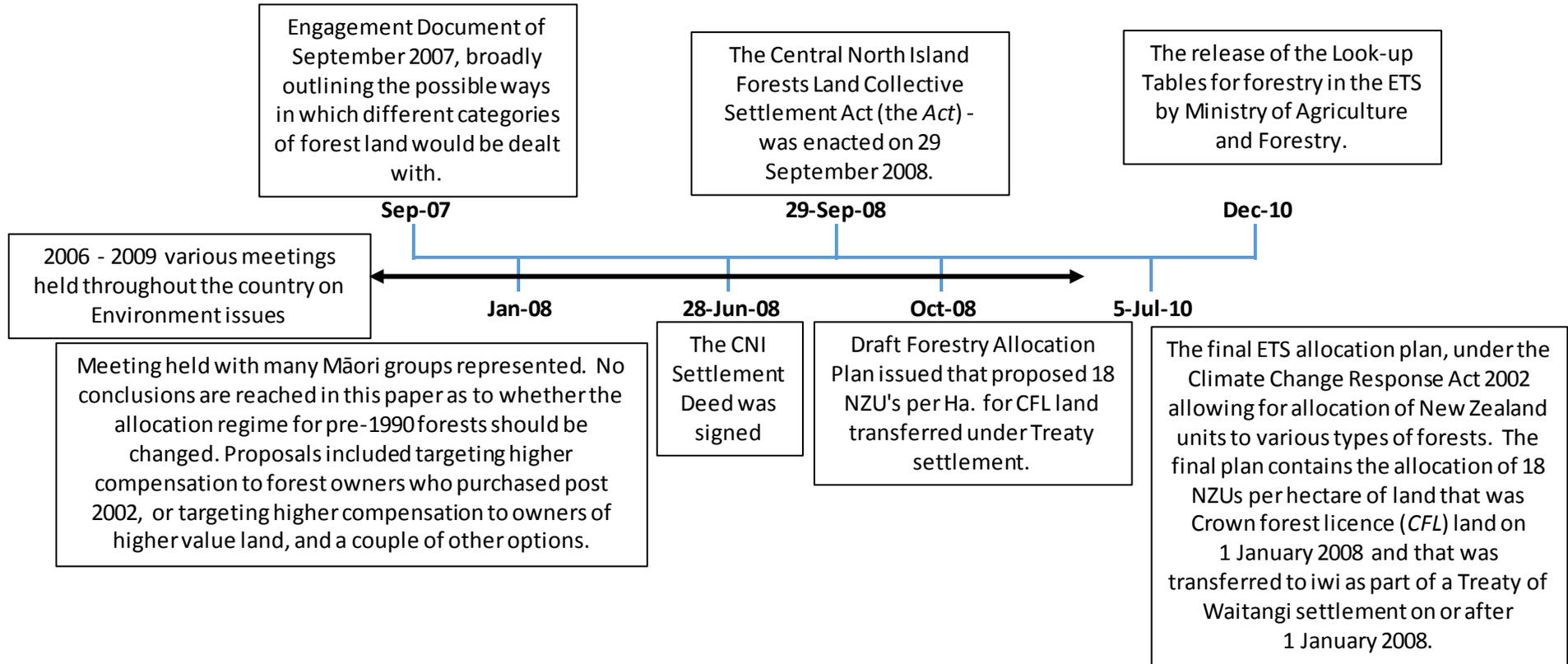
Timeline of CNI Settlement vs. the Timeline of ETS.

From a review of the timeline below the key date of consideration for CNI is 28 June 2008 when the settlement deed was signed. It is clear from the timeline that the allocation plan and the look-up table identifying the required NZU's from deforestation was not finalised.

CNI consider the lack of communication and understanding of the ETS was detrimental in the signing of the Settlement Deed. At the time of signing it was not clearly understood that CNI would be allocated 18 NZU's per Ha. while other land owners would be allocated 39 and 60 NZU's. Further it was not clearly articulated that 18 NZU's represented approx. 2.4% - 2.9% of the NZU's required for the 165,651 Ha. of CNI land in the ETS.

CNI acknowledge that there was consultation held with Māori on these issues and that our settlement deed discusses an understanding of 18 NZU's being allocated per Ha. CNI also acknowledge that the final allocation is to be based on the discussion of the Climate Change Emmissions Trading Bill between the Crown and the Climate Change Iwi Leadership Group or otherwise.

CNI don't believe that those discussion were extensive enough to conclude on the allocation of 18 NZU's per Ha. to CNI.



What are some indicative values around the ETS environmental obligation

- CNI consider the ETS restrictions on our land as a contingent environmental liability based on the strategies that CNI have developed. Our strategies focus on macro-social/economic effects the the CNI forestry is having on the communities within and around the CNI area. It is industry knowledge that forest owners are getting more value for raw logs on the international market compared to the cost of value add products. Further forestry is a low contributor to both macro-economic spending on an annual basis throughout the 25 – 30 year growing period. These facts have taken substantial economic benefit out of the area directly affecting the communities within and around the CNI forestry.
- CNI's plan is to look at land diversification strategies that have a clear goal of balancing our environmental responsibilities to our land while increasing CNI's impact on the social, culture, and economic position of our people.
- CNI are currently researching land diversification strategies that help us achieve our goal and have not concluded on how much land we would like to remove from the ETS. We are restricted in our goals by the fact that the 18 NZU's that we have been allocated represents only 2.4% – 2.9% of the NZU's required for our 165,651 Ha. in the ETS.
- The 18 NZU's per Ha. equates to a total of 2,981,718 and have a current market value of \$39,507,764 (based on \$13.25 per NZU)
- We have provided a sensitivity table below that conculates the financial impact of the environmental contingent liability for CNI by sensitising the percentage of land removed from the ETS and the price of NZU's.
- Based on the table below the NZU's that we have recieved are only an asset if we decide to keep the whole 165,651 Ha in the ETS. To remove all of the land from the ETS has a liability of \$1.6B (@ \$13.25 per NZU). At our current lease income of \$15.1M and market of \$13.25 per NZU it would take over 100 years to remove our land from the ETS.

SENSITIVITY TABLE BASED ON CHANGE IN NZU PRICE AND % CHANGE IN LAND							
CHANGE IN THE PRICE OF ETS	CHANGE IN PERCENTAGE OF LAND REMOVED FROM THE ETS						
		0.0%	20.0%	40.0%	60.0%	80.0%	100.0%
	0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2.5	-\$ 7,454,250	\$ 55,493,130	\$ 118,440,510	\$ 181,387,890	\$ 244,335,270	\$ 307,282,650	
5	-\$ 14,908,500	\$ 110,986,260	\$ 236,881,020	\$ 362,775,780	\$ 488,670,540	\$ 614,565,300	
7.5	-\$ 22,362,750	\$ 166,479,390	\$ 355,321,530	\$ 544,163,670	\$ 733,005,810	\$ 921,847,950	
10	-\$ 29,817,000	\$ 221,972,520	\$ 473,762,040	\$ 725,551,560	\$ 977,341,080	\$ 1,229,130,600	
12.5	-\$ 37,271,250	\$ 277,465,650	\$ 592,202,550	\$ 906,939,450	\$ 1,221,676,350	\$ 1,536,413,250	
15	-\$ 44,725,500	\$ 332,958,780	\$ 710,643,060	\$ 1,088,327,340	\$ 1,466,011,620	\$ 1,843,695,900	
17.5	-\$ 52,179,750	\$ 388,451,910	\$ 829,083,570	\$ 1,269,715,230	\$ 1,710,346,890	\$ 2,150,978,550	
20	-\$ 59,634,000	\$ 443,945,040	\$ 947,524,080	\$ 1,451,103,120	\$ 1,954,682,160	\$ 2,458,261,200	
22.5	-\$ 67,088,250	\$ 499,438,170	\$ 1,065,964,590	\$ 1,632,491,010	\$ 2,199,017,430	\$ 2,765,543,850	
25	-\$ 74,542,500	\$ 554,931,300	\$ 1,184,405,100	\$ 1,813,878,900	\$ 2,443,352,700	\$ 3,072,826,500	