Managing risk in carbon projects:

Identifying key risks and pitfalls in plantation forestry carbon project structures

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Four basic models for Plantation Forestry Carbon Project Agreements

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Four basic models

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- Fee-for-Service
- CPD Owns Project + Landowner ACCU Share
- Landholder Owns Project + CPD ACCU Share
- Lease Model

Fee-for-service model

CPD engaged to develop, register and manage Project.
Landowner owns timber and ACCUs

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Pros:
ACCUs and Timber revenue

Risks:
High upfront costs, regulatory responsibility,

Mitigations:
Model investment returns. Fixed cost contracts, benchmark service delivery

CDP owns project

CPD registers project.
Landowner shares in ACCUs and owns timber.

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Pros:
Reduced complexity & increased support. Regulatory risk with CPD

Risks:
Low control over project, potential restrictions on plantation operations, ACCU and timber market volatility, CPD performance and solvency

Mitigations:
Benchmark service delivery, Transparent terms,
Clear exit pathways, model investment returns for timber and ACCUS

Landowner owns carbon project

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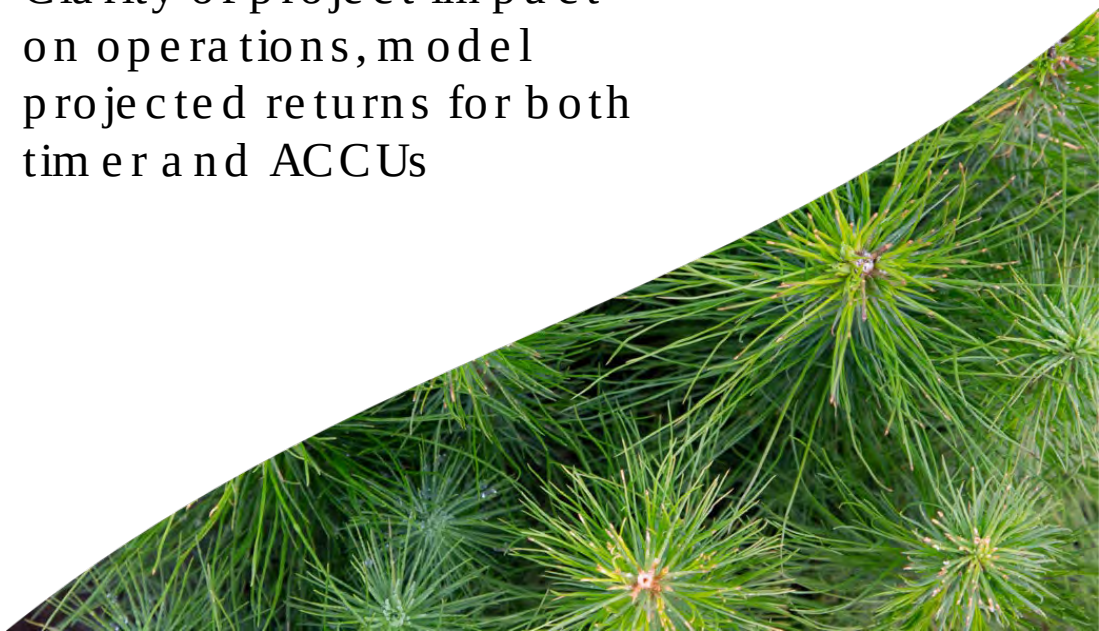
CPD develops project for landowner.
Landowner shares % of ACCUs with CPD and owns timber

Pros:
Strategic control

Risks:
Regulatory risk, potential restrictions on plantation operations, ACCU and timber market volatility, value of CPD share

Mitigations:
Clarity of project impact on operations, model projected returns for both timer and ACCUs



Lease model

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CPD leases land, CPD owns timber and ACCUs and pays a lease fee to landowner

Pros:
Passive and secure income

Risks:
Lower financial upside than ACCU/Timber market
Solvency of CPD
Land degradation

Mitigations:
CPI-linked rent, clear land condition terms, clarity on ownership of Project and Timber in event of termination

Comparative Summary

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Model	Landowner Control of Project	Upfront Cost (Plantation Establishment)	ACCU Ownership	Timber Revenue	Income Type
Fee for service	High	High	100% to Landowner	100% to Landowner	Variable ACCU + timber price
CPD owns project	Medium	High	% to Landowner % to CPD	100% to Landowner	Variable ACCU + timber price
Landowner owns project	Medium - High	High	% to Landowner % to CPD	100% to Landowner	Variable ACCU + timber price
Lease	Low	Low	CPD	CPD	Fixed

ACCUs

Trees

Money

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A sub-optimal Carbon Project Agreement may:

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- Lower the value of land
- Provide unexpected restrictions on how land is managed
- Put ACCUs due to you at risk
- Make it difficult for landholders to establish carbon neutrality

A good Carbon Project Agreement can:

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- Allocate risk proportionately with return
- Provide clarity on obligations following damage to a plantation
- Secure parties' rights to ACCUs and/or lease payments
- Enhance the value of Land
- Assist landowner to achieve carbon neutrality

Key Takeaway

Your land is a long-term asset;
So is a carbon project agreement.

Make sure it works for you.

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Thank you.

Questions welcome.

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