



Pacific Forest Alliance Limited

April Salumei Sustainable Forest Management Project

VCS Feasibility Assessment



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Introduction

The April Salumei Sustainable Forest Management Project achieved validation against the Climate Community and Biodiversity (CCB) in June 2011. The project is now well defined and aims to move to validation and verification against the Verified Carbon Standard (VCS) by the end of 2012. The aim of this study was to:

- Assess the available data and capacity in Papua New Guinea (PNG) required to achieve validation/verification against the VCS
- Define the project milestones and the potential delivery schedule to achieve validation and verification by the end of 2012

The following sections of this report outline the findings of this study in detail; however in summary:

- Existing spatial data sets and forest inventory data in PNG will be important for the development of the project. Ongoing research conducted by the PNG Forest Research Institute into the development of allometric equations is also consistent with the data required for the selected methodology. The strong relationships already established by the Pacific Rainforest Alliance are a strength for delivery of the technical aspects of the project.
- The most appropriate approved VCS methodology for the development of project the project is VM0007 REDD Methodology Modules, utilising both the Planned and Unplanned Deforestation modules. There is potential that the project area contains peat soils. The identification of areas of peat will be a focus on the initial fieldwork. If evidence is found of peat soils during the fieldwork these areas will be mapped out of the project area and an approved methodology allocated when one becomes available.
- A complete list of the required data to fulfil the methodology requirements has been developed and is provided in Table 1 and 2 of this report. Most data sources required to completely apply the selected methodology are available. Resource gaps will be filled by focusing on the collection of field data from biomass plots from within the project area.
- An initial estimate of the number of field inventory plots required to meet the confidence levels of the VCS without requiring an uncertainty deduction was made using the Winrock Terrestrial Sampling Calculator and forest carbon stock and variation figures provided through personal communication from Professor Simon Saulei from the PNG Forest Research Institute. It was found that approximately 20 plots across all

forest strata would be initially measured to target a 95% confidence level within 15% of the mean.

- Based on the information to hand it is planned that the VCS project commence development immediately with the aim of achieving validation by the end of 2012.

The April Salumei Sustainable Forest Management Project

The April Salumei Sustainable Forest Management Project originated in 2008 with the traditional owners, represented by Hunstein Range Holdings, seeking a development partner for the area.

The identified project area was under a Forestry Management Agreement with the Papua New Guinea Forest Authority (PNGFA). Under the FMA the project resource was acquired by the PNGFA on 20th December 1996. A Development Option Study commissioned by the PNGFA, whilst recognising the biodiversity value contained in the significant wetland areas recommended an area of approximately 170,000 ha for commercial logging.

Logging did not commence after the completion of the development options study, as is typical of identified FMA areas, because of disputes between the landowners and the Government over an area that was demarcated as a Wildlife Management Area (WMA) on the 13th September 1997. The landowners claimed that the area had been demarcated as a WMA without their informed and prior consent and subsequently no income could be generated from this area as had been the wish of the landowners in the region. Furthermore the Landowners claimed the declaration of a WMA is illegal on an area that was identified and acquired by the PNGFA for commercial logging. This legal battle was played out in the courts over the next decade.

In 2009, the Prime Minister, Sir Michael Somare, following lobbying from the traditional owners, wrote to the Office Climate Change and Environmental Sustainability requesting it become the Pilot REDD Project for Papua New Guinea.

The development of the April Salumei Sustainable Forest Management Project and subsequent carbon financing will allow the traditional owners to receive a commercial benefit for preserving their forests as opposed to the harvesting of the timber and subsequent conversion to agriculture as planned under the Development Options Study. Extensive awareness and consent programs have been undertaken in the project area since 2009 and a recent field trip by the PNGFA has confirmed 92% of the people in the area support the project.

Following an exhaustive audit over a 12 month period, the project was approved to the Climate Community and Biodiversity Standard, achieving Gold Status in recognition of the biodiversity values of the region. This is the first project to receive

CCB approval in the Pacific region and the landowners, government and the developer are extremely proud of this.

As Project Developer, one of Pacific Forest Alliance objectives is the development of “in-country” capacity. The CCB project was developed with the assistance and cooperation of the traditional landowners, University Papua New Guinea, Papua New Guinea Vision 2050 Development Team under the Office of the Prime Minister and National Executive Council (NEC), Papua New Guinea Forest Authority, Papua New Guinea Forest Research Institute and the local non-government organisation Partners with Melanesia. These strong relationships will continue through the VCS development and are seen as critical to the ongoing success of the project.

The landowners and communities of the project area are some of the poorest and least developed in Papua New Guinea, due largely to the remoteness of the area. There is however strong cultural ties and a commitment to see the area developed. This has allowed a close working link with the project stakeholders to be established with the traditional owners.

Through engagement with the elected representatives, the development priorities have been identified and comprise of:

- Health - development of community health and resource centres
- Education – training of teachers and supply of materials and infrastructure.
- Communication - establish satellite communication, and;
- Accessibility - improve accessibility around and to the project area
- Representation – election of representatives to the land owner companies done in democratic way
- Demarcation - first formal GPS mapping of customary land boundaries are planned.

The project is now commencing the development of the project documentation and seeking approval to the Verified Carbon Standard to realise the value of protecting the pristine forests, biodiversity and unique communities of the April Salumei Sustainable Forest Management Project region and to realise the aspirations of the people whilst protecting this globally important forest area.

Project Location

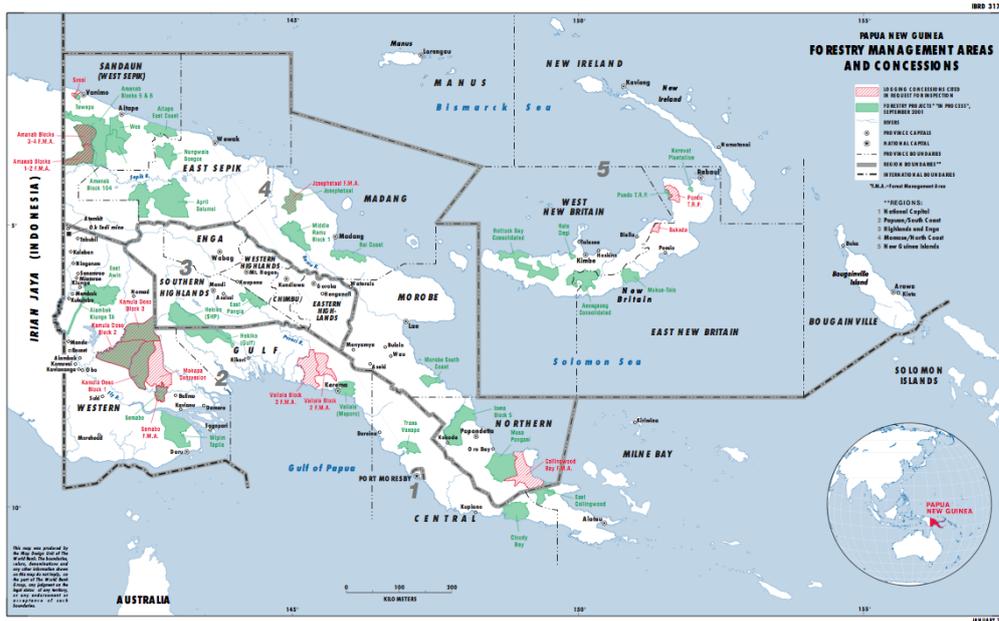


Figure 1: General Location of the Project Area

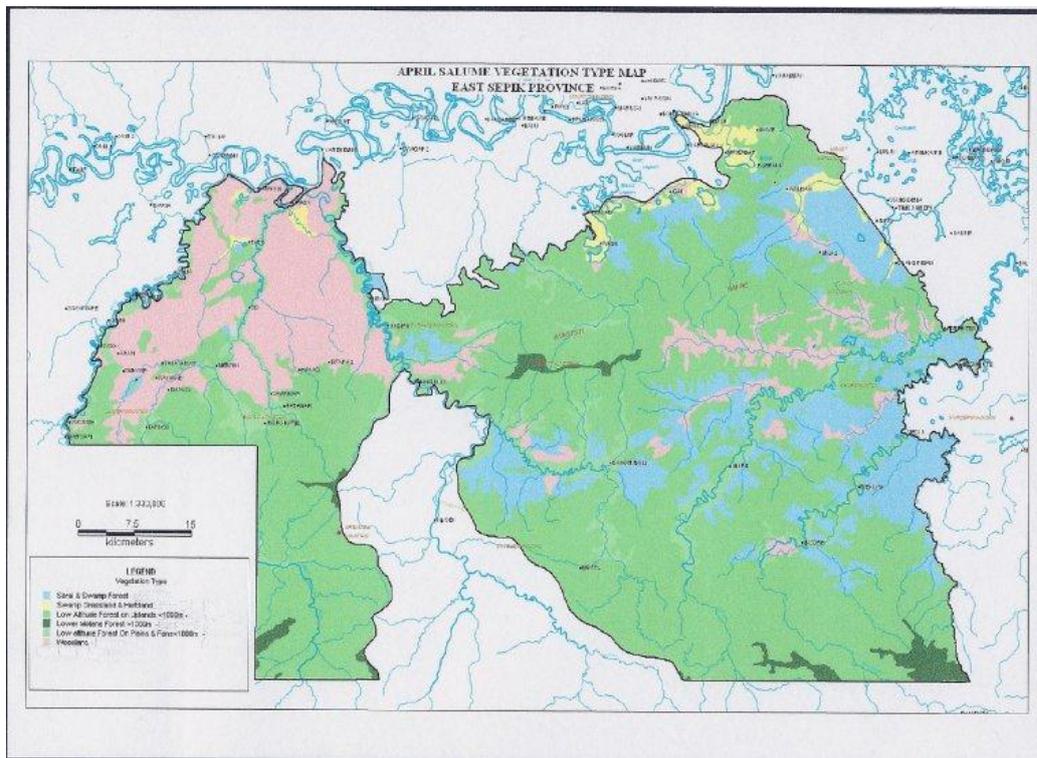


Figure 2: Forest Types of the April Salumei Sustainable Forest Management Project Area

Project Facts and Fundamentals

Table 1: Project Details

Indicator	Mitigation
Country	Papua New Guinea
Province	East Sepik
District	Ambunti – Dreikier and Wosera Gawi
Land Area	521,000 ha April Salumei Sustainable Forest Management Project FMA 99,000 ha April River Area 620,000 ha Total
Forest Type	Pristine Moist Tropical Rainforest
Without Project Scenario	Project identified by PNG Forest Authority for commercial timber harvesting. Approximately 20,000 ha per year would be harvested leading to a deforestation rate of 1% per year.
Project Term	25 years
Forest Production Area	276,200 ha April Salumei Sustainable Forest Management Project
Net Forest Production Area	249,620 ha (after forestry code of practice buffer deductions)
Estimated Timber Volume	30m ³ ha ⁻¹
Timber Resource	4,500,000 m ³
Estimates of Annual CO ₂ e Reductions	Ex-ante 5.4 Mt CO ₂ e yr ⁻¹

Social and Climate Information

Table 2: Social Indicators

Indicator	Mitigation
Social Indicators	
The April Salumei Sustainable Forest Management Project project area is home to a number of forest dependent societies comprising 163 Incorporated Land Groups, living much the same now as they have done for hundreds of years.	
Project Area Population	7696 (2002 Census)
Landowner Companies	Total of 5 (Sio Wario, Nom, Salumei, Nicksek Samsai, B'Nomo)
Villages	90 villages some of which are used seasonally within Clan boundaries.
Language	7 major languages.
Level of Education	Low. Although there are schools there is a lack of teachers. Schools are also in need to resources and repair.
Health Services	3 health centres and 3 aid posts, run by local church missions.

Table 3: Climate Indicators

Indicator	Mitigation
Climate Indicators	
Annual Rainfall	2,500mm to 3,000mm
Temperature	Max 32 to 30 degrees centigrade Min 23 to 19 degrees centigrade.

Biodiversity and Cultural Information

The area is unique in biodiversity. The Northern PNG lowland forests and freshwater swamp forest ecoregion is listed as a critically endangered ecoregion. Within the project area remnant strands of Kauri Pine (*Agathis Labillardieri*) exist.

The area is well known for the East Sepik Cultural festival also known as The Crocodile Festival. The local people have a close association with the crocodile, or pukpuk as it is locally known.

A total of 387 endemic bird species are found in the Sepik Region from a total of 725 known to PNG.

Threatened species endemic to the region which the project area forms include:

- Palm Cockatoo (*proboscigar aterrinus*) – CITES (1)
- Bird of paradise (various)
- Southern crowned Pigeon (*Goura scheepmakeri*)

The project area hosts a significant number of cultural sites. Currently there have been 61 recorded and the mapping and documentation of these sites continue.

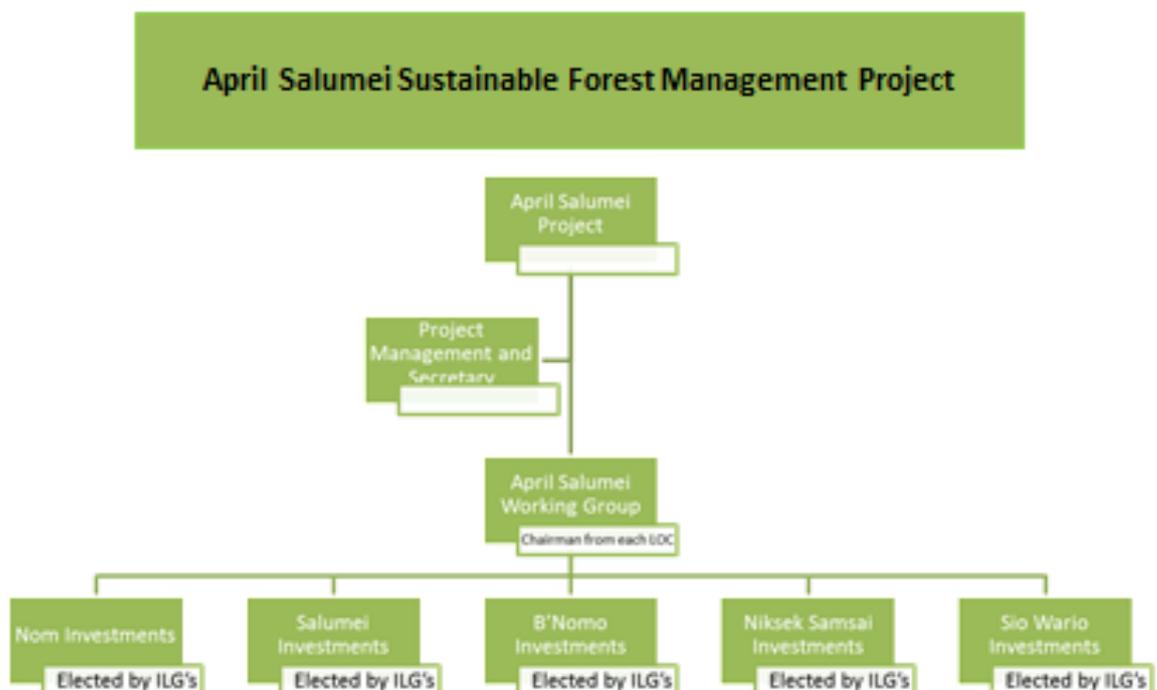
Key Project Approvals Confirmed

- Documented approvals by all 163 Incorporated Land Groups and all 5 Landowner Companies.
- Documented approvals by Local Level Government and Joint District Planning & Budget Planning Committee
- Endorsement by Provincial Government received
- Project approval from former Prime Minister Sir Michael Somare
- Project approval from current Deputy Prime Minister and Minister for Forests and Climate Change Hon. Belden Namah.
- Project has been formally identified as PNG's Pilot REDD project and endorsed by the PNGFA Board.
- Project is consistent with PNGFA's "Climate Change Framework for Action" policy and the National Forestry Development Guidelines.
- Project was approved and endorsed by PNG Vision 2050 under Pillar 5, Climate Change.
- Project was independently validated and approved to Climate Community and Biodiversity (CCB) Standards
- Project was given CCB "Gold Standard" status for exceptional biodiversity benefits.

- Project was endorsed by Chief Secretary Manasupe Zurenuoc as the Chairman of the National Climate Change committee
- Project was formally announced at the UNFCCC meeting in Durban South Africa.
- Project was featured in the PNG delegation side event in Durban South Africa.
- PNGFA National Forest Board have resolved to convert the FMA to a carbon project.

Project Development Stakeholders

April Salumei Sustainable Forest Management Project Landholder Companies



- Every landowner Company will elect an executive.
- The Chairman from each Landowner Company will form the Working Group
- Every Landowner Company has equal voice on the Working Group.



Pacific Forest Alliance

The Pacific Forest Alliance (PFA) was established to assist the development of carbon projects primarily in the pacific region. The PFA encourages differentiation of individual projects and provides assistance where there is no conflict.

It has been our experience that whilst each individual project requires its own identity there are a number of areas which projects can benefit from utilising common skills and representation.

The PFA provides these activities to a number of projects under development. These activities include;

- Livelihoods and Governance
- Technical Support
- Administration Processes and Systems
- Marketing Representation
- Web site Development and Integration
- Policies and Procedures
- Ethical Standards

Rainforest Project Management Limited

Rainforest Project Management (RPM) is a limited company registered in Papua New Guinea and is the Project Developer for the April Salumei Sustainable Forest Management Project Sustainable Forest Management Project.

RPM have recently attained validation for the April Salumei Sustainable Forest Management Project to the Climate Community and Biodiversity Standard qualifying for the Gold Level for exceptional biodiversity benefits.

RPM hold a legally binding agreement with all 163 Incorporated land Groups and the 5 (five) Landowner Companies. This agreement gives RPM the right to develop the project and sell and market the carbon benefits derived from the project on behalf of the landowners.

Under the agreement the landowners receive a minimum of 60% of all sale proceeds directly. This paradigm shift to landowner involvement and payments has been endorsed by the PNG government.

RPM are working with PNG Vision 2050 Development Team and government stakeholders such as the Office Climate Change and Development, Papua New Guinea Forest Authority, PNG Forest Research Institute and the University of Papua New Guinea to develop the project.

Recently Environmental Accounting Services have been engaged to undertake the technical development of the project and assist with capacity building in Papua New Guinea stakeholders.

RPM have already commenced the delivery of benefits to the landowners with the delivery of two 23 foot boats and two 40hp outboards. There has also been K200,000 provided to the landowners working group to kick start local community activities.

Environmental Accounting Services

EAS is a global consulting company specialising in carbon accounting in the Agriculture and Forestry sectors. EAS was established in Australia in 2008 and since then we have successfully built an international reputation in over 10 countries. Our core business is the provision of technical project development consulting, project feasibility assessments and financial due diligence, training and capacity building, validation/verification of carbon projects and national monitoring, reporting and verification (MRV) systems.

Our mission is to provide high quality technical consulting services in the development of compliant carbon projects in the AFOLU (Agriculture Forestry & Other Land Use) sector. Our team of industry experts collaborate with governments and NGOs, and assist public and private sector companies and land owners to enhance and conserve biodiversity, to diversify income streams and to meet mandatory and voluntary greenhouse gas emission targets.

Our clients include: Clinton Climate Initiative, Asian Development Bank, USAID, Biocarbon Group (ex Maquarie Bank), Poyry, Indufor, Scientific Certification Services (SCS), Rainforest Alliance, Sustainable Forest Management, Food and Trees for Africa, LTS International, Greening Australia, CO2 Australia, Global Eco-Rescue, Conservation International, Infinite Earth, REDD Forests, Rio Tinto, Sustainable Carbon Resources Limited, Australian Paper, Fauna and Flora International, Rainforest Project Management, Dairy Australia, Department of Climate Change and Energy Efficiency Australia

Project Summary Description Critical Path

This section outlines the due diligence conducted on the project to demonstrate compliance and to identify any particular project risks relating to achieve compliance.

Additionality

Does the project meet the additionality requirements of the VCS standard? - YES

The project is additional as the business as usual scenario would be the enactment of the Forest Management Area (FMA) resulting in a large scale timber harvest operation and subsequent conversion of degraded forest to agriculture or palm oil plantations.

The land owner companies have been fighting for development (through the courts to remove a Wildlife Management Area) to improve their living standards and are keen for development to commence. Whilst they do not want to lose their forest, they understand that this is their main resource from which to generate income and welcome the opportunity to generate income whilst still preserving their environment and the major source of food, medicines and shelter.

In the absence of the carbon the productive forest area within the project boundary would have been harvested, degraded and converted to agriculture.

Selection of the Appropriate Approved Methodology

Does the project meet eligibility requirements of an already approved VCS methodology? - YES

VCS approved methodologies exist under which this project could be developed.

The VCS REDD Methodology Modules (RED-MF) VM0007 was determined to be the most appropriate methodology as it provides flexibility to consider both planned and unplanned deforestation and reflects the likely baseline land use change events. Areas that would have otherwise become degraded forest following harvest (i.e. where the harvest activity did not result in a direct landuse change) may be considered under the Improved Forest Management Logged to Protected Forest (IFM-LtP) VM0010 methodology. In this instance the project would be considered a multiple project to ensure that the number of credits was maximised. The decision to incorporate the IFM methodology should be made once the historical landuse assessment via remote sensing is completed.

Leakage

Is there a risk of excessive leakage deductions that could compromise the project viability? - NO

Activity shifting leakage and market leakage deductions are required by the selected methodology. The methodology details the required approach which includes monitoring via remote sensing (particularly in the timber harvest areas) changes to

activities in the reference region. At this stage leakage represents a technical accounting challenge rather than a risk to the project viability as a result of the remote nature of the project area, the lack of land use pressures from shifting agriculture and the opportunity and focus of the project to develop more efficient agricultural practices within non forest areas in the project area.

AFOLU Non Permanence Risk Buffer

*Is there a risk that excessive non-permanence risk buffer deductions could compromise the project viability? - **NO***

The VCS Non-Permanence Risk Tool was completed as part of the feasibility assessment. According to the VCS Non-Permanence AFOLU Risk Tool the project is expected to have a risk rating of 12%. As the VCS minimum is 10% this level of deduction was not considered excessive.

Areas of risk that the project considers high are fall under both external risk (i.e. risks that are outside the control of the project) internal risk (i.e. risk under control of the project). Political risk was identified as the major external risk. This assessment is based on the average worldwide Governance Indicators which allocate PNG a rating of -0.71. The main areas of internal risk relate to financial viability due to the current early development stage of the VCS project. Securing investment to assist in the development of the project would further reduce the risk rating potentially to the 10% minimum.

Baseline Deforestation Modelling

*Are there any foreseeable irresolvable issues with establishing a baseline deforestation rate? - **NO***

To provide an estimate of the baseline deforestation modelling requires historical analysis of satellite images for three points in time over the previous 10-12 years within the project area as well as a reference region which represents the expected baseline case in the project area. For the April Salumei Sustainable Forest Management Project project this reference region must cover an area at least equal to the project area (i.e. almost 580,000 hectares). Whilst remote sensing challenges exist in Papua New Guinea due to cloud cover, an initial assessment of available images indicates for the defined project area at least good images are available over the required historical period. There appears to be little technical risk to completing this large and vital piece of work to addressing the requirements of the methodology.

Field Work

*Is the level of required fieldwork likely to pose excessive financial/technical/time delay risk to the development of the project? - **NO***

There are two fieldwork requirements to demonstrate compliance with this methodology. Firstly biomass plots must be taken in representative strata to

determine standing forest biomass stocks and their variation. Secondly, an accuracy assessment of the remote sensing is required.

Fieldwork in the April Salumei Sustainable Forest Management Project region does pose challenges due to the remote nature of the area, however partnering with local PNG Forest Research Institute is seen as a risk mitigation technique and one which promotes co-operation with government agencies and helps to build capacity and experience in the development of REDD projects within PNG. It is proposed that fieldwork be conducted as one of the first project activities to mitigate against the risk of project deadline creep due to unforeseen conditions in the field. Starting the development phase with the fieldwork is a strong financial/time delay risk mitigation measure.

Required and Available Data

*Can methodology data requirements be met? - **YES***

The following data (Table 4 and 5) for the East Sepik Province area (April Salumei Sustainable Forest Management Project region) are required to complete the steps of the methodology and demonstrate compliance with the VSC. These tables also state the source and availability of the data. At the feasibility stage all the data requirements are available.

Table 4: Map data required for completion of the selected methodology approach

Map data	Available	Comments
High-resolution data from remote sensors (<5 x 5 m pixels) for 2009	Y	Rapid Eye images are available
Medium resolution remotely sensed spatial data (30m x 30m resolution or less) for 2008/2009, 2004/2005 and 2000/2001	Y	Landsat is available with some manageable issues with cloud cover
Forest Stratification map	Y	PNG Forest Inventory Mapping System (FIMS)
Definition of the forest strata	Y	PNG Forest Inventory Mapping System (FIMS)
Elevation	Y	Papua New Guinea Information System (PNGIS)
Soil type	Y	Papua New Guinea Information System (PNGIS)
Precipitation	Y	Papua New Guinea Information System (PNGIS)
Slope and aspect	Y	Papua New Guinea Information System (PNGIS)
Map data	Available	Comments
Age class/disturbance history	Y	Papua New Guinea Information System (PNGIS)
Stand density	Y	Forest Inventory Planning System (FIPS)
Distance to transportation networks	Y	Papua New Guinea Information System (PNGIS)
Distance to deforested land/forest edge	Y	Papua New Guinea Information System (PNGIS)
Distance to towns and villages	Y	Papua New Guinea Information System (PNGIS)
Census data/map	Y	Papua New Guinea Information System (PNGIS)
FMA boundaries	Y	Forest Inventory Mapping System (FIMS)
Mining concession boundaries	Y	Geobook

Table 5: Forest data required for selected methodology approach

Forest Data	Available	Comments
National data of basic wood density of species	Y	From National published or unpublished data
Data (DBH, height and species information collected from the FMA transects/plots)	Y	FIPS, combined with fieldwork in the project area.
Mean merchantable biomass as a proportion of total aboveground tree biomass for each forest type.	Y	From field work in the project area.
Merchantable volume for tree species in sample plot	Y	From field work in the project area.
Allometric equation for species linking measured tree variable(s) to aboveground biomass of living trees	Y	National specific or regionally relevant
Forest regrowth rate post timber harvest for stratum	Y	Fox J., Yosi C., Nimiago P., Oavika F., Pokana J., Lavong K., Keenan R.: Assessment of Aboveground Carbon in Primary and Selectively Harvested Tropical Forest in Papua New Guinea, page 5
Volume of timber extracted from each forest stratum	Y	Calculated. Take from literature. PNGFA volume equation.

Timeline and Milestones

The proposed schedule for the delivery (Table 3) and key project milestones (Table 4) is presented below.

Table 6: Proposed Activity Timelines

Task Name	Start	Finish
Start Project	1/04/12	1/04/12
Develop PD	2/04/12	15/08/12
Clear definition of the boundaries of the reference region	2/04/12	18/04/12
Accounting for increases in emissions of greenhouse gases	2/04/12	3/04/12
Field Inventory	2/04/12	15/05/12
Clear definition of the spatial boundaries of the project area	18/04/12	29/05/12
Estimation of GHG changes from unplanned deforestation	18/04/12	20/06/12
Additionally	28/04/12	15/06/12
Define temporal boundaries	18/05/12	24/05/12
Estimation of baseline GHG changes from planned deforestation	18/06/12	28/06/12
Estimation of total net GHG emissions reductions	28/06/12	6/07/12
Changes in carbon pools for project and baseline scenario	28/06/12	25/07/12
Leakage considered	25/07/12	15/08/12
Development of monitoring plan	10/08/12	15/08/12
Finalize PD	15/08/12	3/09/12
Project Validation management	3/10/12	24/10/12
Documentation submitted for Validation	1/10/12	1/10/12
Validated	30/10/12	30/10/12
Registration of Project	30/11/12	30/11/12

Table 7: Key Project Milestones

Milestone	Delivery
Milestone 1 – Fieldwork and Biomass Estimates	End May 2012
Milestone 2 – Annual Deforestation Rates	End July 2012
Milestone 3 – GHG Calculations	End August 2012
Milestone 4 – Additionality, Leakage and Uncertainty	End September 2012
Milestone 5 – Completed Monitoring Report	End September 2012
Milestone 6 – Project documentation ready for Validation	Mid October 2012
Milestone 7 – Project Validated and Registered	End November 2012

Project Delivery Risk Register

Table 8: Register of Potential Project Risks

Description	Potential Risk	Risk Rating	Mitigation
Financial Resources	Project does not have sufficient funds to complete the project tasks on time	Low – without finance the technical aspects and fieldwork aspects of the project will be delayed, delaying validation/verification.	The project currently has sufficient funds to meet the monthly cash flow requirements of the project development.
Government signed approval for use of existing spatial data sets	Timelines are extended as data is not available	Medium – without spatial data sets methodology approach cannot be completed	Commence with the collection of project field data, source satellite images, develop strong relationship with University and Forest Research Institute. There has been agreement from PNGFA to share the data on a confidential basis.
Definition of project boundary and reference region	Spatial data sets are not provided to complete the deforestation modeling	Low – Likely to delay the planned deforestation modeling	The PNGFA has agreed to supply the spatial data sets.
Field inventory completed	Weather restricts access to the area	Low – Plan for work to be completed before the dry season	Planned to complete mid May
	Field crew capability is low and requires more training time	Low – Partnership with PNGFRI	Experienced people from the PNG Forest Research Institute will make up the field crews along with 2 qualified EAS staff to be split into two teams.

Description	Potential Risk	Risk Rating	Mitigation
Demonstration of additionality	The DOS is not completed which will document the various land use options	Medium	Continue to liaise with the forest Authority to get an idea of ideas and options being considered. Ensure this component does not delay other development work packages.
Project Milestones	Unable to deliver the PD on time as the development time is relatively short	High	<p>Develop a detailed project plan with the critical path identified so that independent tasks are completed efficiently.</p> <p>Enforce strong project management processes so all members of the development team are aware of their roles and responsibilities and the timelines expected.</p> <p>Use skilled and experienced professionals for the complex work packages such as deforestation modeling.</p>
Validation/verification process completed	Validator not available by scheduled date	Medium	Engage validator early and lock in the validation dates.
Budgets are exceeded	Unexpected tasks or costs occur	Low	<p>Detailed budget plan and project management to be confident about work load and overheads.</p> <p>Payments linked to milestone deliverables.</p>
Key personnel are unavailable	Injury/Sickness of key staff members	Medium	Risks whilst travelling to be kept at a minimum, e.g. safety guards on trips, vaccinations up to date
			Have development team (at least 2 key personnel) that are fully across the key aspects of the project.

Conclusion

The initial feasibility phase of the April Salumei Sustainable Forest Management VCS Project Development has been critical to understanding the project requirements and risks as well as developing a clear project plan for the project delivery.

The selection of the methodology VM0007 was the first step in defining the required tasks and sub-tasks and to assess the relevance of available data. This methodology is very complex and requires significant spatial modelling of the drivers of deforestation and therefore specific skills. Whilst this methodology adds to the project development time and cost, this approach is most likely to lead to the highest net greenhouse gas reductions (verified emission reductions) being calculated ex-ante throughout the project life. It also provides the most flexibility in planned and unplanned deforestation.

The project planning phase completed at this stage indicates that there is a significant amount of relevant data in Papua New Guinea to complete this project with some fieldwork required to be undertaken within the project area. The specific tasks and the required resources have been scheduled in the project plan and as a result the VCS Project Document is expected to be delivered for validation by the mid October 2012.

The project development has excellent relationships with the stakeholders including the Landowner Companies, the PNG Government and the Forest Research Institute. These relationships are vital to the success of the project. Therefore a process of ongoing engagement will continue for transparency and capacity building.