

Turning MAF policy into profit

Stuart Orme

This is the first in a series of articles about forests and carbon. Future articles will look at compensatory payments of credits to pre-1990 forest owners, tax implications and how joint ventures participate as well as any other area you may wish to write in about.

By the end of March anyone registered in the Emissions Trading Scheme will have had the opportunity to put in an emission return. They will have been allocated carbon credits into their NZ Emission Unit Registry account for carbon grown on their land for 2009, and for 2008 if they were not already claimed last year.

To do this you must –

- Have opened an account within the NZ Emission Unit Registry
- Have successfully completed their ETS registration application with MAF
- Lodged a successful emission return to MAF.

This process can take as little as a couple of days to several months. It depends on the nature of the land history and the ability of the participants to present the evidence required to confirm the land and vegetation is eligible.

Potential participants have the option till the end of 2012 to register into the ETS. If they do not register by then they will not be able to claim the credits.

Real market example

In December 2009, a total of 14 parcels of credits were collated locally by Woodnet and Laurie Forestry and sold to a European government to help offset their emissions target. The transactions went smoothly. It has reinforced the reality of the emerging carbon markets as well as the ability of small to medium sized forest owners to take advantage of the opportunities afforded.

Whether participants sell or sit on their credits will depend on their personnel circumstances. However the ETS is real, the market has started and there are now options available to land and forest owners that were not fully understood a year ago.

Obligations

When a tree grower sells credits they are entering a contract to lock up the buyer's emissions in perpetuity, in particular the growth ring of the tree associated with the year of credit allocation. For example, that means when a participant makes an emission return for their 2008 carbon, they will receive units that reflect the amount of carbon sequestered – the 2008 growth ring and the associated foliage, roots and branches

during that year.

If those credits are sold, then it is this 2008 growth ring that is contracted to lock up the buyer's emissions. If the grower releases these 2008 credits because the trees burn, blow down or are cut down, they will be required to return credits to the government as part of their emission return process.

Credits to cover potential liability may come from a reserve volume they continue to hold in their NZ Emission Unit Registry account. Or they could be purchased from another seller at the market rate at the time. If the trees are planted on land best suited to growing that particular tree species then we believe the obligations are quite manageable.

First ten years

Forward sales of carbon in overseas markets have been common. A similar mechanism has been adopted by the government though the regional councils offering access to the Afforestation Grant Scheme (AGS).

What has happened is that the treasury has estimated that carbon price would average around \$25 a unit for the next ten years, accumulated the estimated revenue stream and capitalised it at 12 per cent. The resulting figure is then split between the land owner, as a forward payment for the first ten years of carbon sequestered, and the regional council as administrator of the scheme.

The table at the top of the next page indicates the tree age, the carbon sequestered annually and the value per hectare for the southern North Island Hawkes Bay area with carbon priced at \$22.50 per carbon credit. The cumulative value for the first ten years is \$4,725, for 20 years is \$12,300 and for 30 years is \$19,160.

It is this carbon that the AGS is effectively buying for the grants received of between \$2,000 and \$2,400 a hectare. Most planting costs less than half this amount. If land owners are not in a position to fund the operation up front it is a solid reflection of government commitment to trees and carbon.

The third column in the table indicates opportunity from this stand of trees. The price of carbon will fluctuate so it is the concept, not necessarily the amount, that should be focused on. Trading in carbon provides the opportunity to get the value as it accrues on an annual basis.

Revenue per hectare for ten years at \$22.50 per unit

Year	Carbon sequestered per year per hectare	Annual revenue per hectare at \$22.50 a unit
1	0.5	\$11.25
2	2.5	\$56.25
3	6.0	\$135.00
4	25.0	\$562.50
5	37.0	\$832.00
6	42.0	\$945.00
7	42.0	\$945.00
8	30.0	\$675.00
9	12.0	\$270.00
10	13.0	\$292.50

If you have the time to manage the process yourself you may well enjoy an interesting learning curve. Alternatively, it should not be too expensive to hire someone who knows what they are doing.

Is it for you?

Supplementary forest revenues from managing carbon sales from existing trees are attractive, but each person or company will be different.

The table below outlines a hill country planting of 138.3 hectares of forest in the lower North Island. It shows a price range for carbon, expected carbon yields and revenues.

If considering new planting then our advice is that if the land is better in trees than pastoral farming then there is now a potential cashflow to go with it. No longer is forestry a

Price range for carbon on 138 hectares of radiata pine

	Carbon yields for 2008	Carbon yields for 2009	Carbon yields for 2010	Carbon yields for 2011	Carbon yields for 2012	Carbon yields total
For 138.3 hectares	3,937	4,271	4,681	4,893	5,031	22,813
Carbon price \$15	\$59,055	\$64,065	\$70,215	\$73,395	\$75,465	\$342,195
Carbon price \$20	\$78,740	\$85,420	\$93,620	\$97,860	\$100,620	\$456,260
Carbon price \$30	\$118,110	\$128,130	\$140,430	\$146,790	\$150,930	\$684,390

Costs of registration

Costs can be as low as \$550 for the fee to register and \$100 for one emission return at the end of the compliant period that ends in 2012.

Both MED and MAF have web site instructions and tools available for anyone to do their own registration. If you do not have an email address or web capability you cannot complete the process.

whole lot of costs, waiting time and then maybe a one off rotational revenue in the distance.

There are two current issues to be aware of. One is the registration of pre-1990 forest. The second is to consider when setting up your NZ Emission Unit Registry how you wish to transfer credits and to consider potential tax implications.

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Safety amongst the trees

Julian Bateson

I recently volunteered to be the new NZFFA safety representative. Based in Wellington I can get to many of the relevant meetings at no cost to the NZFFA and have always been concerned with safety issues. I have now weathered the better part of two full day meetings.

Good news

The good news seems to be with regard to drugs and forestry workers. A lot of effort has been put in recently to ensure work gangs are drug free. Regular testing is now the norm and the failure rate for these tests is going down, in other words fewer workers in the forestry workplace are working under the influence of drugs. Farm foresters can do their bit by insisting that any contractor they use, however small the company, has a rigorous drug testing policy in place.

ATVs

These four wheel drive bikes are still as dangerous as ever, with deaths and serious injuries a regular occurrence. The safety organisations are testing roll cages or roll bars as these are shown to be effective when the bikes are used as work

vehicles. A common occurrence is for the ATVs to slide at relatively slow speeds into a ditch, trapping, injuring or killing the driver. A roll cage means the driver just walks away.

We all know that field days often require the use of ATVs. However I think it is unacceptable for NZFFA members not to wear helmets when on an ATV, particularly at a public event. The photograph shown above was used to promote an NZFFA award winner on an upcoming field day. Agricultural publishers have an unwritten agreement to not publish any photographs of drivers on ATVs without a helmet, so I am breaking that rule with this photograph.

Can I ask all members who produce newsletters or promotional leaflets to make sure that in any photograph, the driver wears a helmet. It is also very important that anyone who drives an ATV wears a helmet. 🌲



Safety