

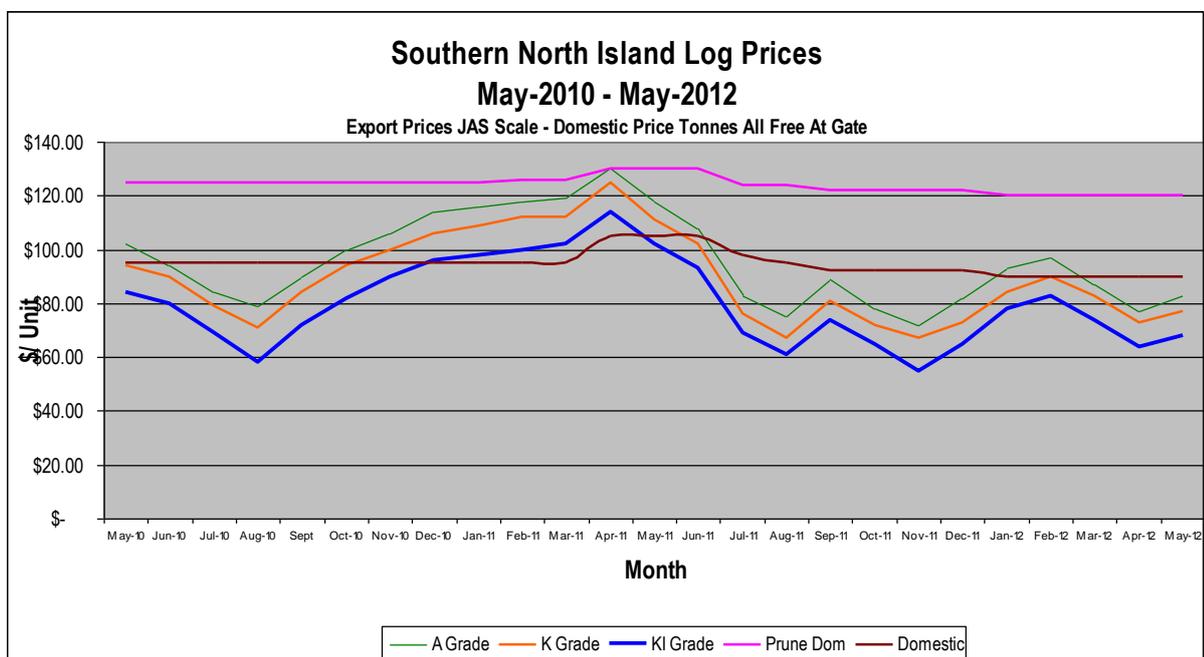
Opportunities for Exotic Forestry

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Brief: Describe where the opportunities lie for exotic forestry in NZ currently.

Pinus radiata

The following graph shows where log prices have trended over the last 24 months in the lower North Island.



Those with larger areas of forest that can harvest over an extended period of time may well be able to take advantage of both the highs and lows of what is established as cyclic forest log prices.

For growers with small areas of forest that are hard to access it is fair to say that their sale options are potentially diminishing by the year.

Increases in harvest and cartage costs that eat into stationary log prices (yes, there are huge fluctuations but in general the log price – if all the dots are connected - has flat lined for about twenty years now) have reduced the margin that a forest owner (of a small block) can expect now, compared to when the trees were planted.

Other exotic species

Again looking back over the past thirty years, have we made much progress with other exotic species?

Not really – there are a few passionate people pursuing the growth and processing of specialty timbers but their success will rise and fall on their passion and commitment – not because a market is so demanding that it will ‘pull’ the products through the value chain.

That said, last year we were involved in planting in excess of 300Ha of eucalypts – some traditional ‘timber’ species and many ground durable varieties. After years of talk re growing these, it was remarkable how little information was available re management, releasing, and land preparation regimes to apply.

Cypresses with the emergence of C. ovansii clones have shown what is possible. A visit to Rewanui locally will give a very good demonstration of two dozen different indigenous and exotic species that were planted in 2006 and 2007 providing examples of what is possible.

Opportunities for exotics

Do not be put off by the above comments – it is what it is and understanding that opens up opportunities for those who want to pursue and create them.

Those that cut dry and hold high value species and search out a market can and do benefit from good prices.

Well managed pine forest has and will continue to pay dividends, especially if marketed well and even more so if the access, weather, harvest and cartage ducks all line up at the right time.

The new paradigm

With the advent of the ETS there are now more opportunities for forest (both exotic and indigenous).

New forests planted receive ‘free’ credits that do not require to be surrendered at harvest. This shifts forest returns from around 5% to closer to 19/20% IRR (for *P radiata*) if the first ten years carbon is sold to cover costs/reinvest.

Existing forest planted in or after 1990 into post-1989 forest land step straight into a credit flow in 2008, and if registered before the end of 2012 with MPI (was MAF) will be allocated all the carbon sequestered between 2008 and 2012.

They can still register next year or further on but will only be able to apply back to the start of 2013 for carbon and will miss out on the first five years allocation.

If you have post-1989 forest the greatest ‘No Risk’ option is to register into the ETS, claim your credits and bank them – then you will have all the options going forward.

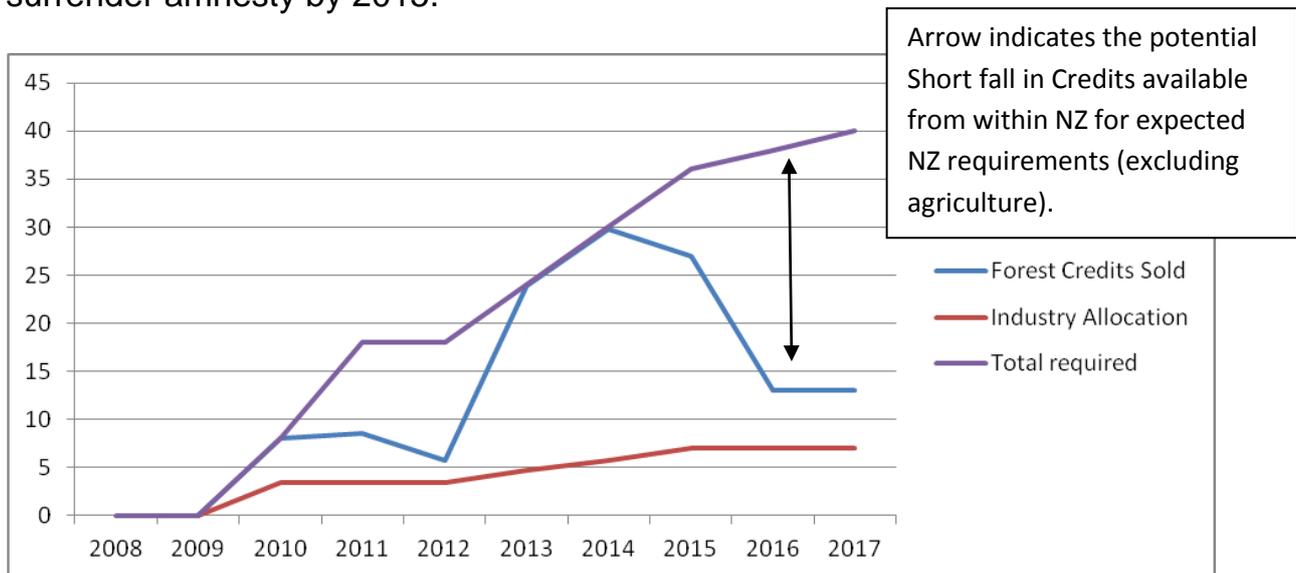
The ETS is here to stay and as time goes on there will be a growing demand for credits!

We note that the UK recently announced a floor (cap) price of \$32 NZD equivalent to apply from April 2013 and expected to rise to \$60 NZD equivalent by 2020.

Australia intend to have a price starting at \$15 AUD and rising incrementally with the restriction that a minimum of 50% of credits surrendered must come from within Australia – a concept that NZ is looking closely at aligning with.

Both Korea and China have announced their intention to formalise their ETS equivalent schemes by 2015.

The graph below shows the estimated carbon profile for surrenders in NZ excluding agriculture and assuming that the current review will remove the ‘Two for One’ surrender amnesty by 2015.



1. The gap between the blue line and the purple line is the credits that are unavailable in NZ to meet emitters surrender requirements.
2. The first gap in the years 2010 to 2012 has been filled with ‘cheap’ offshore credits that emitters imported prior to the Crown restricting their acceptability in NZ last December.
3. The second gap in the period 2014 to 2017 exists and can be filled with a mixture of offshore credits and emitters paying the cap price (of \$25/NZU) to the Crown.

If NZ adopt a 50/50 approach to credit purchase within and into NZ then it appears that there will be a NZ generated credit shortage and emitters will be required to pay the cap price currently set at \$25/NZU to cover off on their emissions. Given many believe this is what they are charging us all at the power meter or petrol pump now there should be no effect to the average New Zealander and only potential ‘upside’ benefit to forest owners with credits in their NZEUR accounts.

What is the greatest opportunity to exotic forest owners today?

If you have post-1989 forest the greatest 'No Risk' option is to register into the ETS, claim your credits and bank them – then you will have all the options going forward.

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