

Opportunities for carbon forestry

Stuart Orme

‘Come to Africa,’ my daughter chirped over skype three months ago ‘it will be cool’.

In fact on the top of Mt Kilimanjaro at 5,895 metres above sea level just before Christmas it was positively cold, but what a view as the moon reflected off the snow and nearby glaciers and the glow of an African sunrise lit up the eastern horizon. Most opportunities have a shelf life and I am glad I took this one. The ducks are unlikely to line up again quite like they did this time around.

What has this to do with the ETS or Permanent Forest Sink Initiative? I did not pay for it with the sale of carbon credits. However, like the opportunity to spend time with one of our daughters, the time left to take advantage of the ETS or PFSI and gain your credits back to 2008 is coming to a close. Both systems require participants to have their applications approved by the end of December this year.

The average time for MAF to process an ETS application is 38 days. Waiting to the second half of the year to progress a new application would be unwise if yours is one with complications compared with one that takes only a week. Four years ago the ETS was almost too thorny an issue for a lot of people to consider, but with time and understanding many have moved on.

One way to tackle thorny problems



Opportunities

What are some of the opportunities that carbon has afforded forestry in the last four years? Yesterday I spent time on two of

our clients' properties.

One was a new planting of just under 600 hectares with more than half of it being planted in hardwoods for a mixture of carbon production now and high quality timber in the future. For years we, as an association, have argued for sustainable land use choices and more enlightened species choices. This operation ticks both and adds more value boxes.

Nearby was another property that 20 years ago carried in excess of 20,000 stock units. Due to the cost of keeping land clear it has reduced its farming operation to around 10,000 stock units. In that time the station has planted what was gorse in trees to control the weeds, and what could not be developed into exotic forest due to cost has reverted. This time last year we were asked to look at their ETS exposure and opportunities. We managed to register their post 1989 pine forest and 200 hectares of reversion into the ETS in time for them to claim the credit allocation for 2008 to 2010.

Since then we have collected further information and registered a further 1,000 hectares of indigenous reversion land bringing the total reverted land pool to around 1,200 hectares. Some of this may be developed in the future for farming or exotic forest plantation so will stay in the ETS where exiting is as easy as returning the credits received.

However some of this country is destined to continue to re-mature back to native forest in perpetuity. For these areas we are considering the Permanent Forest Sink Initiative.

What is the PFSI?

What is the PFSI? The PFSI was created under Labour's term when they were still dedicated to nationalising the forest owners' post 1989 credits to allow land owners to play in the carbon space. Almost any species was eligible but exotics were not encouraged. With the advent of the ETS as we know it, and the shortening of the PFSI from perpetuity to a minimum term of 50 years, exotics also became acceptable.

Whereas the ETS is mandated through the Climate Change Response Act 2008, the PFSI lives under the Forests Act, but in time I suspect both will morph closer and closer together.

We have registered several PFSI blocks over the last few years. Unless there is no or very little chance of exotic trees making a potential log revenue within 50 years of planting it was best to steer clear of placing exotic forest into the PFSI.

Where the ETS is very flexible, the PFSI is very stringent. It is a permanent covenant on the land for a minimum of 50 years and failing to meet its demands for keeping the land in forest appear to end at the courtroom door.

Verified emission units

That said, it is a fantastic way to send a clear message to future generations that you want the land in forest in perpetuity. It is a bit like a QE II covenant with credit or cashflow. Another advantage of the PFSI is that, because of the permanent nature of the covenant, there are buyers out there who are prepared to purchase verified emission reduction units, sometimes referred to as voluntary credits.

These were popular a few years ago and in 2009 we were involved in developing a verification process for New Zealand credits. However at the time the initial sale stonewalled due to market collapse.

Time has moved on and the verified emission units opportunity is creeping back on to the table. Last year we helped develop a verification process which effectively doubled what was on offer at the time, much to the delight of the clients on both sides of the transaction.

The main question should still be 'What is my best land use – if vegetation then what is the best scheme for the long term benefit of my forest and successors? The question is not 'how can I make a quick buck'.

Forest measurement

The forest measurement approach is now mandatory for participants of both schemes with more than 100 hectares registered and measurement must be completed by 31 December this year. We have started the process for some clients and do not expect it to be quick or straight forward.

If you do not complete the measurement in time we understand the regulations allow MAF to contract the work on your behalf. This would be at your cost and they would bill you up to an additional \$30 a unit deemed to have been sequestered over the entire five year period within your registered forest to compensate for your tardiness.

Credits to sell or buy?

Another opportunity we are seeing that some people take to is re-purchase the credits they sold last year at a price closer to \$20 dollars. The current price is much reduced, courtesy of a bankrupt Europe and the escalating New Zealand dollar exchange rate. In addition is the slow off the mark regulation in New Zealand to impede emitters from buying cheap credits, not just price but quality, to cover regulations which made it possible to dump credits into New Zealand. As of December last year the government closed this off.

Offsetting

Offsetting is that magic concept for pre 1990 forest owners which might allow them to deforest in one location and

replant in another. It was added to the Kyoto rules in Durban late last year. Currently the government, who also agree with offsetting, is trying to formulate how this could be rolled out and if it will affect the allocation of second tranche of pre 1990 compensation credits.

Be active about this to anyone who might have some sway on the eventual decision. One result which would be attractive is for land owners to have the option of claiming the ability to offset a piece of forest. But in addition, for forest that they do not want to deforest, to receive the second tranche of credits they are due.

Given that many pre 1990 forests are already registered, the forests blocks should be easy to identify and the process administratively straightforward. If you do not actively pursue the second allocation of pre 1990 compensation credits there could be a chance that in 2013 they will be reduced.



Are you at the sharp end of the ETS or watching the opportunities slip off into the distance?

To be registered or measured by the 31 December 2012 get active now.

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Providing forest carbon consulting services to pre 1990 and post 1989 forest land owners

We can help you with

- All things ETS and PFSI
- Completing emission returns, holding records and copying to accountant if required
- Forest Establishment and other operations
- Forest Valuations
- Forest Measurement services for ETSA/PFSI blocks greater than 100ha
- Insurance options for trees and carbon
- Credit sales/purchase options

Important dates

Emission Returns covering the period of 2008-2011 (All or in Part)	Must be submitted to MAF by 31st March 2012
Applications for Post 1989 ETS/PFSI Participation	Applications must be with MAF and Approved by 31st December 2012 or earlier to receive the first 5 years of credits

"What's your best land use – if it is growing vegetation the ETS/PFSI could be for you!"

Check out our website for more information – www.woodnet.co.nz