

# To sell or not to sell?

Stuart Orme

We would like to think that members of the NZFFA must be some of the better informed forest owners in New Zealand. Undoubtable the allocation of credits for owners of pre 1990 forest land is payback time for many farm foresters who have established trees on their properties over the generations.

At the recent annual conference I proposed a simple but real target for our members –

- All members registered for the pre 1990 FAP by this November and be aware of post 1989 opportunities
- Convince all eligible neighbours it is a good idea to register for pre 1990 FAP and be aware of post 1989 opportunities

I predict that as long as you invite them to join, the NZFFA will see a surge in new members from grateful neighbours now receiving regular *Tree Grower* magazines, with log market and carbon updates and attending enjoyable field days and conferences.

## Register now

Those who were there heard my message – simply put it is to register. Once registered, you can bank your post 1989 credits safely in your NZEUR account. As long as the credits are in your account they are always available for surrender if you require. If you have pre 1990 forest you are captured by the legislation anyway, so claim your compensation credits and benefit from the tax free value on offer.

Using an example of 100 hectares of 1993 forest we addressed the burning question of whether to sell or not to sell your post 1989 credits. In deciding on whether to sell the credits from this forest the owners went through the following discussions. How much can they afford to buy them back at harvest?

They expect to net \$15,000 a hectare of logging revenue after costs amounting to \$1,500,000 net revenue. Between 2008 and clear fell at age 30 years they can expect to receive 25,100 NZUs from their 100 hectares. By dividing one number into the other you come up with a potential pay back ability of \$42.74 per NZU.

Credits to 2017 – the next 10 years	35,100
Log revenue per hectare	\$ 15,000
Total log revenue	\$1,500,000
Money available or credit for repurchase	\$42.74

Now that they were comfortable that the money now was an opportunity that eventual logging revenues can sustain, we then looked at potential uses of the money. With a mortgage of \$2,000,000 at seven per cent, the next 10 years of carbon and revenue flow have the following effect based on a \$20 per NZU.

The total cumulative value of the \$702,000 principle reduction and \$279,440 interest not requiring to be paid reduction comes to \$981,440. When we divide this amount by the number of credits received over this 10 year period we get a non-adjusted value of \$27.96 per NZU as opposed to the initial \$20 per NZU received.

Another scenario still working with the carbon cash flow from the 100 hectare of 1993 forest is more immediate. The sale of the 2008 to 2010 credits netted the owner \$224,000 – 11,200 NZUs at \$20 a unit. This was enough to plant an additional 200 hectares of land suitable for trees.

Again, based on \$20 for each NZU, this generates \$426,000 cash flow in the first 10 years from sale of credits not required to be surrendered, as long as the trees are

### Profile for a 100 hectare 1993 forest in the lower North Island

Year	Carbon units	Enduring carbon units	Carbon price feasibility		
			\$18.00	\$20.00	\$22.50
2008	3,700	0	\$66,600	\$74,000	\$83,250
2009	3,800	0	\$68,400	\$76,000	\$85,500
2010	3,700	0	\$66,600	\$74,000	\$83,250
2011	3,700	0	\$66,600	\$74,000	\$83,250
2012	3,700	0	\$66,600	\$74,000	\$83,250
2013	3,500	0	\$63,000	\$70,000	\$78,750
2014	3,500	0	\$63,000	\$70,000	\$78,750
2015	3,300	0	\$59,400	\$66,000	\$74,250
2016	3,100	0	\$55,800	\$62,000	\$69,750
2017	3,100	0	\$55,800	\$62,000	\$69,750
2018	2,900	0	\$52,200	\$58,000	\$65,250
2019	2,800	0	\$50,400	\$56,000	\$63,000
2020	2,800	0	\$50,400	\$56,000	\$63,000
2021	2,800	0	\$50,400	\$56,000	\$63,000
2022	2,700	0	\$48,600	\$54,000	\$60,750
2023	2,600	0	\$46,800	\$52,000	\$58,500
2024	2,500	0	\$45,000	\$50,000	\$56,250
2025	2,600	0	\$46,800	\$52,000	\$58,500
2026	2,400	0	\$43,200	\$48,000	\$54,000
2027	2,500	0	\$45,000	\$50,000	\$56,250
2028	2,400	0	\$43,200	\$48,000	\$54,000
2029	2,400	0	\$43,200	\$48,000	\$54,000

Year	Mortgage	Interest at 7 per cent	Principle reduction	Mortgage amount	Interest at 7 per cent
				\$2,000,000	\$140,000
2008	\$2,000,000	\$140,000	\$74,000	\$1,926,000	\$134,820
2009	\$2,000,000	\$140,000	\$76,000	\$1,850,000	\$129,500
2010	\$2,000,000	\$140,000	\$74,000	\$1,776,000	\$124,320
2011	\$2,000,000	\$140,000	\$74,000	\$1,702,000	\$119,140
2012	\$2,000,000	\$140,000	\$74,000	\$1,628,000	\$113,960
2013	\$2,000,000	\$140,000	\$70,000	\$1,558,000	\$109,060
2014	\$2,000,000	\$140,000	\$70,000	\$1,488,000	\$104,160
2015	\$2,000,000	\$140,000	\$66,000	\$1,422,000	\$99,540
2016	\$2,000,000	\$140,000	\$62,000	\$1,360,000	\$95,200
2017	\$2,000,000	\$140,000	\$62,000	\$1,298,000	\$90,860
		\$1,400,000	<b>Principle reduction</b>	<b>\$702,000</b>	
		<b>10 years</b>	<b>Interest saved</b>	<b>\$279,440</b>	
			<b>Cumulative benefit</b>	<b>\$981,440</b>	
			Credit value	\$27.96	

## Workshops

Over May and early June we are helping with a series of workshops aimed at discussing the ETS at the above level. Includes information around tax, monitoring carbon obligations and having MAF give the latest update of the ETS. Ask your accountant, lawyer, consultant and yourself if you should be there.

**EMISSION TRADING SCHEME FORESTRY** - \$1.1 BILLION OPPORTUNITY DISAPPEARS IN NOVEMBER 2011

**"Opportunities, obligations and commercial realities for professional advisors, trustees and landowners"**

A complete guide to ETS for those with forestry interests, including application requirements, bankable proposals, exemptions available, taxation and reporting requirement. **A must attend** if you own, manage or have clients with forestry land.

**COURSE DETAILS**

9 May Dunedin	18 May Wellington
10 May Gore	19 May Palmerston Nth
10 May Invercargill	19 May Whanganui
11 May Cromwell	24 May New Plymouth
12 May Oamaru	25 May Taupo
12 May Timaru	25 May Rotorua
13 May Ashburton	30 May Whangarei
13 May Christchurch	31 May Auckland
15 May Blenheim	1 June Tauranga
16 May Nelson	2 June Gisborne
17 May Westport	3 June Napier
17 May Greymouth	Start times vary at each location

**Presenters:**  
 - George Collier, Director, Ibbotson Cooney  
 - Jamie Snelton, Sustainability, KPMG  
 - Stuart Orme, Director, Woodnet  
 - MAF Policy

**Cost: \$266 incl gst**

[CLICK HERE to Register](#)

[CLICK HERE to view workshop detail](#)

**HIGHLIGHTS:**

- PRACTICAL IMPLICATIONS OF ETS FOR FORESTRY ON ALL CLASSES OF LAND
- THE POTENTIAL VALUE OF CARBON, AND HOW TO BUILD A BUSINESS CASE AND BANKABLE OPPORTUNITIES
- APPLICABLE TAX LEGISLATION AND FINANCIAL REPORTING IMPLICATIONS

NEW ZEALAND FORESTRY ACCOUNTANTS MAF

replanted. An internal rate of return calculation including the required replanting costs indicates a figure of 20 per cent – well up on the traditional seven per cent the same forest would show without carbon revenues accounted for.

Additional cash flow will be available from selling carbon from year 11 onwards. However for this example we have chosen not to model that. The message is that if you have forest land or trees, this is real, but the clock is ticking, so register.

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

*We can help you with*

- Confirming applicant eligibility for both post 1989 and pre 1990 forest land
- Opening of a NZEUR account
- Site visit and provision of existing and alternate scenario carbon profiles and forest/credit management options
- Provision of required cert of title and legal descriptions
- Mapping and shape file creation
- Completing emission returns and holding records
- Support with NZEUR account management
- Credit sales options
- Presentation to groups – tailored to recipient requirements

**Important dates**

<b>Entity to get the pre 1990 Allocation of Compensation Credits</b>	<b>Land owner on 20 July 2010</b>
<b>Land ownership to gain 60 NZU</b>	<b>31 October 2002 or before</b>
<b>Land ownership to gain 39 NZU</b>	<b>1 November 2002 to 19 July 2010</b>
<b>Exemption to deforest land</b>	<b>Closes 30 September 2011</b>
<b>Allocation of credits for pre 1990 forest</b>	<b>Closes 30 November 2011</b>

Check out our website for more information – [www.woodnet.co.nz](http://www.woodnet.co.nz)