

# Select Committee fails to fix ETS Amendment Bill

Stuart Orme

*The Finance and Expenditure Select Committee released its report on the Climate Change Response Amendment Bill in mid-October. Disappointingly, it remained mainly unchanged from its first reading.*

The comments of the Minister in his press release stated that the government was to clarify the use of international units in the Emissions Trading Scheme. However, I see little that will do anything to reduce the cost to the average New Zealander, or allow credit producers to benefit from the average being charged by some businesses in New Zealand.

The Select Committee had the opportunity to do something which would positively affect long term land use at no additional cost. Despite the multiple provision of good sound information, the Committee appears to have ignored it and are rolling out what seems to have become established rhetoric over the last six months.

## Worthless credits

Many of my clients have pre-1990 forest land which has devalued, due to the Climate Change Response Act, at \$20 a unit. They have been compensated at less than three dollars a unit.

Around 60 per cent of post-1989 land is now registered in the ETS. These landowners have to pay for carbon units at the rate of \$20 to \$25 for petrol or electricity, yet their credits are almost worthless. Sound decisions made by businesses, on government department advice and expectation, have now incurred significant costs. I struggle to see much out of this review which acknowledges these land owners with anything but disdain.

I appreciate that it might be hard for organisations that cannot see past the next opinion poll to make long term decisions for our nation's benefit. However, I had expected the Committee to respond to the quality information provided to them by submitters.

## Brief summary of the main points

The \$25 fixed price option and the one-for-two surrender obligation will be retained until at least 2015. This is when the government has stated it intends to review the continuation of these transitional measures.

The introduction of surrender obligations for biological emissions from agriculture is delayed indefinitely. Offsetting will be introduced as an option for pre-1990 forest landowners. There will be no restriction placed on international units, nor will a minimum surrender requirement be introduced. However, the Committee noted that there is already a power to make regulations which impose qualitative or quantitative restrictions.

The power to allow auctioning within an overall cap on the amount of NZUs will be introduced. There are also many technical amendments, for example the time allocated to submit post-1989 emission returns has been extended from three months to six months

## The next stage

I met a forest owner of 40 hectares recently who had budgeted on spending \$100,000 of carbon revenues at \$20



PO Box 758  
Masterton 5840  
Ph 06 370 2068  
Fax 06 370 2069  
Email [admin@woodnet.co.nz](mailto:admin@woodnet.co.nz)  
[www.woodnet.co.nz](http://www.woodnet.co.nz)

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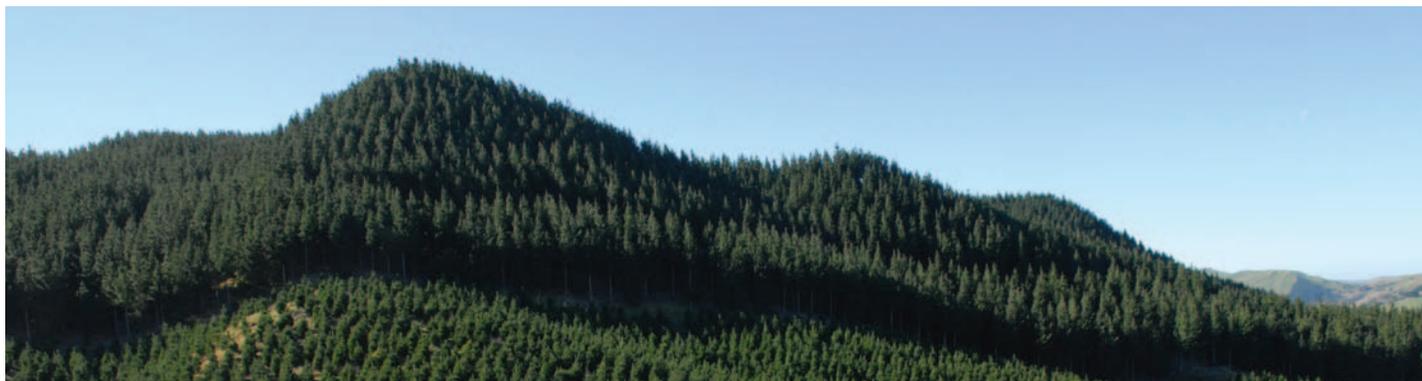
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- Forest valuations

**Important dates**

<b>Applications for Post 1989 ETS/PFSI Participation</b>	<b>Applications must be with MPI and Approved by 31st December 2012 or earlier to receive the first 5 years of credits</b>
<b>Emission Returns covering the period of 2008-2012 (all or in part)</b>	<b>Mandatory return must be submitted to MPI by 30th June 2013</b>

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a unit on forest silviculture. These carbon revenues are units that would not have needed to be paid back as they were sequestered in the first ten years of the forests life. However, with the recent price drop, the owner would now need to find around \$84,000 to do that work. The work may now not happen, reflecting both lost wages and lost future value in that forest. This is now a common story, although not for the long term if other party politicians are to be believed.

The Ministry for Primary Industries recently pointed out, at a conference I attended, that forestry is a long term game and that the price of credits will probably come back to where they were. It is unfortunate that this Ministry, whose associate ministers appear to have been very quiet during the ETS review, were not long term thinkers.

Within a decade, much of the post-1989 forest which currently provides New Zealand with its supposed 23 million carbon credit surplus, will be felled. The country will be plunged into a major carbon deficit unless we start planting a lot more trees now.

In time there will be an election and perhaps a change of government which may see ETS policies which reverse the carbon price spiral. The forest owner above may yet get value from the carbon. However, at the moment they are unlikely to consider planting, or allowing more land to revert to native trees, knowing that their investment will be at the mercy of future political opinion polls or swinging votes.

*Stuart Orme of Woodnet is a registered forestry consultant based in Masterton.* 🌲

#### A time for constraint and common sense - continued from page 37

in products such as outdoor fencing rather than framing. Australia as a key destination for our framing timber also appears to be on the slowdown in terms of demand, so it is likely this is seeing more heading to Christchurch.

In Otago, Southland and central North Island, demand for pruned logs is strong and prices have been increasing in small increments. In the case of the south, the demand is driven by a vibrant domestic market with a focus on building an international market for clearwood timber. Prices are a little constrained compared to the North Island at \$130 to \$135 a cubic metre, up \$10 since my last report.

In the central North Island, the availability of high volume low cost peeling and treatment plants for pruned logs makes markets in China more accessible, and in some case at a small premium. Export pruned logs are selling in the region of \$160 to \$164 per JAS, up \$25.

#### Sustainability needed

The recent closure of sawmills has once again seen credit risk creeping in to conversations, with one respondent indicating he was covering risk by limiting supply to a couple of the bigger mills. I cannot but help repeat the comment about the need for profitability and sustainability across all segments of our industry.

Two regions have reported small lifts in chip or pulp log prices which has been a rarity and therefore good news. Three regions report new sales of export specification logs which include larger knot size tolerance than domestic framing grade logs.

This demand could be the direct result of recent lifts in

prices for kiln dried pith free furniture grade timber in Asia. Information from the China visit suggests this segment has risen by close to US\$10 a cubic metre in recent weeks which hopefully is reflective of a sustainable wider demand profile.

#### What is next?

For the glass half full exponents the market can be viewed as being stable and likely to remain that way for the balance of the year. If the exchange rate continues to climb, the market becomes grossly over-supplied. Then we will need to meet the challenges head on and try to make a difference where we can.

For those who think the glass is half empty, the market is going to be more of the same and it will not take much to tip the scales into a downward trend in terms of price and demand. It is likely that market fundamentals will reach a point where life will become more challenging and business risk will increase.

A sensible business plan in this situation would call for a much larger investment in growing the market, seeking new opportunities and working collectively to ensure sustainability and profitability. That is the largest challenge our industry faces right now. There can be no doubt the only way forward for climate and country is to get out there and plant more trees, and quickly.

*Allan Laurie is the managing director of Laurie Forestry Ltd with over 26 years' experience in marketing logs for small to medium growers.* 🌲