

Forget offsetting

You can now deforest for less than \$300 a hectare

Stuart Orme

Under the ETS, owners of pre-1990 forest land become emitters and are required to surrender units if they deforest. This applies if you clear trees from more than two hectares in any five-year commitment period and introduce a new land use, such as agriculture. If, in fact, you have deforested any pre-1990 forest land, you should already have notified the Ministry for Primary Industries within 20 working days of the deforestation decision. You should also submit an emissions return before 31 March 2013, and surrender the appropriate amount of credits.

Currently the ETS is wallowing as the government continues to allow emitters to surrender cheap approved units. This is not particularly good news if you have carbon units and want to sell them. However, if you have logged some of your trees in the last four years and not replanted, or are planning to log in the next two years, there is an opportunity to use these cheap units to effectively freehold the land. This would remove the pre-1990 forest land status and obligations on the land. A year or two ago this cost would have been at the rate of \$20 or more for each unit. Now the unit price is just a few dollars, or even less, which is a significant reduction.

If you plant forest on the land the following year or later, you could choose to register the new forest into the ETS as post-1989 forest as the obligations for the pre-1990 credit surrender have been met. In other words you are starting your planting regime from scratch.

A forest age 30 years logged over the last four years and still not replanted can currently have the pre-1990 forest land status removed from it for under \$300 a hectare. There are some things to watch out for, but Woodnet recommend this as a major opportunity worth considering, now and for the next two years while New Zealand maintains a window for the surrender of cheap UN approved units.

Carbon direction

After five years in the ETS the climate appears to be changing yet again. New Zealand remains part of the Kyoto Protocol effectively as a volunteer, but has not signed up to the second commitment period requirements. For forestry this may be a good thing by avoiding the 'fast forest fix' exposure to post-1989 forest owners. This could have seen them having to surrender all carbon sequestered versus what they had been allocated, whether in the ETS or not.

A further result of the government not signing up to the second commitment period is that the Doha agreement meant that New Zealand will not be able to acquire United Nations approved units from 2015 to help balance its emission targets. Up until now it has been these units, bought by New Zealand emitters to eventually surrender to the government, which has dragged the price down. How this will turn out is still to be seen.

As the current commitment period draws to a close internationally, the price of units with limited sale opportunities has plummeted. In early January you could purchase units for less than 30 cents.

Buying carbon units

Moving into 2013, New Zealand may be the only country in the world with an ETS which accepts all carbon units. The European ETS will accept some, currently at an estimated average of up to 14 per cent. However supply appears to be ahead of demand, so it is hard to see how these prices could escalate in the near future. In or around 2015 when the ability for international units to come into New Zealand appears to be potentially compromised the market could change.

History suggests that emitters can buy offshore units, and as long as they are in their NZEUR accounts before a regulation change comes in to ban them, those units can be surrendered to fulfil ETS obligations. This will probably apply for the 2013 and 2014 years with surrender requirements in 2014 and 2015. After that point it is unclear how future allowance of these units will be managed by the government.

Many post-1989 ETS participants who sold units some time ago have re-purchased them while prices are down. This opportunity will be available for a little longer, perhaps up until 2015.

Emissions returns

The deadline to submit the mandatory emissions return for post-1989 participants has been extended until 30 June 2013. This extension only applies to the mandatory emissions returns due for the first commitment period which was from 2008 to 2012. Subsequent voluntary returns made in future years will revert to the 31 March deadline. Equally, if doing a deforestation return, this must be completed by the 31 March this year.

Looking forward

Get your mandatory emission return completed. As always if you have your credits you have some options, and if you do not get it in on time the Ministry for Primary Industries will be forced to follow up for non-compliance. In addition, assess your situation and if there is the opportunity to harvest and remove the pre-1990 status from your land while credits prices are low.

Owners of pre-1990 credit allocations should by now have received, or be about to receive, their second tranche of credits. The carbon market is already over supplied due to millions of UN credits available to emitters through to 2015. Even then, there will be many units in the system, so although there will be sales available it is unlikely the price will be high or that people will be rushing to sell their units cheaply in the near future. Some people may want to sell their second allocation but some may want to gift them to the next generation or a good cause for future use.

We believe the ETS is here to stay and that in time common sense will prevail. Land owners and forest owners will see a return for their efforts eventually. However, in the interim being aware of the ever changing opportunities and exposures the ETS provides is relevant to everyone involved.

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