

Focusing on ETS and Forestry

The recent release of the Emissions Trading Scheme Review by the Minister for Climate Change, Hon. Dr Nick Smith, has generated a great deal of interest from the forestry sector. The Review covers forestry in detail, particularly with recommendations designed to encourage more new forest planting. The National Party has announced its policy for implementation if it is in charge after the General Election.

Those owners locked in with Pre-1990 forests are likely to be offered an alternative with the introduction of "off-set" forestry from 2013. Land areas of Pre-1990 forests, which could be put to higher or better use, will be allowed to plant on other land and free up the better existing forest land. Post-1989 foresters are likely to have a range of improvements to the present scheme to relieve long term liability issues and create greater certainty for new investment.

The Minister's response to the Review was positive but a Government position on the recommendations was not announced because of insufficient time before the General Election for Cabinet to deal with the detail. Officials are working on those now for submission to the new Cabinet in early 2012 but already a request for urgent action has seen results. Government agreed to a request for urgent consultation on the banning of CERs (international carbon units) based on industrial gases - HFC23 & N2O. These gases are being banned in most markets and if New Zealand doesn't follow suit our carbon market could be swamped and our "green units" from forestry undermined in value. This is a positive response to the Review.

Forestry is very important in the wider scheme of New Zealand's response to Green House Gases. Our large areas of exotic plantation forests sequester carbon and moderate the country's GHG emission profile. It is in New Zealand's interest in the medium term to plant more forests and for foresters to gain the benefits of the carbon value of the trees. The current Government is a strong supporter of more forest planting.

Foresters slow to address carbon opportunities

Most should know by now that forests are classified as Pre-1990 (exotic) forests which, until "off-setting" is introduced, must stay in trees or Post 1989 forests which from 1 January 2008 can earn carbon credits which can be sold, traded or accumulated.



Pre-1990 foresters have been allocated free units as compensation for restrictions on land use. Owners with up to 50 hectares could apply for exemption and use the land as they wished but the final date for those applications passed on 30 September. The final date for applying for allocations is 30 November, but the uptake has been slow, which is hard to understand.

The compensation for those who apply is up to 60 units per hectare issued in two tranches - 38% immediately and 62% in 2013. Even at the currently weaker price of \$14 per unit (down from \$20 in May), this "free money" is worth securing. The process is not difficult and can be done on-line through the Ministry of Agriculture & Fisheries website.

We urge pre-1990 owners to register, urgently.

The ETS Review recommendations for Post '89 forestry

The greater concern of owners of newer forests is how to address the obligation of surrendering units issued for carbon as the trees grow, when the trees are cut down or destroyed. The Panel made a number of recommendations to mitigate this liability.

The Scheme is attractive for farmers or forest owners with Post '89 trees because regular issues of units as the trees grow is like harvest returns in advance. There are cash flow advantages and time cost of money advantages. Measurement of carbon will be more sophisticated and claims can be made annually if the forest size justifies the work in claiming.

Clearly not all units issued need to be sold so a reserve against surrender obligations could be built up. The Government will look at a system of "averaging" being available, which would allow the tree owner to register to receive regularly the long run average of carbon units sequestered and not follow the carbon curve, which builds up strongly from about year 10. This creates a reserve held by the Government and, if the forest is replanted, there would be no surrender obligations on harvesting the forest.

The current hesitancy among Post '89 foresters is that when the forest carbon account is in deficit, units must be surrendered to square off the account. The uncertainty around this obligation is being addressed by the Government.

Clearly harvest proceeds could be used to buy credits to be surrendered if the "averaging" scheme is not used, but because the carbon market is relatively unrestricted the price at surrender time could be considerably higher than the wood value taken out of the forest.

The Government is also looking at establishing a "pool" for making good losses from catastrophic events, and which are not covered by insurance.

This could be developed from skimming off, say, 5% of issued units and the pool is available for surrenders to be made.

Warning! Warning!

The present and likely future rules for Post '89 forestry are complex and careful analysis and judgement must be applied on a case by case basis. We are coming across many cases where land and forest owners are being pushed into propositions that are not well thought through or where the advice is simply inadequate. Second opinions are recommended and forestry advisers and professionals who really do know what the ETS is about should be used. Getting it wrong could be a costly mistake.

Forestry is a long term proposition - is the ETS?

Sceptics have suggested that the ETS will not last and that afforestation plans based on its endurance could crumble. The Review Panel studied international developments very closely and noted the number of significant proposals in major countries introducing or planning carbon trading schemes. New Zealand is neither far ahead or behind what is happening internationally in recognising that human behaviour has to change to reduce GHG over the long term and a carbon trading scheme is a sound way of achieving this whether there is a new Kyoto Protocol or not. The present Government is endorsing this policy.

There is a firm belief that our ETS is here to stay and that forestry will continue to play a key part in it being effective.

Note: Geoff Thompson was a member of the ETS Review Panel.

					
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