



# Spring 2021 NEWSLETTER

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**Forest  
Management**  
GROUP

# Introduction

## FROM THE DIRECTORS

Welcome to the Spring edition of our newsletter.

I will start with a famous quote from Winston Churchill “***To improve is to change, to be perfect is to change often***”.

Change is certainly happening within the log market presently. We are working with a rising inventory in China, domestic mills running at 70% capacity due to power shortages, increasing ocean freight rates due to delays in ports and rising fuel costs. The next few months (or six) are going to be challenging for the export log trade. In some areas, for now, this is being slightly off set by a buoyant domestic timber market. This is as a result of the building boom that is occurring in NZ currently.

To say nothing about the change of carbon from \$38 in March to \$64 and upwards of today. This is fueling a land use change from farming to forestry in some areas of NZ and pushing costs up on a lot of products and services around the country.

Another famous saying is “if you don’t have a competitive advantage, don’t compete.” In NZ we are lucky to have that competitive advantage. We produce 25 times more food than we require for our current population. The key in today’s world going forward is to be able to adapt and change, for many NZ businesses to survive.

Our industry has had a bow wave of good prices in terms of log sales for the last 18 months, the ride for next few months looks a bit bumpy but nothing we have not seen before. This is the 19<sup>th</sup> market correction in the last 28 years that I can remember, and it won’t be the last.

Wood for Fuel, carbon prices, competitive international log pricing and a strong local market is all something positive for the future of NZ Forestry.

Evan MacClure  
*Director*



# ETS - Carbon Price Update

The Emissions Trading Scheme (ETS) is a market-based policy tool designed to reduce greenhouse gas emissions by putting a price on pollution. Participants are required to buy carbon credits (NZUs) to offset their emissions. Each NZU equates to 1 tonne of carbon dioxide.

The carbon price throughout 2021 has continued to increase as emitters look to secure their required supply of NZUs to offset their emissions throughout this year.

The increase in carbon price has been largely driven by the removal of the fixed price option. Previously emitters could purchase units from the government at a \$35/NZU fixed price. However, in 2021 the fixed price option was replaced by quarterly ETS auctions run by the Government.

For 2021 the ETS Auctions have a price floor of \$20 and a cost containment reserve of \$50. If the cost containment reserve is breached, this triggers more units to be released with the goal to reduce the auction clearing price. Additionally, each auction has a confidential reserve price, which ensures the market is not able to be manipulated.

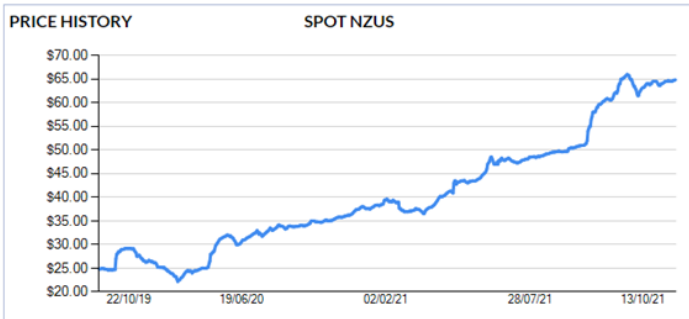
Currently, the ETS auctions floor price and cost containment reserve price have been set by the government to increase each year through to 2026.

The Government held its third auction of NZUs during September, and the auction clearing price of \$53.85 resulted in all 4.75 million units sold. This auction also triggered the cost containment reserve being made available due to the bidding prices being above \$50/NZU. Consequently, all 7 million additional cost containment reserve units were sold at the \$53.85 clearing price.

Since the September auction, carbon prices have risen further to a high of \$65.80. Recently this has come back slightly with units trading a range of \$63.00 - \$65.00.

There is now one more auction left in December with no cost containment reserve units left. In 2022 there will be a fresh cost containment reserve volume available, but only if clearing prices reach a new increased trigger price of \$70/NZU.

Right now the key questions are...Where will it go from here and how quickly?



# The Age-Old Question

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## To prune or not to prune.

To prune or not to prune is a decision that takes 20+ years to see the true outcome of. It may be best to look to the future and assess the developing markets and trends, rather than base a decision on the financial modeling assumptions of today. Because each region and forest is different in a variety of ways, a financial analysis will be left out of this article. Contact your local FMG forest manager for regionally specific insights.

For forest owners, the basics of the pruning debate centres around creating greater options, trying to add value, and hedging against risk at harvest time. The 'increased stumpage returns' argument for pruning is not as clear-cut as it once was. The availability of capital and the location of the forest also plays a big part in the forest owners pruning decision. Many of the reasons forest owners still prune are often broader than just profitability.

The cost of pruning has been steadily increasing as the industry faces labour challenges around the availability of keen and capable silviculturalists. Some large-scale forestry companies still prune; partly to diversify their forest asset, but also partly to keep a stable skilled workforce employed year-round.

Well-tended pruned stands have a lower stocking and generally a lower standing volume per hectare than that of unpruned stands. With the increasing impact of carbon credits on forest profitability, a decrease in standing volume will decrease the forests'

carbon earning potential (for forests over 100 hectares under the FMA approach).

Pruning good sheltered growing sites that allow the final crop stocking to be kept up can be good options for balancing the trade-offs between cost, decreasing volume, and increasing value. But there have also been recent arguments made to prune below-average high altitude sites to increase returns from forests susceptible to environmental damage.

With the developing biofuel and wood residue market looking to increase the price of typically less profitable log grades, a forest with greater standing volume per hectare at harvest has the potential for increased stumpage returns in the future. Smaller woodlot owners can even bring forward or delay harvest until favourable market conditions appear.

Proximity to domestic sawmills can influence the forest owners' decision to prune or not. A domestic pruned mill may be closer to the forest than that of the export market. Therefore, pruned logs allow for more market options at harvest time, and could reduce the cartage cost of the forest's most valuable logs.

On the flip side of this is the rapidly moving space of sawmilling technology. Already 'finger jointing' is commonplace in some New Zealand sawmills; allowing the removal of knots to create appearance-grade timber, from unpruned logs.

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Niche new engineered wood products and processes such as Kebony, Acoya, and thermal modification have been developed. These provide an alternative to expensive tropical hardwoods for high-value appearance products, such as decking and

cladding. These markets can command a premium for pruned logs, as knots in unpruned wood create weak points and the finger-jointing glue does not hold strong. Access to these markets is still developing and large-scale consumer uptake is still in its infancy.



The answer to this age-old question is truly multi-layered and comes down to each forest owner's particular situation. Some people just like the look of pruned trees.

For more info, contact Matt Cotterrell

[mattc@forestmanagement.co.nz](mailto:mattc@forestmanagement.co.nz)

# Windthrow and ETS

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The nature of forests, being living breathing entities, means that they are subject to forces of nature. The main threats in NZ being wind and fire.

The recent NW wind events in Canterbury saw gusts of up to 180kph causing damage to trees from the Culverden basin to Timaru area with the foothills and plains being mostly affected. The damage ranged from pockets of windthrow through to whole stands being uprooted or broken part way up stems.

## Salvage and Insurance

When damage occurs through these events forests require attention to manage the salvage of any merchantable timber and replanting of crops, plus the carbon liability that comes with post-1989 forests registered

into the ETS. If trees are merchantable insurers will look to maximise salvage value as they hold the property value of damaged timber, access to stands is assessed and if the forest owner wishes to build access for future/alternative use the insurer will either pay-out to the limit of the policy or stay involved in the salvage process. Stands with log truck access in place will generally be given harvesting priority if the time of the year doesn't lend itself to a new road build project.

## ETS Implications

Under the current ETS settings, post-1989 ETS registered forests are required to pay back the NZU's claimed if the wind damage (or other event) results in an area 1 ha or greater, this must be a contiguous area which no longer meets the ETS definition of a



“forest”. A wind damaged area is no longer deemed to be a forest in the ETS if there is less than 30% canopy cover remaining in any area larger than 1 hectare.

Additionally, damaged areas less than 1 hectare can fail to meet the ETS requirements for a forest when the damage is on the edge of the stand and spans wider than 15 meters.



From 2023 onwards the government has proposed a shift in how carbon liability is treated after an adverse event for post-1989 registered forests, titled ‘Adverse Events Cover’. This will also apply to forests registered into ‘Carbon Averaging’ and ‘Permanent Forests’.

Key points that forest owners need to be aware of:

- If a contiguous area over 1ha is damaged with less than 30% canopy cover remaining the government will not require NZU’s claimed to be repaid.
- The obligation of the forest owner is to clear the damaged area and re-establish with trees within 4 years, once the crop species reaches the age it was damaged the forest owner can continue claiming

carbon credits.

- This will require increased monitoring for ETS registered forests to ensure adverse event claims are identified and compliant with the ETS requirements.

From a forest manager view point we foresee larger forests (especially in Canterbury) becoming a patch work quilt of age classes. For some forests a high carbon price will drive forest owners to only salvage damaged areas and not take out larger compartments of wood. There will be natural/practical boundaries where some undamaged trees are taken but this is yet to be defined by MPI if carbon payback it required for harvesting standing trees.

# FROM THE BACKPAGE

## Welcome onboard Emmy and Matt

Emmy Go officially joined FML office admin team during the second lockdown so we haven't seen her for the first couple of weeks :) She previously worked in a company that manufactures a "sniffing machine" in Christchurch.

Emmy and her husband first came to NZ in 2013. They have a 5 ½ year old boy who keeps her super busy at home. Before moving to NZ, Emmy was living and working in Singapore for almost 4 years. Emmy is originally from the Philippines.



Emmy loves travelling and seen most of South Island. She would like to see what North Island looks like one day – when it is

safe to travel again.

The Forest Management team is delighted to welcome onboard Matt Cotterrell who will be working out of the Otago office as a Forest Manager.

Matt brings with him a high level of technical skill and practical experience. Working alongside Daniel Robertson, Matt will be implementing the latest high-tech solutions to our on-the-ground forestry problems.

Matt says the outdoor work and environmental focus were major attractions for him working in the Forestry industry. Matt spends his spare time skiing, mountain biking, and enjoying everything Otago has to offer.



**Forest  
Management**  
GROUP

**FOREST MANAGEMENT  
LTD**

PO Box 3718, Christchurch 8140

Head Office  
Ph: (03) 343 4101

**TASMAN FOREST  
MANAGEMENT**

Marlborough  
Ph: (03) 577 6815

Nelson  
Ph: (03) 540 3177

**FOREST MANAGEMENT  
(NI) LTD**

Napier  
Ph: (06) 833 7529