

Property Pulse **Extra**

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**Carbon credit system
offers diversity for owners
of marginal land**



Changes signalled to the New Zealand Emissions Trading Scheme (ETS) are set to raise the value of otherwise unproductive or marginal rural land.

Under the scheme, in order to reduce greenhouse gas emissions, farmers have the incentive to plant and leave land either in natives or exotic species, and derive an income from it based on their trees' capacity to sequester, or remove carbon from the atmosphere.

As the changes take effect, managing carbon credits will become easier for forestry owners. Rural landowners may be unaware that trees on their land are worth hundreds of thousands of dollars in carbon credits. In some districts, however, the programme is already initiating land use change.

John Murray of PGG Wrightson Real Estate, Masterton has noted several recent property transactions where carbon credits motivated purchasers.

"Renewed interest in carbon trading has

increased enquiry for land suited to forestry. Several traditional Tararua, Wairarapa and South Wairarapa hill country farms have changed hands recently for conversion to forestry, totalling around 10,000 hectares. Purchasers are paying more for these properties than sheep and beef farmers would. Although that premium is difficult to gauge across all the sales, it ranges between five and 30 per cent," he says.

Susan Harris is principal scientist for GreenXperts Limited, a Wellington and Whangarei-based consultancy that assists rural landowners to manage their carbon assets. She says misinformed owners can end up undervaluing forest land.

"Often rural landowners do not appreciate the value sitting in their natives and post-1989 pine trees. They are unaware of how to extract maximum value from their credits.

"When the amended ETS legislation is passed later this year, landowners will find it much easier to claim carbon credits. Previously there was a surrender liability, meaning that if you removed the trees, you had to give some of the credits back. Under the amended law, so long as you replant trees, that liability is eliminated," she says.

According to Susan Harris, landowners are

becoming more aware of a valuable resource.

"The ETS can turn previously unproductive land into productive land. With the price of carbon credits currently at around \$25 per tonne, after about five years, owners of marginal land planted in pines stand to achieve returns for their carbon credits in line with a low to mid-range beef operation.

"Carbon farmers can gain an immediate carbon credit cashflow, with the ETS paying you while your trees grow. Currently, with ETS-registered trees at around 28 or 30 years, farmers could earn about \$20,000 per hectare for pines or about \$6,000 per hectare for natives. In the meantime, the value of carbon credits is projected to rise. Various studies suggest it will go to between \$50 and \$200. One special type of credit in California went over \$US200 last year, though subsequently came back to \$US187. The New Zealand Productivity Commission has indicated that credits need to go to \$75 to make a real difference and usher in a low emissions economy. However, even if they go to \$50, that will change New Zealand's economy.

"The government is looking at cost control options in the amended law, while the EU and IMF are discussing price floors," she says.

According to Susan Harris, those who have

looked carefully at this are quietly acquiring credits. She thinks farmers should start by planting their marginal land.

“Using the government’s Billion Tree Programme, you can gain generous grants to plant marginal land. After that, you don’t need to bother to prune or thin the trees, just sit back and take the credits.

“However, there are still additional income opportunities. Some people are using tree planting for erosion protection; stock can be run in thinned blocks; pines offer the opportunity to take credits while still harvesting mature trees; and with natives, it is feasible to produce manuka honey as well as establishing tourism or recreation businesses alongside the farming of carbon credits.

“My advice to owners of land where this is an option is to find someone competent to do the numbers for you, work out how to farm carbon alongside a conventional farming system, and make your decision accordingly,” says Susan.

Corporates are also adapting to the legislative changes around the ETS.

Air New Zealand, Contact Energy, Genesis Energy and Z Energy have joined forces in a carbon afforestation partnership. Branded Drylandcarbon, the partnership enables the companies to establish a forest portfolio to sequester carbon, as executive director Anthony Beverley explains.

“Drylandcarbon targets marginal land to establish a large geographically diversified forest portfolio, predominantly comprising permanent forests, also with some production forests. Carbon sequestration and climate change mitigation are becoming increasingly important. We intend to be actively involved.

“We work with farmers and other land owners, either by acquisition or under a joint venture/forestry right arrangement. With the latter, the farmer contributes the land while we provide the capital to develop the forest, as well as managing the forest and the ETS component. We then share the carbon credits or tree harvest revenue with the farmer.

“As an option, some like our ability to monetise all or a portion of their share of the carbon credits generated under a forestry right. This appeals to farmers wishing to capture capital to expand or develop their remaining farming operation,” he says.

While some in rural communities are concerned about productive farms converting to forestry, Anthony Beverley says that is not Drylandcarbon’s business model.

“We are targeting the more difficult marginal land, not good productive pasture. Carbon farming is consolidating as a real commercial and diversification opportunity for farmers. Where you might have a sizable farm with a portion of marginal land out the back, our approach is to team up with the farmer and

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contribute capital to establish forestry over the difficult back land, leaving the farming operation to focus on the productive pasture. That should make the entire property much better able to generate sound commercial income.

“We want to ensure the right forest is in the right place, utilising carbon farming to improve land use, therefore creating better farming, commercial and environmental outcomes all round,” he said.