CARBON EMISSIONS TRADING SCHEME

The carbon emissions trading scheme (ETS) in the forestry industry got underway on January 1 this year. This scheme will charge the owners of forests planted prior to 1990 the 'carbon liability' associated with the Kyoto protocol should they decide to harvest trees, and gives some owners of overall forests the incentive to join the scheme and harvest fewer of their trees. The scheme will cause a reduction in log and timber production over the coming year.

How does the scheme work? New Zealand has agreed, under the Kyoto protocol, to reduce its carbon emissions to the same level as 1990 level by 2012 – or else pay for the carbon emissions in excess of the agreed level. As trees that are in the ground hold carbon, the government sees forestry as a sector that can help New Zealand reduce its carbon liability.

However, when a tree is cut down and processed it is deemed to have released a large proportion of the carbon that it has stored. The government has decided that it wants to reduce the incentive for people to cut down forests, by making owners of pre-1990 forests pay for these carbon emissions, and offering owners of post-1989 forests the carbon credits that are associated with their forest. Although this may help increase the national stock of trees, fewer trees will be harvested.

We expected there to be a substantial increase in the volume of forestry exports over 2007, as forest owners felled trees to avoid this liability. Although the first half of 2007 saw increased logging activity, actual transported log volumes slipped significantly over the second half of 2007 (with the December quarter recording a 14.3%pa decrease in export volumes). Even with the upcoming regulatory uncertainty, and the increased future cost of cutting down their trees, the price available for logs and timber was too low for forest owners to be tempted to increase production – with the price falling 13% between September and December.

Prices for logs and sawn timber are expected to stay low, as the lull in residential construction activity in the US continues. In combination with the ETS and the winding down of Timberland West Coast, lower prices will reduce the level of logging and wood manufacturing activity in New Zealand.

Lower activity in the forestry sector is expected to have a big impact on very heavy truck activity. Although forestry is not the only industry that uses big rigs, other industries that could pick up some of the slack (eg dairy, importing firms) will have weakening volume growth over 2008 as drought conditions and a slowing domestic economy reduce demand for road transport.

Photo by Dave Ching

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