

## **Submission**

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**On: A Better ETS for Forestry: Consultation document**

### **Introduction**

1. The Northland Regional Council (council) is grateful for the opportunity to comment on the consultation document. This submission is made in the interests of promoting a sustainable environment and economy in Northland and with council's statutory functions and roles under the Local Government Act 2002 and other relevant legislation in mind.
2. The council understands the importance of the Emissions Trading Scheme (ETS) in promoting and enabling the transition to a low net emissions economy. Council agrees that there is a need to improve the framework of the ETS and strengthen incentives for permanent and commercial plantation forests. The Northland region has significant potential for land use change with large areas of land suited to conversion to forest and therefore has an interest in improvements to the ETS to facilitate this.
3. We understand that forestry is unique in that it is currently the only sector that can get recognition for carbon sequestration through the ETS in the form of carbon credits (units). Council considers there is however potential for other sequestration measures that could be incorporated into the ETS in a similar way. This will become increasingly important as permanent forests age and sequestration rates drop – meaning if we are to meet emission reduction targets New Zealand must continue to plant new forests to offset emissions. We strongly urge the government to assess the potential for incorporating other sequestration measures into the ETS, particularly those that can be integrated into existing farm

/ agricultural systems given the very limited tool box currently available to this sector to abate / offset emissions. Examples could include carbon credits for cropping fibre, soil conservation and riparian planting. We acknowledge such measures do not form part of these proposals and that the government is bound by international protocols, but council considers alternatives to forestry sequestration will become increasingly important, particularly if and when agriculture enters the scheme if the government's objectives for a productive, sustainable and climate change resilient economy and just and inclusive society are to be achieved.

## Submission

4. Carbon credits for riparian areas: While we understand riparian plantings can be registered in the ETS if they meet the eligibility requirements (including minimum size / width thresholds), council is disappointed to see that a specific category and eligibility criteria for this has not been considered. The discussion document states that inclusion in the ETS is unlikely to drive a significant increase in riparian planting and that the benefit to farmers is likely to be small (emissions unit value is estimated at around 2t/ha per year). However, it may be possible to bundle riparian planting and possibly soil conservation planting into other ETS eligible forest activity on farm and thereby reduce administrative burden / cost effectiveness. Council asks that the government take another look at the potential for this.
5. Accounting: Council supports the proposal that all *new* forestry participants be required to use the 'averaging accounting' system (as opposed to carbon stock change accounting). Council agrees that this will simplify administration and compliance costs by avoiding the need for accounting at harvest and payment of surrender obligations. Council also agrees that this change would allow a greater return from registered forests as there is less risk in selling allocated units for forest owners under the averaging regime.
6. In relation to existing forest participants, council supports Option three which allows participants to make a one-off and one-way choice to either retain the carbon stock change approach or to move to averaging accounting. This is on the basis that there are forester owners with business plans and contracted commitments based on the carbon stock change accounting approach that should not be disadvantaged by a compulsory accounting change. We agree that being a 'once only' decision it would prevent ETS participants from "cherry picking" between the two accounting approaches.
7. Council agrees that there needs to be some allowance for a transition between the two systems that recognises the potential impact on some forest participants if they decide to transition at the Mandatory Emission Reporting Period - in particular those that may face timing related issues in terms of surrender obligations but yet to receive income from the harvest. The potential option to

allow participants to pay obligations at the Mandatory Emission Reporting Period following the transition appears logical.

8. Design of averaging accounting: If averaging accounting is to be used for all 'new' forests, this should be applied as early as possible. Given change to legislation is required (and anticipated in 2019), council agrees that new forests should be defined as those planted after 1 January 2020. While this may mean some foresters delay planting until after this date to avoid the need to transition from carbon stock change accounting to averaging, this appears unavoidable.
9. Calculating average carbon storage: Council agrees with the proposal to continue use of default 'look up' tables for participant forests of 100ha or less as this limits complexity and administrative costs for smaller forests. The use of field measurement approach for forests over 100ha is also supported. We see no need to change the 100ha threshold, but note and support the intention to review yield tables. For the purposes of calculating average crediting age and carbon storage, council supports Option 2 – this is on the grounds that this method provides more of an incentive for increasing carbon storage by providing a higher average age (and ability to earn more units) as a result of longer rotation. We see this being particularly beneficial on land with high erosion risk where longer rotations present less risk of adverse events than shorter rotation forests with more frequent harvest cycles.
10. Changes to 'average' age: In terms of changes to average crediting age and obligations of participants, council supports Option1 for both circumstances (where forests are either above or below the average age). Option 1 (in both circumstances) appears to provide the most certainty for participants when / if the average age changes (either up or down). This seems the simplest and most certain approach and will avoid the need for participants to retain units to cover potential changes to the average age and subsequent unplanned liabilities.
11. Claiming units on entry to averaging: While the averaging approach appears very attractive for new forests, for forests at or above average age, the averaging accounting approach would act as a disincentive to entry to the ETS (as they do not receive credits for prior growth). While we understand this is pretty much the case currently, we would urge the government to consider options to resolve this.
12. Ongoing reporting: The current approach to reporting requires measurement and reporting every Mandatory Emission Reporting Period and associated debiting or crediting of the forest, depending on the stage in the cycle. The move to averaging would remove these requirements as once a forest reaches its average age there is no need to report changes in carbon storage. Council supports Option 3 and the requirement to report changes to average age, any deforestation and change forest management every Mandatory Emission Reporting Period (E.g. change in species or rotation length). This is a far simpler

and more cost-effective approach and one of the key benefits of averaging accounting.

13. Removing liabilities for adverse events: Currently the ETS requires participants to account for reduced carbon as a result of adverse events (such as storm damage or earthquakes). This means participants need to carry insurance to cover the liability arising from the need to repay units. Council strongly supports the proposal (Option 2) to remove this current requirement, as this is in our view one of the impediments to entry into the ETS, particularly for permanent forests. We do however support the requirement that participants provide evidence of re-establishment of the forest post the adverse event.
14. Offsetting: Council supports Option 2 which would allow participants who use averaging to avoid deforestation liabilities provided they establish a new forest of equal or larger area elsewhere. Council supports this as it retains flexibility in land use options and also lowers the risk of forestry as an investment.
15. Recognition of harvested wood: Council supports the move to recognise and account for the emissions mitigation provided in harvested wood in the ETS. Council prefers Option 2 on the basis that participants should receive the additional units by way of an increase to average crediting age. Council is of the view this would further incentivise participation in the ETS and afforestation, whereas allocating equivalent funding to an industry scheme to promote longer life wood products (Option 3) is not likely to do so.
16. Permanent forest category: Council strongly supports increased incentives for establishment of permanent forests as there are multiple co-benefits likely in terms of biodiversity, water quality and soil conservation. There is a significant opportunity for the establishment of new permanent forests in Northland on land less suited to production forestry. We understand participation rates in the Permanent Forests Sink Initiative (PFSI) have been low, even though PFSI units have earned a premium. One of the reasons for this is the need to ensure the permanence of the forest by covenant which is administratively cumbersome and a disincentive for many landowners. Of the options presented, council prefers Option 4 (the creation of a permanent forest category and disestablishment of the PFSI) provided there are strong assurances the forest is actually permanent. We consider the conditions available in the ETS are sufficiently robust to negate the need for covenants and the 50year non-harvest period is supported. Units received for permanent forests should however be distinguishable from standard NZ units – we also support the proposal to allow selective harvest from such forests provided canopy cover is maintained as this will enable additional revenue and act as a further incentive to establish such forests.
17. In terms of calculating units to be credited for carbon storage in permanent forests, council considers averaging accounting would disadvantage the establishment of native forest which continue to accumulate carbon for 100

years or more until they reach a 'steady state'. Council therefore supports the carbon stock change accounting system (Option 2) for permanent forests.

18. Council supports the proposal to transfer existing PFSI participants into the new permanent forest ETS category, but allowing those that do not support this to exit the scheme. We agree with the three options presented for permanent forest owners after the expiry of the 50year non-harvest period (including the option to sign up for another 50 year non-harvest period or de-forest and pay liabilities), as this retains flexibility for land use and landowners, which again increase incentives to participate in this category.
19. Operational changes: Council has limited views in relation to the operational changes outlined in the consultation document and therefore has only a few comments on the more significant proposals. Council supports greater transparency / access to information on land classifications and eligibility under the ETS – mapped layers of pre-1990 forest land, post-1989 forest land and land eligible to be registered as post1989 forest land would be extremely beneficial for existing and potential investors.
20. Council strongly supports simplifying exemptions from liabilities where deforestation is for the purpose of managing 'tree weeds' (E.g. wilding conifers).
21. Council agrees with the proposal to relax the emissions returns for natural disturbance events that permanently prevents forest reestablishment (such as erosion) – given there are no surrender obligations the return serves little purpose.

## **Conclusion**

22. As can be seen in our responses above, overall council supports the majority of the changes proposed in relation to forestry in the ETS. In our view, these will remove some of the impediments to participation and provide meaningful incentives for afforestation and thereby assist the transition to a low carbon economy. The administrative burden will also be eased, particularly if the option for averaging accounting proceeds. The improved regime for establishment of permanent forests under the ETS is particularly pleasing – council would encourage government to look at further incentives for this activity as the ETS evolves. Once again, council thanks the government for the opportunity to comment on the proposals.