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Redesigning the NZ ETS Permanent Forest Category Consultation,
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Dear Sir/Madam

NZ ETS Review and Redesign of the NZ ETS Permanent Forest Category

Thank you for the opportunity to provide a joint submission on both the NZ ETS Review and the Redesign of the NZ ETS Permanent Forest Category. The West Coast Regional Council's (WCRC or the Council) submission is attached.

The Council consulted with their iwi partners, Te Rūnanga o Ngāti Waewae and Te Rūnanga o Makaawhio (Poutini Ngāi Tahu or PNT), who are mana whenua on the West Coast/Tai Poutini, in the development of this submission.

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We would be grateful for acknowledgement of receipt of our submission.

Regards

Fiona Thomson
Planning and Science Manager

West Coast Regional Council Submission on:

- 1. NZ ETS Review**
- 2. Redesigning the NZ ETS Permanent Forest Category**

Introduction

The West Coast Regional Council (the WCRC or the Council) appreciates the opportunity to make a joint submission in two parts on:

1. The NZ Emissions Trading Scheme (ETS) Review; and
2. Redesigning the NZ ETS Permanent Forest Category.

Te Rūnanga o Ngāti Waewae and Te Rūnanga o Makaawhio (Poutini Ngāi Tahu – PNT) are mana whenua of Te Tai o Poutini (the West Coast). The WCRC's Mana Whakahono ā Rohe (Resource Management Act – Iwi Participation Arrangement) captures the intent of the WCRC and Poutini Ngāi Tahu to progress our relationship in accordance with the Treaty of Waitangi partnership between iwi and the Crown. Poutini Ngāi Tahu were invited to provide input into this submission.

NZ ETS Option Analysis

The WCRC is concerned that the four 'bundled' options outlined in the discussion document will potentially negatively affect the social, cultural, economic, and environmental well-being of the West Coast. The extent of this impact will depend largely on the underpinning policy and pricing instrument central government eventually settles on for emission reductions and removals.

Council considers that changes are required because the existing NZ ETS trajectory is not consistent with NZ's domestic path to its '2050 Target' under the Climate Change Response Act (CCRA). A considerable stockpile of NZUs exists, and NZ will need to reduce domestic emissions at source in line with its commitments rather than rely on offshore mitigation (paying for others to reduce their emissions because they are more efficient and more effective) and passing debt onto future generations.

Council suggests, amongst other options, a full review of the operation and effectiveness of the ETS is required and alternative scenario options developed that include a sustainability baseline to enhance, or at least uphold the social, cultural, economic and environmental well-being of iwi, local business, farms and communities on the West Coast.

Council is aware that, further to government intervention on 25 July 2023 in ETS price settings and following a tumbling carbon price and High Court judgment on an application for judicial review, ETS settings for the December 2023 auction will be changed. From December, the ETS will have a significantly higher floor price, lower auction volumes, and two tiers of much higher prices for the cost containment reserve (substantially increasing the trigger price to release additional cost containment reserve units). The Government also considered its annual decision on unit limits and price control settings for 2023 – 2028. Council notes that the SPOT NZU had rebounded to \$59.75 on 1 August 2023 on a legitimate expectation of changed ETS settings, but Council has not had time to fully consider the effects of this intervention.

Redesigning the NZ ETS Permanent Forest Category

Council supports redesigning the NZ ETS Permanent Forest Category to include permanent indigenous forest species, but has concerns about the Government's rationale for including this. Council suggests some options to improve the effectiveness of having permanent indigenous forest in the ETS.

Due to our high workload, Council has only had time to consider the four high-level options presented by central government briefly, and does not support them due to the potential severity

of adverse effects on local West Coast communities. Similarly, brief feedback is given on a small number of the discussion document questions about the redesign of the permanent forest category in the ETS.

In the preparation of this submission, the Council consulted with Development West Coast, and Adolf Stroombergen, Economist at Infometrics. A number of their comments are incorporated into this submission.

Summary List of Feedback and Recommendations

Feedback 1

The Council does not support Options 1-4 as outlined in the discussion document.

Feedback 2

Council strongly opposes accounting for stockpiled units of removals as emissions reductions.

Feedback 3

The following options should be investigated to improve the effectiveness of the ETS so it enhances, or at least upholds, the social, cultural, economic and environmental wellbeing of the West Coast:

- a) Temporarily maintain status quo;
- b) Review operation and effectiveness of the ETS;
- c) Progressive cap and trade ETS;
- d) Undertake an effectiveness assessment of the ETS using a multi-agency decision-making process;
- e) Diversify removals including biodiversity credits, restoring wetland carbon sinks through sphagnum moss farming, and engineered GHG removals such as carbon capture and storage, forest sinks;
- f) Fund domestic offsets ('carbon sinks') as a matter of priority. Central government should fund private landowners on the West Coast now to maintain and restore wetlands, Significant Natural Areas (SNAs) and native forests on their land as carbon sinks; and fund development of new sinks such as blue carbon, in the form of seaweed and kelp farms on the West Coast.

Feedback 4

If changes are made to the ETS that have a perverse outcome on the social, cultural, economic or environmental wellbeing of the West Coast, the Government needs to find ways to provide for regional wellbeing.

Feedback 5

The Council does not support the current construction of the permanent forest category; or the Government's rationale for introducing permanent indigenous trees to the NZ ETS for commercial harvest, on the basis that NZ natives (unlike foreign exotics) sequester carbon over the long term, are low maintenance, can be planted and walked away from, and do not require pest control.

Feedback 6

The Government should adopt the following options to support ongoing, effective inclusion of permanent native forests in the ETS:

- a) Incentivise planting of permanent native forests, including by allowing foresters to keep their credits at harvesting so they can pay for planting native forests;
- b) Extend the time forest owners can receive credits to allow forests to gain credits based on averaging accounting of long-term carbon amounts;

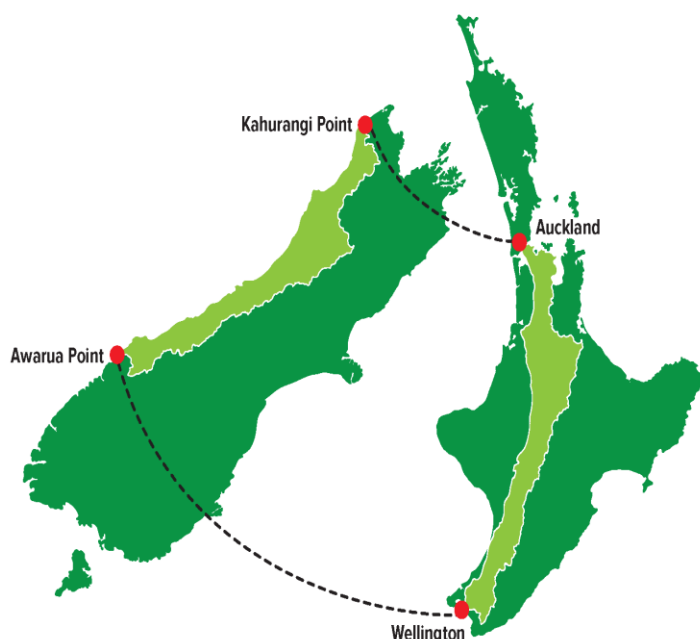
- c) Explore incentivising rotation forestry on small landholder farms, encouraging diversification of the forestry estate, delivering benefits to rural communities, and reducing the risks of forestry concentration in certain regions;
- d) Put a progressive cap on the quantity of credits that can be in the ETS for permanent native forests, subject to conditions;
- e) Allow a mix of exotic and native permanent forests, to manage risk and ensure a continuous removal of emissions over both the short term and long term; and
- f) Consider establishing a separate scheme for permanent native forests, subject to a cap and trade system, using an auction allocation process.

Feedback 7

- a) Transition forests should be managed through an effective management plan, and a new accounting method; and
- b) Owners of transition forests should be compensated.

About the Submitter

The West Coast Regional Council (WCRC) is the local authority for a region covering a vast area with a sparse population. The distance from Kahurangi Point in the north to Awarua Point in the south is the approximate distance from Auckland to Wellington.



The West Coast region stretches the equivalent distance of that between Auckland and Wellington

Figure 1: Map of New Zealand to highlight the 600km length of the West Coast Region compared to the distance between Auckland and Wellington.

The West Coast Regional Council works closely with the regions' three territorial authorities (the Buller, Grey, and Westland District Councils). The main towns are Westport, Greymouth,

Reefton, and Hokitika. The region's relatively low population of approximately 32,600 is spread across small towns, settlements, and rural communities.

Te Rūnanga o Ngāti Waewae and Te Rūnanga o Makaawhio (of Poutini Ngāi Tahu – PNT) are mana whenua of Te Tai o Poutini (the West Coast). The 'Paetae Kotahitanga ki Te Tai Poutini Partnership Protocol, Mana Whakahono ā Rohe Resource Management Act Iwi Participation Arrangement; A Protocol and Arrangement between Te Rūnanga o Ngāti Waewae, Te Rūnanga o Makaawhio, Te Rūnanga o Ngāi Tahu and the West Coast Regional Council of October 2020' captures the intent of WCRC and its partners to progress our relationship in accordance with the Treaty of Waitangi partnership between iwi and the Crown.

The West Coast is predominantly rural.

The Conservation Estate comprises 84.17% of the West Coast land area, with an additional 1.55% administered by Land Information New Zealand (LINZ). This leaves 14.28% of land available for private ownership. The land in the Conservation estate and Crown ownership is not rateable by local authorities.

As to the structure of the West Coast Region's Economy, and according to Infometrics 'Filled jobs by 54 industry categories list', the percentage contribution of various sectors to the regional economy, as at 2022, was:

- Health Care and Social Assistance - 11.1%;
- Accommodation and Food Services - 9%;
- Dairy Cattle Farming - 6.1% (and dairy product manufacturing 3%);
- Education and Training - 6.1%; and
- Construction Services - 4.4%.¹

Infometrics 'Contribution to employment by broad sector, 2022' data shows the following sectors contribution to the West Coast Region's economy:

- 'Other services' accounted for 40%;
- 'High value services' 23.2%;
- 'Goods-producing industries' 22.1%; and
- 'Primary industries' made a 14.8% contribution.

I. Submission Points: NZ ETS Review

General comment

The ETS should be used as a contributory policy lever towards a defined "Net Zero" strategy, to support an economy-wide just and equitable transition in a cost-effective way, subject to a 'net zero benefit' factor. Consistent with the Climate Change Response Act (CCRA), the NZ ETS should assist NZ to meet its international obligations and its 2050 'net zero' target. In tandem to carbon pricing, policies need to be developed and implemented to support sectors to actively decarbonise.

Assessment of the 4 high-level options proposed and how these might affect the West Coast

¹ Structure of West Coast Region's Economy; Source Infometrics at <https://ecoprofile.infometrics.co.nz/West%20Coast%20Region/Employment/Structure>, last viewed 15 May 2023.

Option 1. *“Use existing NZ ETS levers to strengthen incentives for net emissions reductions”.* Under this bundled option, *“the government would reduce the supply of NZUs [New Zealand Units, 1 metric tonne CO₂e], and therefore reduce net emissions, through existing levers such as auction volumes, price controls or industrial allocation”.* Government anticipates that reducing the number of NZUs supplied will increase the price of carbon in the short term. Depending on the degree of the price increase, emitters would be incentivised to reduce their emissions, exit the market or take their business elsewhere; and foresters would earn a good return on their investment.

However, Option 1 also proposes to increase the stockpile of units, and it is unclear how this will benefit West Coast farmers and mana whenua in the medium to long term. If foresters keep harvesting, and the harvested units allocated into the market trading mechanism reduce, then the stockpile will increase. NZ will still be dependent on using offshore mitigation (buying emission reductions and removals (sinks) that have occurred in other countries).

One option that has been proposed is to introduce agriculture into the ETS and give money (subsidies) to farmers to reduce production. The Council does not support this type of cap or option. Being a predominantly rural area, the WCRC asks how government will pay for offshore mitigation without passing exorbitant costs onto local farms and West Coast communities.²

The Government’s intervention on 25 July has had the effect of implementing Option 1 in terms of reducing the number of emissions credits in the ETS and increasing the carbon price. However, the Council does not support this ‘cap and trade’ approach as it is not necessarily on a ‘net zero’ trajectory for achieving the ‘2050 Target’.

Increasing the carbon price and consequent increase in household costs to pay for offshore mitigation is likely to have a disproportionate impact on local communities and households on the West Coast, especially on Māori households, which are disproportionately represented in lower income groups. Option 1 is not supported.

Option 2. *“Create increased demand for removal activities to increase net emissions reductions”.* Under Option 2, additional entities, for example, central government or offshore buyers, will be able to purchase NZUs outside the NZ ETS and thereby create distortionary market effects. Government purchases of NZUs to achieve NZ’s NDC (Nationally Determined Contribution) and 2050 ‘net zero’ target would also manifest as a type of subsidy; and not necessarily grow the West Coast economy.

Further, and also according to the discussion document, *“there is currently no evidence of significant demand from offshore buyers because the removals they would be purchasing would still count towards Aotearoa New Zealand’s NDC.”* Offshore investors buying up whole local farms could, however, be relying on tying NZUs, such as forestry credits, to a potential international ETS market, or a NZ ETS linked to the UK or EU’s ETS’s in the first instance.

Relying on creating market distortions, government subsidies, offshore buyers, and delaying NZ’s competitiveness as a ‘net zero’ economy is not supported and will have significant adverse effects for the West Coast. Turning local farms into forests could impact on food security and employment. Delaying producing ‘net zero’ milk products, and supply chains, will potentially increase border charges, which will put an increased burden and cost on the local dairy industry, which is a significant industry on the West Coast. This has recently become evident as the local

² “The cost of purchasing offshore mitigation to achieve New Zealand’s NDC1 [Nationally Determined Contribution 1 under the Paris Agreement] presents a significant fiscal risk. For all scenarios considered, our [central government’s] analysis estimates this cost to be multiple billions over the period 2024 to 2030”.

West Coast milk production company had to reduce its milk solids payout after Fonterra reduced their payout, removing \$50 million from the West Coast economy. Option 2 is not supported.

Option 3. *“Strengthen incentives for gross emissions reductions by changing the incentives for removals”*. Option 3 would create two carbon prices, one for emissions reduction activities and another for removal activities; and *“a lower price will apply to removal activities, making them less financially attractive”*. This form of market intervention would make forestry less viable for the small land holder or local West Coast farmer making sustainable plans in response to pricing of agricultural emissions. It would encourage forestry plantation at scale (low price/high volume) and, within the current market setting, whole of farm buyouts, and the conversion of farming and food security into forestry, by overseas investors could continue to increase.

This option would also impact detrimentally on the proposals the WCRC has regularly put forward to central government, which include: a) diversifying removal activities; and b) incentivising, and providing grant funding for, wetland, terrestrial SNA, sphagnum moss, and ‘blue carbon’ farming as removal activities at the local West Coast level. In addition, this option also omits to link to NZ’s trajectory towards meeting its ‘net zero’ targets domestically. This is because reducing the price may not make removal activities “any less financially attractive”: it is likely to make them ‘more’ financially attractive. Emitters may prefer to buy low priced NZUs rather than high priced NZUs.

Moreover, in Council’s view, emitters are highly likely to prefer to buy low priced NZUs rather than reduce their emissions, which would defeat the purpose of this consultation. To contribute to NZ’s reduction of Greenhouse Gas emissions, one of the Government’s aims should be for the carbon price to remain strong for the long term. Option 3 is not supported.

Option 4. *“Create separate incentives for gross emissions reductions and emissions removals”*. Option 4 is similar to Option 3 insofar as it would create two carbon prices, one for emission reduction activities and another for removal activities. There would be separate incentives for emission reductions and removals; emitters would not be able to allocate units for removals to meet their surrender obligations for their gross emissions; and the price paid for emission reduction activities and removals would not be linked to any common aim because they are in separate structural markets. By extension, there would be no link to a ‘net zero’ trajectory.

Option 4 differs from Option 3 insofar as it would create two completely separate markets, and central government would not intervene with a lower price for removals. The market would decide as to whether ‘net zero’ is met or not. Central government could, however, intervene to control unit supply settings. Creating two separate markets, relabelling removals as reductions, letting the market determine the price but also permitting the Government to intervene to control supply as that won’t affect price, is inconsistent.

Government indicates this option would be more aligned with the EU and UK ETs, but the EU and UK ETs do not operate in exactly the same manner as the NZ ETS. Linking NZ’s ETS to GHG emission trading schemes in strategic countries could potentially increase the cost-effectiveness of achieving NZ’s emissions reductions target.

Moreover, it is very unclear as to how Government would divvy up NZ stockpiles, which don’t distinguish between emissions reductions and removals. Applying rules of origin and recognisable standards of tracing would be expensive. Central government suggests accounting for stockpiled units of ‘removals’ as ‘emissions reductions’. However, Council strongly opposes this proposal and does not support it in any way. Removals are not ‘emission reductions’ and should not be accounted for as ‘emission reductions’; and doing so could severely dent NZ’s integrity and credibility. Option 4 is not supported.

In sum, changes are required because the existing NZ ETS trajectory is not consistent with NZ's domestic path to Net Zero. A considerable stockpile of NZ Units exists, and this stockpile is accruing, which could dampen the price of NZUs and limit effectiveness of the NZ ETS. None of the four high-level options proposed address these issues adequately. Council agrees with central government insofar that the current demand-supply dynamic is 'highly unlikely to be sustainable', is likely to lead to a fall in price, and is an inadequate incentive for emitters to reduce emissions.

Feedback 1

The Council does not support Options 1-4 as outlined in the discussion document.

Feedback 2

Council strongly opposes accounting for stockpiled units of removals as emissions reductions.

How could the ETS or its operation be changed to improve its effectiveness?

This section of the submission suggests several options for reviewing the operation and effectiveness of the ETS to improve its effectiveness, and to enhance, or at least uphold the social, cultural, economic and environmental well-being of iwi, local business, farms and communities on the West Coast.

Temporarily maintain status quo

The status quo should be temporarily maintained until the Government conducts a thorough review of the operation and effectiveness of the ETS, and develops an alternative balanced scenario based on 'net zero' (local economy) benefit baseline.

Review operation and effectiveness of the ETS

An optimal ETS option should be explored and developed which, amongst other:

- links to achieving the 'fit for 50', net zero by 2050 target, subject to a baseline for sustainability; and incentivises optimal domestic decarbonisation subject to the baseline, and by region.
- removes distortions and anomalies in the existing ETS, which have an adverse effect;
- gives industry the certainty it needs to invest in research, development and new technologies for a 'net zero' economy;
- accounts for the emissions from aviation and shipping; and
- separate accounting, monitoring, evaluation, and reporting apply to emission reductions and removals by sector.

Progressive cap and trade ETS

Subject to being on a 'net zero' trajectory for achieving the '2050 Target', the Council supports a progressive 'cap and trade' ETS in principle, whereby a cap which reduces over time, is set on the total amount of GHG emissions that a regulated emitter can emit at source by sector. A 'cap and trade' ETS must be subject to conditions, including:

- a) upholding local government's mandate of improving social, cultural, economic and environmental well-being;
- b) exemptions for certain small emitters and microbusinesses which put in place other measures to cut their emissions by an equivalent amount; and
- c) cost effectiveness.

Undertake an effectiveness assessment using a multi-agency decision-making process

Council recognises the challenges facing central government and suggests an alternative decision-making process consistent with the CCCRA.

In order to make objective decisions, central government, the Climate Change Commission and the Parliamentary Commissioner for the Environment should all work together to undertake a thorough assessment of the structure, operation and effectiveness of the NZ ETS, in comparison to the EU ETS and UK ETS. The review should include evaluating unit limits and price control settings.

Diversify removals and other options

There are a range of other options which should be utilised for improving the ETS and achieving the 'net zero' goal. Some of these will contribute to maintaining or improving the social, cultural, economic and environmental wellbeing of the West Coast:

- Opportunities should be considered for diversifying removals, e.g., biodiversity credits, restoring wetland carbon sinks through sphagnum moss farming, engineered GHG removals such as carbon capture and storage, geothermal sinks, forestry sinks, and incentives to decarbonise at source, e.g., industry and urban transport;
- As per the Council's submission on the second Emissions Reduction Plan:
 - Diversify and fund domestic offsets ('carbon sinks') as a matter of priority. Central government should fund private landowners on the West Coast now to maintain and restore wetlands, Significant Natural Areas (SNAs), and native forests on their land as carbon sinks;
 - Develop domestic offsets for new sinks such as blue carbon, in the form of seaweed and kelp farms on the West Coast;
 - Reform the ETS to support quality carbon credits and provide separate accounting for forestry removals;
 - Real emissions reductions also need to be subject to a baseline, which ensures 'energy security', 'food security', social/cultural/economic wellbeing and a just transition.

The ETS Review discussion document does not comment on the Government's current consultation on a biodiversity credit system (BCS). It is not clear how a BCS would operate in relation to the ETS.

Council understands that a just transition is difficult to quantify as there is no modelling done in New Zealand. If changes are made to the ETS that have a perverse economic outcome for the West Coast, the Government would need to find ways to provide for regional wellbeing.³

Feedback 3

The following options should be investigated to improve the effectiveness of the ETS so it enhances, or at least upholds, the social, cultural, economic and environmental wellbeing of the West Coast:

- g) Temporarily maintain status quo;
- h) Review operation and effectiveness of the ETS;
- i) Progressive cap and trade ETS;
- j) Undertake an effectiveness assessment of the ETS using a multi-agency decision-making process;
- k) Diversify removals including biodiversity credits, restoring wetland carbon sinks through sphagnum moss farming, and engineered GHG removals such as carbon capture and storage, forest sinks;

³ Personal communication with Adolf Stroomborgen, Infometrics, 1 August 2023.

- l) Fund domestic offsets ('carbon sinks') as a matter of priority. Central government should fund private landowners on the West Coast now to maintain and restore wetlands, Significant Natural Areas (SNAs) and native forests on their land as carbon sinks; and fund development of new sinks such as blue carbon, in the form of seaweed and kelp farms on the West Coast.

Feedback 4

If changes are made to the ETS that have a perverse outcome on the social, cultural, economic or environmental wellbeing of the West Coast, the Government needs to find ways to provide for regional wellbeing.

This ends our submission on the ETS Review discussion document.

II. Redesign of the NZ ETS Permanent Forest Category

Central government's design choice 1: *Which forests should be allowed into the permanent NZ ETS forest category - exotic, indigenous, transition, transition and indigenous, long-lived exotics, exotics on Māori -owned land, or small-scale exotic forests planted on farms?*

To answer this question, it is important to ask whether the NZ ETS permanent forest category introduced in January 2023 is properly structured in the first place.

The Council does not support the current construction of the permanent forest category that was introduced into the ETS earlier this year. The carbon credit is not considered a quality one if it does not meet tests such as 'objective permanence', additionality, and scientific validity. Deforestation does not reduce emissions. To quote the International Panel for Climate Change (IPCC), "*Among various LULUCF [land use, land-use change and forestry] activities, reducing deforestation has the largest potential to reduce anthropogenic GHG emissions, followed by carbon sequestration in agriculture and ecosystem restoration including afforestation and reforestation.⁴ However, the main challenges of LULUCF activities are their potential reversibility and non-permanence of carbon stocks.*"

In the context of the new NZ ETS permanent forest category, provision to harvest in 16 years' time does not, in Council's view, meet a test of 'objective permanence', and attaining NZ's 'net zero' commitments is over-reliant on mono-culture GMO pine forestry removals. There is no distinction between carbon farming for the long term and commercial forestry plantation, which 'deforests' on rotation.

In principle, the WCRC therefore supports redesigning the permanent forestry category. However, we do not support open-ended planting of more and more trees based on the premise that the carbon price is increasing. The carbon price of Spot NZUs plummeted on the secondary market falling from \$88.50/mtCO₂e at the 16 November 2022 close, to opening at a \$35 bid on 7 July 2023. The March and June 2023 auctions failed to clear, that is, auctions were declined, the confidential reserve price was not met, and no auction revenue was generated. As a consequence, the price result was different from the prediction and yet policy settings were driven on the assumption of an increasing price and the opportunity to reap economies of scale from biomass. A tumbling price blocked the behaviour required to reduce gross emissions.

Council also opposes Government's rationale for introducing permanent indigenous trees to the NZ ETS for commercial harvest, on the basis that NZ natives (unlike foreign exotics) sequester carbon over the long term, are low maintenance, can be planted and walked away from, and do not require pest control. NZ's indigenous trees are not the only trees that sequester carbon over the long term; and they are not the only trees that are resilient to pests. Redwoods, and certain exotics from the Congo and the Amazon, sequester carbon for thousands of years. Both NZ native and exotic forests require pest control that meets recognisable border measures and strategic management plans between forestry and farmers.

The Council raised concerns in its previous two submissions on reviewing the ETS, and permanent carbon forestry, about government's suggestion to advance extensive uncontrolled commercial afforestation at scale to produce biomass at scale to take advantage of a rising carbon price. These types of forest activities may have adverse socio-economic impacts for the West Coast, e.g., the cost of transporting biomass into the West Coast, storing it and keeping it dry could be high and could harm our suggestions for advancing the small holder 'net zero circular farming community' on the West Coast. Planting forests at scale and walking away from them

4 See Figure SPM.7 in the IPCC WGIII report.

depopulates rural areas, local school rolls drop, there is less use of the community hall, welfare issues arise when people cannot get jobs elsewhere, and pest numbers can increase if not controlled.

Feedback 5

The Council does not support the current construction of the permanent forest category; or the Government's rationale for introducing permanent indigenous trees to the NZ ETS for commercial harvest, on the basis that NZ natives (unlike foreign exotics) sequester carbon over the long term, are low maintenance, can be planted and walked away from, and do not require pest control.

Options for addressing permanent forestry issues in the ETS

The Council supports having permanent native forests in the ETS subject to conditions, as carbon sinks over the long term. The following are options to support ongoing, effective inclusion of permanent native forests in the ETS.

Incentivise planting of permanent native forests

In the long term, forestry needs to move towards long-lived native forests. The Government will need to give people an incentive or income to be able to plant native forests. Council understands that currently credits can be gained for permanent forests in the ETS, however the easy choice is to plant pines as they grow quicker, but lots of pine forests are not a good option in the long term. The current settings do not encourage planting of native forests, so this should be changed in the ETS. Harvesters could be allowed to keep their credits at harvesting so they can pay for planting native forests. The ETS needs to send a signal to incentivise native forestry.

Extend the time forest owners can receive credits

While the ETS is under review, one option is to extend the time forest owners can receive credits. This should be included in the ETS. This could be done for both the permanent post 1989 forest category and for forestry under the 'averaging accounting' method as introduced in January 2023, which allows forests to earn NZUs based on the government's calculated average of the long-term amount of carbon that government expects a particular forest to store over multiple rotations.

Exploration of this simple policy change should also explore incentivizing rotation forestry on small landholder farms, encouraging diversification of the forestry estate, delivering benefits to rural communities and reducing the risks of forestry concentration in certain regions. The benefits of forestry, including jobs, income and productivity should be realised more equitably across the country. Additionally, allowing forests to absorb more carbon over a longer period of time, and putting a quota on land use for forestry, could halve the volume of land required for forestry to deliver the same carbon outcome. Furthermore, such forests, if properly maintained using pest control mechanisms that are compliant with cross border trade, may also assist to absorb agricultural emissions.

Progressive cap on quantity of credits for permanent native forests

A progressive cap should be put on afforestation of permanent native forests that can be allowed into the ETS, subject to conditions which include:

- Rules around rotation cycles and who can earn NZUs;
- Providing for te mana o te Taiao, and te oranga o te Taiao;
- Making an effective contribution to NZ's international and domestic emission commitments as legislated for in the CCRA;
- Meeting the 'permanence' test by having no intention of being deforested;
- Meeting the 'additionality' test which includes co-benefits of pest control, and biodiversity protection and enhancement; and
- Meeting the test of 'scientific validity' and certification requirements to trade.

Allow a mix of exotic and native permanent forests

Council also supports a mix of exotic and native forests, to manage risk and ensure a continuous removal of emissions over both the short term and long term.

Explore a separate scheme for permanent native forests

It may be that forestry needs to be treated differently in the ETS, or a separate scheme is established for it. The quantity of credits must be limited in a cap and trade system, and an auction system can support this process.

Feedback 6

The Government should adopt the following options to support ongoing, effective inclusion of permanent native forests in the ETS:

- g) Incentivise planting of permanent native forests, including by allowing foresters to keep their credits at harvesting so they can pay for planting native forests;
- h) Extend the time forest owners can receive credits to allow forests to gain credits based on averaging accounting of long-term carbon amounts;
- i) Explore incentivising rotation forestry on small landholder farms, encouraging diversification of the forestry estate, delivering benefits to rural communities, and reducing the risks of forestry concentration in certain regions;
- j) Put a progressive cap on the quantity of credits that can be in the ETS for permanent native forests, subject to conditions;
- k) Allow a mix of exotic and native permanent forests, to manage risk and ensure a continuous removal of emissions over both the short term and long term; and
- l) Consider establishing a separate scheme for permanent native forests, subject to a cap and trade system, using an auction allocation process.

Central government's design choice 2: How should transition forests be managed to ensure they transition from exotic to indigenous forests and reduce the financial risks to participants - through an existing or new accounting method?

Council considers that transition forests, which are exotic forests that transition to native forests over time to increase sequestered carbon, would need to be managed through an effective management plan, and a new accounting method.

The main issue with transitioning forests is that those with current forests should be compensated. This could affect Ngāi Tahu as the main commercial forestry operator on the West Coast. If certain foresters replant now, they may be able to get credits under the old ETS system or they may need to surrender NZUs to the government. But from 1 January 2023 all forests newly registered in the NZ ETS will be required to utilise either averaging accounting or enter into the new permanent post-1989 forest category.

Feedback 7

- c) Transition forests should be managed through an effective management plan, and a new accounting method; and
- d) Owners of transition forests should be compensated.

This ends our submission on the redesign of the permanent forest category in the ETS.