Craigmore Forestry NZ Limited

Submission to Ministry for the Environment

Re – New Zealand’s Climate Change Target
Our Contribution to the new International Climate Change Agreement

Summary

Craigmore Forestry has invested in the establishment of 6,500ha of greenfields forests since 2010 and all are registered as new Post 1989 forests under the NZ ETS. We view sustainable land use as a core value of its land based investments, and believe:

- that climate change is one of the most pressing global issues of modern time and that bold leadership is required in order to adequately address climate change.
- We need to support the establishment of and commitment to meaningful targets of 20% below 1990 levels by 2035 for NZ in the new Climate Change Agreement.
- the environmental integrity and reputation of not only the NZ ETS, but the country as a whole, will continue to be adversely affected unless there are ongoing actions that commit NZ to meaningful targets.
- domestic emitters must use domestic units (i.e. those generated from projects within NZ) as a priority and strong restrictions should be placed on the future use of any other international units.
- the role of plantation forestry as a viable and credible way of helping reduce NZ’s net emissions over the next 20 – 30 years must be promoted. A credible carbon market that promotes use of NZUs and limits the use of international units will enable forest establishment to once again take place on a serious scale. It will reverse NZ’s position of the last 2 -3 years of net deforestation.
- by sending the correct signals about NZ developing a genuine local carbon market, then it would encourage reduced emissions and behavior change, and would further stimulate afforestation on marginal lands by reinvigorating the forestry aspect of the ETS.

Introduction to Craigmore and the NZ ETS:
This submission from the Craigmore Forestry Fund which has established 6,500 ha of greenfields forestry in 2010, 2011 and 2012. The ability to generate tradable carbon units (NZUs) has been a driving force in establishing these forests. All 6,500 ha of the new forest plantings are registered into the ETS as Post-1989 forests.
The land planted by Craigmore Forestry was underdeveloped, marginal or erodible farmland. Planting on these marginal landscapes has created a net benefit to New Zealand in terms of employment, regional development, erosion control, soil and water enhancement and biodiversity values. Thus, the co-benefits achieved by establishing forests extend beyond the ability to store carbon.

Craigmore initially intended to plant a further 1,200 ha in 2013 with further plantings in 2014-15. These programmes have been deferred indefinitely as a result of the poor carbon outlook resulting directly from a softening of the ETS and the lack of ambitious climate change targets for NZ. Craigmore themselves, and it is believed many other industry participants, would seriously consider further planting, should there be a presence of a credible carbon market.

Prior to the collapse of the carbon price the forest industry was gearing up to plant 20,000 to 30,000 ha per year of marginal farmland, creating almost 1,000 jobs. Another 3,000 additional forestry jobs would be created when harvesting begins, all on mostly marginal farmland. Since the introduction of the ETS in 2008, Craigmore Forestry Ltd has been the largest forest funder-planter in New Zealand, planting 6,500ha of new forest, employing approximately 150 seasonal workers, and creating 40 future harvesting and processing jobs.

Concerns around the integrity of NZ’s ETS arise if NZ does not take major steps to incentivise behavior change to transition to a low carbon economy. If little domestic action takes place and NZ instead relies on simply accessing international units then the credibility of both our ETS, and also our clean green image and the wider tourism and market access positions are compromised. Previously, NZ has allowed unrestricted use of “cheap” offshore units to meet domestic emissions liabilities. The oversupply of these units has helped drive the demand for NZUs down, with corresponding negative impacts on the viability of new plantings for carbon forestry (i.e. new land planting of Post 1989 forests).

In recent years (EPA Report, ETS 2013 Facts and Figures) analysis shows that over 90% of the emissions liabilities surrendered in NZ in 2013 were sourced from offshore units. This represents a major outflow of cash from NZ and erodes the credibility of the ETS. No other domestic ETS allows such wholesome use of UN credits which are being sourced at historically low prices due to their lack of environmental credibility. Whilst steps have been taken to ban the use of certain offshore units from May 2015 onwards, NZ must ensure that it’s local actions and behaviours, implemented via ambitious climate change targets, drive the transitions to a low carbon economy, and not simply a reliance on purchasing offshore units.

It is worth emphasizing that many emitters have stockpiled these cheaper credits during times of low prices with an open intention to utilize them to offset future emissions liabilities. Indeed, emitters have taken advantage of the oversupply of
international units despite earlier signals from commentators that future bans might be applied. Further, some emitters have utilized these cheap units to meet surrender obligations whilst still passing on costs (fuel and electricity costs) to consumers at $15 - $25/unit.\(^1\)

**Objectives for the contribution**

1. a) We have set the following three objectives for our contribution:
   - it is seen as a fair and ambitious contribution – both by international and domestic audiences
   - costs and impacts on society are managed appropriately
   - it must guide NZ over the long term in the global transition to a low emissions world

   Do you agree with these objectives for our contribution?

When developing these objectives the original intent of the ETS needs to be considered – i.e. to what extent is the ETS driving behavior change and helping NZ transition to a low carbon economy? Also, how much international environmental integrity does NZ’s ETS have? NZ’s ETS cannot be held up with legitimacy if emitters continue to have ongoing access to offshore markets to the extent that it makes NZ’s own units (NZUs) virtually worthless. Thus, criteria such as clarity (long term business timeframes), equity across sectors (including forestry as the earliest participating sector, and agriculture as a sector yet to enter the ETS) and environmental integrity must be paramount. NZ’s targets and policies must be such that they incentivize behavior change amongst emitters and not simply allow access to cheaper foreign credits.

1. b) What is most important to you?

The most important elements for Craigmore are equity across sectors and the fact that NZ, despite being a small emitter in global terms of total emissions, must take the lead on new and ambitious targets that show a serious commitment to tackling climate change. If NZ takes a strong stance on domestic emissions it will allow NZ greater access to other leading international markets across a range of sectors.

**What would a fair contribution be for NZ?**

2. What do you think the nature of NZ’s emissions and economy means for the level of target we set?

Craigmore believes NZ must commit to targets that are well above our current level of 5% below 1990 levels by 2020. Craigmore believes a fair target for NZ would be 20% below 1990 levels by 2035 given the seriousness of the global issues of climate change. Given that NZ’s total greenhouse gas emissions have increased 21% since

\(^1\) As per evidence provided to Select Committee during ETS Amendment Bill hearings in 2012.
1990 Craigmore understands that this is an ambitious target, but it is vital to give ongoing credibility to the ETS. Also, it must be seen in context of the new support for the new international climate change agreement by China, USA and the EU (i.e. a 20% target for NZ would still be a lower target than USA or the EU). Whilst the Governments desire is to implement an ETS “at least cost to NZ households and business”, this goal should not jeopardise our international trade and export industries, our tourism industry and our overall “clean green” image.

Given the nature of NZ’s environment and economy, especially with a large forest industry, and a large under utilised and erosion prone hill country land bank, the role of forestry is vital in meeting ambitious climate change targets. Since the introduction of the ETS, NZ has been well served in its emissions profile by the role of Post 1989 forests. A nationwide planting boom took place through the 1990’s and these forests contribute to stored carbon whilst growing. Once harvested these same forests represent an emission. This normal harvest and replant cycle of forestry causes carbon stocks to fluctuate over time. An “averaging approach” (the average amount of carbon stored in a forest over a rotation) could remove the uncertainty of having to manage carbon stocks as they rise and fall (especially given the 2 or 3 decades timeframe over a forest rotation could see massive price differentials). This would provide more confidence and certainty to forest owners and would encourage new plantings. New forest plantings are especially important to provide real and meaningful ways of reducing NZ’s net emissions. Forestry also has a vital role given that various Government reports have identified over 1 million hectares of erosion prone hill country could be afforested. This would provide net benefits in terms of climate change, erosion control, water quality, employment and regional development (all from marginal or under-utilised lands). However, the correct policy environment such as credible emissions targets and viable ETS settings which promote NZ generated credits as opposed to offshore credits must be in place. These will provide far greater net benefits to NZ rather than purchasing offshore credits to meet NZ targets.

How will our contribution effect New Zealanders?

3. What level of cost is appropriate for NZ to reduce its greenhouse gas emissions? For example, what do you think would be a reasonable impact on annual household consumption?

NZ must commit to climate change and accept that it is a major global issue and NZ must take a lead role in developing real and meaningful targets. These targets should not be seen as a cost to NZ but should be viewed as an opportunity to create change, to enhance our NZ Inc. brand and reputation, and to further expand tourism, trade and global market access for our products from a sustainable economy. NZ must not shy away from domestic policies that encourage forestry and drive behavior change, and NZ cannot rely solely on access to offshore units.
NZ must not be scared by the potential costs to households, industry or consumers as lack of action is a real cost to NZ in terms of environment, social costs and ongoing economy via market access and trade plus tourism.

4. Of the opportunities for NZ to reduce its emissions, which do you think are the most likely to occur, or be most important for NZ?

The greatest opportunity exists in expanding the role of forestry in the short term. This will allow NZ to make meaningful emissions reductions as the forests grow and store carbon, and it further allows NZ a time period of 20-30 years to further transition to a low carbon economy as new technologies and behavior changes take effect. Beyond, this the adaptation of new technology in the agriculture sector will allow NZ to make major emissions savings in the sector which produces our most emissions.

Summary
5. How should NZ take into account the future uncertainties of technologies and costs when setting its target?

NZ should strive for the best outcome for the country and use ambitious targets and not view action on climate change as being a cost but rather see it as an opportunity. A well structured ETS that includes all sectors and promotes NZ behavior change will provide opportunities for NZ and will ensure ongoing tourism opportunities, as well as ensuring better market access and trade opportunities form a truly clean and green, sustainable economy.

Other Comments
6. Is there further information you wish the Government to consider? Please explain.

Craigmore believes the most vital points are included above and can be summarised as:

- Our targets and policies must be ambitious (20% below 1990 levels by 2035).
- Our targets and policies must promote the value of NZ units and not rely on offshore units.
- Our targets and policies must allow for the role of forestry to be enhanced in order to promote new forest establishment on low value erodible hill country, thereby providing immediate emissions reductions over the next 2-3 decades.
- Our targets and policies must incentivise the change to a low carbon economy by driving behavior change over the next 2-3 decades.
Thank you for the opportunity to provide this submission. Craigmore welcomes any feedback, and would be happy to provide further detail if requested.

Yours sincerely

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