



New Zealand Institute of Forestry

Te Pūtahi Ngāherehere o Aotearoa Incorporated

Submission to:

NZ ETS Review Consultation,
Ministry for the Environment,
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Submission on the New Zealand Emissions Trading Scheme Review 2015/16

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Introductory comments

1. Thank you for the opportunity to submit on the New Zealand Emissions Trading Scheme Review 2015/16.
2. If required, the New Zealand Institute of Forestry wishes to be heard in support of its submission.

About the Submitter

3. The New Zealand Institute of Forestry (NZIF) was founded in 1927 and has 850 members who are the individual professionals in forestry in New Zealand. NZIF's objective is to advance the profession of forestry in New Zealand and to be an independent advocate for forestry.
4. NZIF is committed to serving the practice of forestry and the wider community through education, accountability and its code of ethics and performance standards. It fulfils a quality assurance role, setting the benchmark for professionalism and the quality of advice and practice by which members and others in the profession are measured.
5. NZIF members are concerned with the professional management of all forests; plantation and natural, conservation, protection and commercial. Members can be found in forestry companies, consulting businesses, research institutes, educational facilities, government departments and providers of specialist services. The members' qualifications and areas of expertise reflect the diversity of disciplines involved in managing a modern forest resource from traditional forestry degrees through science, economics, law, microbiology, hydrology, engineering and resource management. NZIF operates the scheme which controls the registration and conduct of forestry professionals, including consultants who provide forestry advice to the public.

Effect on NZIF members

6. A large number of NZIF's members have been and continue to be directly affected by ETS policy and direction. The ETS can have a major effect on the risks and returns from forestry investment.
7. There are undoubtedly differences of opinion between members on the details of the ETS as it applies to forestry, often explained by the direct financial interest and incentives the ETS has created.

General Comments

8. NZIF believes the ability of the ETS to reduce greenhouse gasses is directly related to the ETS being perceived as a free and open market with little interference. NZIF contends a free and open ETS does not currently exist and this is reflected in the lack of real change in New Zealand's emissions and New Zealanders behaviours.
9. NZIF believes the many changes made to the ETS since it started, the two for one, the price cap, the limited participants and the general belief the rules could be changed at any time has resulted in an ETS which has failed in its goal to reduce New Zealand's emissions profile.
10. NZIF's views on the efficacy and long term effects of the ETS on the forestry sector have been canvassed in past submissions, including the disproportionate compliance costs of the ETS as a potential impediment to afforestation and the sub-optimal environmental outcomes of indirect subsidisation of GHG-intensive land use by land users who are not in the ETS.
11. NZIF remains highly critical of the arbitrary treatment of pre-1990 land, which is being treated differently to any other private land, including land planted in forests, after that date.
12. NZIF believes if the ETS is the chosen method for encouraging the reduction of New Zealand's emissions profile then the ETS must be as free and open to operate as possible.
13. NZIF believes the ETS, as it is currently applied to forestry, with or without the added complexity of HWP carbon, is fundamentally flawed. This is supported by the recent Pure Advantage report "Our Forest Future" which states:
 1. "New Zealand's Emissions Trading Scheme is a notoriously complicated policy instrument. It has also been notoriously ineffective".
 2. "Clearly, the Emissions Trading Scheme suffers from a lack of credibility. Its complexity hides its unfairness and its failures from the public. Meanwhile, participants in the ETS have seen too many avoidably poor outcomes to continue believing that those outcomes were entirely unintended. This adds to an already challenging context for forestry, which involves investments that take decades to reach maturity and are vulnerable to natural hazards like fire, disease and weather events. An unpredictable policy framework, decoupled from its function and purpose, intensifies the uncertainty."
14. NZIF has in the past highlighted the additional benefits of forestry to New Zealand over and above the ability to sequester carbon. This has been highlighted in the Royal Societies recent report 'Transition to a low carbon economy' which states:
 1. "Planted forests also provide ecosystem services such as improved water quality, recreational benefits, shelter and reduced erosion particularly when planted on marginal land."

2. “Establishing new forests is currently the only large-scale mitigation option that can be easily implemented to sequester large amounts of carbon dioxide from the atmosphere.”

Submission

Forestry

15. There is clear evidence the price of an NZU can drive new planting. Currently the NZU price required for investors to consider planting is approximately \$18.00. However this will increase if additional planting pushes up land price.
16. If agriculture were included in the ETS, the land price would not be an issue for agriculture as they already own land. NZIF believes large scale new planting is most likely to occur within current farms, but only if agriculture is included in the ETS. This would encourage agricultural landowners to consider planting their less productive land.
17. Federated farmers are on record saying on average approximately 15% of all farms are unproductive. If this area was planted into forests, New Zealand could meet its predicted shortfall for the 2020 - 2030 period.
18. If agriculture were in the ETS, forest investors would have more faith the demand for NZU's would improve. This certainty will enable forest investors to take more risk and start planting earlier and at larger levels.
19. NZU price is only one consideration when deciding whether to plant new area. Other considerations of equal significance are: faith the market will be left to its own devices; ability to invest in land, if the investment is coming from overseas, faith OIO costs will not be onerous and long winded (as they currently are); regulatory climate especially around the RMA; and land price.
20. Other opportunities to increase forest investment outside of NZU price include:
 1. Improving the ease to invest in land (especially in regard to cost and time of OIO applications);
 2. Promotion of wood in buildings, including multi-storey buildings;
 3. Consideration and recognition of other ecosystem benefits provided by forestry and payment (or reduced compliance costs) for provision of these services;
 4. Removal of the requirement to use the Field Measurement Approach (FMA) in forestry. It is complex and disproportionately expensive.
21. **Recommendation:** Bring agriculture into the ETS immediately and ensure the ability to invest in land is clear and easy.

Harvested Wood Products

22. The carbon contained in some harvested wood products has been recognised in international agreements and represents a net reduction in New Zealand's international GHG obligations.
23. NZIF is not convinced any environmental or economic benefit will accrue from the devolution of HWP carbon value or liability to wood processors or foresters. NZIF believes the greatest benefit to New Zealand and the forestry sector is likely to occur with the retention of any HWP value at Government level in the form of reduced net international obligations.
24. Some consideration should be given to enhancing this value through selective encouragement of the use of wood or a reduction in other costs of wood production through: the promotion of wooden construction methods and or simplified wood-related building codes; encouragement of planting of permeant forests on unsustainable, eroding land; simplifying the investment into forests through a review of the Overseas Investment Act; etc.
25. **Recommendation:** Leave the HWP accounting at the National level.

Auctioning

26. NZIF has stated it believes the ETS needs to be able to operate as a free and open market. Therefore NZIF does not believe auctioning should be introduced into the ETS.
27. Auctioning is similar to quantitative easing, it provides uncertainty for participants in the market and would discourage the market functioning to its full potential.
28. Auctioning is inconsistent with the government's desire to have the NZ ETS linked to the world price of carbon credits. In fact it would ensure there was no linkage between the price of an NZU and the price of an international carbon credit.
29. NZIF opposes auctioning of carbon credits in response to a rising price of emissions. The potential for Government to arbitrarily alter price through such change in supply and demand amounts to an unmanageable risk and therefore a discounting of the value of the New Zealand carbon market overall.
30. As one NZIF member has submitted, the market solution to high carbon prices is high carbon prices. To retain the power to intervene on the basis of price is to acknowledge the ETS is not so much a market as a carbon tax burdened with additional and arguably unnecessary compliance costs.
31. The management of price shocks in any market is desired by all participants. The ETS is no different. How to define what a shock is and how to manage it is extremely difficult.
32. **Recommendation:** Auctioning should not be introduced to the ETS.

Managing Price Stability

33. NZIF believes if price stability is goal of the Government, then whatever method is used to manage price must be fair on both sides. For example if there is a cap there should be a floor.
34. However the price cap has the effect of limiting the ability of the market to operate freely and drive behaviour. NZIF recommends the cap be removed, but understands this may need to be gradually increased over time and removed at some date in the future.
35. The evidence provided by MfE regarding the costs to households if the carbon price rose above \$25, shows the impact on households would be minimal (\$184 per year to move from \$20 to \$50 NZU price), but enough for households to consider behaviour change. Surely this is the goal of the ETS.
36. **Recommendation:** Set a date in the future (2025) for the removal of the price cap, with the cap rising incrementally from the current \$25 to \$100 over this time.

EITE - Free allocation

37. EITE protection of New Zealand's export-dependent economy is understandable when the majority of New Zealand's export receipts are by volume with countries which do not impose a cost of carbon emissions on their domestic manufacturers.
38. However NZIF believes there is some rationality which needs to be applied to sectors with limited long term future in New Zealand's small and open market and where on-going protection is contrary to Government's stated goal of a shift to a low-carbon economy.
39. Free allocation blunts the carbon price reducing the effectiveness of the ETS in pricing carbon such that emissions are reduced. According to the World Bank:
 1. "Carbon pricing is supposed to increase the financial costs of emissions-intensive activities, as they inflict climate change damages on society, and promote low-emission activities that do not contribute to climate change".
40. NZIF believes there once again needs to be a clear phase-out pathway, for EITE companies, otherwise they will continue to make poor investment decisions with no regards to reducing their emissions. In other words profit will trump emissions reductions every time unless there is an incentive to reduce emissions.
41. **Recommendation:** Reinstate a schedule to phase out free allocation of NZU's for EITE companies.

International Imports

42. The inclusion of international carbon units has resulted in the NZU price falling dramatically due to reduction in demand for NZU's. What is of concern to NZIF is it is clear these international units did not result in reduced emissions, which is the goal of

the ETS. Therefore NZIF believes international units should not be included in the ETS.

43. NZIF believes there must be a limit on international imports to encourage real change to New Zealand's emission profile. Making international units (especially hot air units) freely available has ensured the NZETS has become a farce.
44. The goal must be to reduce emissions, not to buy our way out of obligations.
45. NZIF suggests New Zealand can meet their 2020-2030 shortfall of 235mt (as outlined by MfE) by the planting of unproductive land.
46. **Recommendation:** Immediately limit international imports to 15% of emissions budget and reduce this to 5% by 2030.

Pre 1990 and Post 1989 Forests

47. NZIF is aware members have provided detailed submissions on the land price and forestry investment distortion arising from the selective application of emissions liability to landowners who happened to have invested in forests before 1990.
48. We cannot overstate the impact this decision has had on the premium attached to new forestry investments, as demonstrated beyond any reasonable doubt by the rapid deforestation immediately prior to the 2008 Climate Change Response Act being enacted and the stagnation in rates of afforestation from that date forward.
49. Continuing the arbitrary distinction between pre-1990 forest land and all other classes of productive land use serves to remind investors any investment covering successive elections can be disproportionately risky, with a corresponding increase in the risk premium attached to afforestation investment.
50. **Recommendation:** Remove the arbitrary distinction between pre-1990 and post-1989 forests.

Agriculture

51. A market for carbon emissions credits which excludes half the liable emissions (agriculture) and shifts the resulting cost onto the rest of the economy is not a 'market'. The current system serves to indirectly reward farmers for increasing GHG emissions through intensification by increasing differentially the tax-free 'opportunity value' of farm land used intensively. This issue is the subject of independent and expert commentary, most recently by Westpac Bank. We support their analysis.
52. It will be very difficult to meet New Zealand's Paris target if the agricultural sector does not begin to take some responsibility for their emissions. NZIF believes it is unfair and un-democratic for other emitters and taxpayers to be subsidising agriculture.
53. Distortions of the sort noted above have the effect of increasing the relative cost of land for those using their properties for unsubsidised uses. Valuation and rating practice attributes a value to land commensurate with its 'highest and best' use. Those uses

facing the least regulatory cost will generate correspondingly better returns which in turn sets the land price for all users. The situation is made worse for forestry where the risk of regulatory intervention, such as the carbon liability imposed on pre-1990 forests by the 2008 Climate Change Response Act, represents a tangible sovereign risk premium which must be overcome to attract investment. We contend the overall afforestation rate since 2008 demonstrates the strength of negative sentiment created by the 2008 Act, with little or only marginal and Government subsidised (AGS) afforestation since that time.

54. The Government's position is agriculture should be excluded from the ETS. This was initially for a period specified in the CCRA and subsequently extended indefinitely. The Government's justification is there needs to be a technical solution to agricultural GHG emissions before agriculture can act. NZIF contends there is a solution to agriculture's emissions which is to plant trees, and in fact agriculture as a land owner is the sector best suited to increase new planting. Planting trees will give time for a technical solution to be found whilst ensuring New Zealand meets its international commitments.
55. The agricultural sector could make a large contribution to mitigating its own GHG emissions, but it has no incentive to do so with current ETS policies. Hill-country farming in particular would become more profitable if farmers were encouraged to engage in planting forests on their eroding lands.
56. **Recommendation:** Bring agriculture into the scheme as soon as possible. Help agricultural landowners identify and plant land which is of lower productivity for agricultural use. Consider helping (either via tax credits or providing seedlings at cost) the cost of planting to incentivise the agricultural sector to plant their poorer productive sites and consider limiting their emissions liabilities in regard to their emissions for 5 years, giving time for the new planting to offset their emissions to some extent.

Native Forest Management

57. The distortion arising from arbitrary definitions such as pre-1990 and post-1989 forests are a lost opportunity for New Zealand to address the continued decline in the species diversity and total biomass of New Zealand's native forests. The lack of funding available to DOC, as managers of New Zealand's largest forest, is well documented. A consequence of inadequate funding is inadequate pest control, as evidenced by the expanded rates of forest degradation caused by introduced pests. Notwithstanding the broader and obvious concerns of loss of biodiversity through differential predation and reduced aesthetic / tourist appeal, destruction of forests by pests is a loss of stored carbon.
58. **Recommendation:** If carbon credits generated through forestry are to be retained in the ETS, then extend the system to include the GHG benefit of effective pest control on the carbon stored in New Zealand's public and conservation forests. Ideally, DOC and other conservation foresters should be rewarded with saleable NZU's for making improvements in total biomass.

Market Failures & Barriers

Constant Change

59. As submitted the constant change to the ETS rules and perceived lack of fairness between forestry and other land based sectors has resulted in total lack of faith in the ETS from the forest sector. This will be hard to reverse.
60. Faith needs to be built back into the scheme if the ETS is to achieve its goals.
61. **Recommendation:** NZIF believes the Government needs to make a clear commitment to not change the ETS rules up to 2030. If possible this needs to have cross party support.

Overseas Investment Act

62. Large scale forest investment is generally beyond the scope of most New Zealand business. This is evidenced by the large amount of forestry currently owned by foreign companies.
63. New Zealand should not be scared of foreign investment. The land cannot be taken with overseas, and the benefits of forestry to New Zealand (erosion control, biodiversity, clean streams, recreation etc) should outweigh the OIA concerns.
64. Large scale investment in forestry which will help New Zealand meet their international obligations is most likely to occur with foreign direct investment. However currently many foreign investors are being scared away from New Zealand forestry as they see the process of an OIA application as unclear and too timely. No investor wants to have many millions of dollars doing nothing for over a year while they wait for OIO approval.
65. **Recommendation:** NZIF believes the OIA must be reviewed to encourage, rather than discourage, foreign investment into forestry.

Resource Management Act

66. The Resource Management Act (RMA) is an impediment to forestry and therefore GHG-beneficial afforestation wherever Councils interpret and apply it selectively.
67. The Act itself should serve to encourage forestry, particularly in catchments where the positive environmental benefits of erosion control, maintenance of water quality and improved biodiversity with which it can be associated are recognised. However some Regional Councils have enacted permissive regulations with respect to forestry; while others have insisted on restrictive and costly controls on forestry relative to the expectations placed on other uses of the same land.
68. Traditional commercial forestry is not without environmental risk, particularly in erosion prone and climatically challenged catchments such as those in the East Cape hinterland. The sector has long accepted the need for regulation, provided controls are justified by and comparable to the regulation of the similar adverse activities of other land uses.

69. To selectively penalise forestry by way of a greater regulatory / RMA cost is to discourage it. NZIF's impression is the near stagnation in net afforestation since 2008 can in part be attributed to forestry investors' concerns in regard to the sovereign risk arising from the RMA and the Climate Change Response Act.
70. The forest sector has lost hope of achieving equitable regulation by way regional representations as provided for under the RMA. Therefore the sector has worked to negotiate a National Environmental Standard for plantation forestry.
71. **Recommendation:** NZIF believes the adoption an NES for plantation forestry must occur as a matter of priority.

Conclusions

72. NZIF would like to see an ETS which the public has faith in. This means removing most, if not all, distorting effects and allowing the market to run without constant interference. NZIF believes without faith in the ETS then everything else discussed in this submission is almost irrelevant. Participants won't make changes unless they feel they have control over the future. Whilst participants can manage price fluctuations (as all markets have), it is the interference and rule changes which has resulted in a lack of faith in the ETS. This must change if the ETS is going to be successful in driving the behaviour changes required to reduce New Zealand's emissions profile.
73. NZIF would like to see agriculture in the ETS immediately and ensure the ability to invest in land is clear and easy.
74. NZIF submits HWP carbon accounting should stay at the National level.
75. NZIF submits auctioning should not be introduced to the ETS.
76. NZIF submits a future date must be set for the removal of the price cap, with the cap rising incrementally from the current \$25 to \$100 over this time.
77. NZIF submits a schedule must be reinstated to phase out free allocation for EITE companies.
78. NZIF submits international imports must be limited. Initially to 15% of emissions budget and reducing to 5% of emissions budget by 2030.
79. NZIF submits the distinction between pre-1990 and post-1989 forests must be removed.
80. NZIF submits agriculture must be brought into the scheme as soon as possible.
81. NZIF submits the GHG benefit of effective pest control on the carbon stored in New Zealand's public and conservation forests should be recognised.

82. NZIF submits the Government needs to make a clear commitment to not play with the ETS rules up to 2030.
83. NZIF submits the OIA must be reviewed to encourage, rather than discourage foreign investment into forestry.
84. NZIF submits the adoption an NES for plantation forestry must occur as a matter of priority.

Yours sincerely



James Treadwell
President NZIF