



New Zealand Institute of Forestry

Te Pūtahi Ngāherehere o Aotearoa Incorporated

Submission to:

NZ ETS Review Consultation,
Ministry for the Environment,
PO Box 10362,
Wellington 6143

email: nzetsreview@mfe.govt.nz

Consultation for the New Zealand Emissions Trading Scheme Review 2015/16

Contact details for this submission are:

Submitter: New Zealand Institute of Forestry - Te Pūtahi Ngāherehere o Aotearoa
Incorporated

Address: New Zealand Institute of Forestry PO Box 10 513
The Terrace
WELLINGTON

Submitted by: James Treadwell - President NZIF

Contact: James Treadwell
NZIF President

████████████████████

Mobile: ██████████

Introductory comments

1. Thank you for the opportunity to submit on the Consultation for 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.

General Comments

6. NZIF believes the success of the ETS's ability 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 Zealander's behaviours.
7. NZIF believe; 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 emissions profile.

8. 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.
9. NZIF remains highly critical of the arbitrary treatment of pre 1990 land being treated differently to any other private land, including land planted in forests, after that date.
10. NZIF believe 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.

Submission

Should the NZ ETS move to a full surrender obligation for the liquid fossil fuels, industrial processes, stationary energy and waste sectors? (the 2 for 1 liability rebate)

11. The two for one surrender obligation was introduced in 2009. It was always intended as a transition measure to soften impacts during the global financial crisis. This crisis is now past.
12. The rebating of emitter's liability on a two for one basis is in effect a reduction in the nominated \$25 a tonne cap price. NZIF contends there has been ample time for emitters to make changes to their emissions profile. In addition, the 2:1 has the effect of limiting the market. NZIF contends if the ETS is going to reduce greenhouse gases then the market needs to be open and free with little to no interference.
13. Based on the concept an open and free market is more likely to drive change, then the 2:1 should be removed immediately.
14. **Recommendation:** Remove the 2 for 1 rebate, immediately.

If the NZ ETS moves to full surrender obligations, should potential price shocks be managed?

15. 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. NZIF believes whatever method is used it must be fair on both sides. For example if there is a cap there should be a floor.
16. However the price cap has the effect of limiting the ability of the market to operate freely and drive behaviour. NZIF would recommend the cap be removed, but understands this may need to be gradually increased over time and removed at some date in the future.
17. The evidence provided by MfE regarding the costs to households if the price rose above \$25, shows 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. This surely is the goal of the ETS.

18. **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

Managing unit supply

Forestry

19. The evidence is clear 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.
20. If Agriculture was 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 in the ETS encouraging agriculture landowners to consider planting their less productive land.
21. If agriculture was 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.
22. 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.
23. Other opportunities to increase forest investment outside of NZU price include:
1. Improving the ease to invest in land (especially in regards to cost and time of OIO applications);
 2. Promotion of wood use 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.
24. **Recommendation:** Bring agriculture into the ETS immediately and ensure the ability to invest in land is clear and easy.

International Units

25. The inclusion of international 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 not clear whether these international units actually resulted in reduced emissions which is the

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

26. **Recommendation:** No international units included within the New Zealand ETS.

Auctioning

27. 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.

28. Auctioning is similar to quantitative easing, it provides uncertainty for participants in the market and would discourage the market functioning to its full potential.

29. Auctioning is inconsistent with the government's desire to have the NZ ETS linked to the world price of credits. In fact it would ensure there was no linkage between the price of an NZU and the price of an international credit.

30. **Recommendation:** Auctioning should not be introduced to the ETS.

What other factors should the Government be considering in this NZ ETS review?

Agriculture

31. A market for 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.

32. 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.

33. 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.

34. **Recommendation:** Bring agriculture into the scheme as soon as possible. Help agriculture 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 liabilities in regards to their emissions for 5 years, giving time for the new planting to offset their emissions to some extent.

Native Forest Management

35. 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.
36. **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.

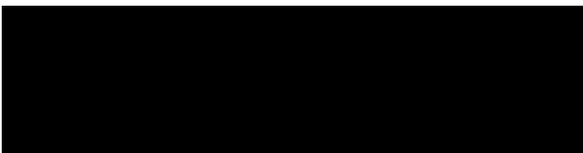
Harvested Wood Products

37. The value of carbon in some harvested wood products has been recognised in international agreements and represents a net reduction in New Zealand's international GHG reduction obligations. NZIF understands detailed comments on the treatment of harvested wood products (HWP) will be sought as part of the planned April 2016 request for submissions and NZIF will make more detailed submissions at this time. NZIF is not convinced any environmental or economic benefit will accrue from the devolution of HWP 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. Some consideration should then be given to enhancing this value through selective encouragement of the use of wood or a reduction in other costs of wood production.

Conclusions

38. 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 change. NZIF believe 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.
39. NZIF would like to see the removal of the 2 for 1 rebate, immediately.
40. NZIF believes a date should be set in the future for the removal of the price cap, with the cap rising incrementally from the current \$25 to \$100 over this time.
41. NZIF believes the ability to invest in land must be clear, easy and treated equitably. It currently is not.
42. NZIF does not support international units being allowed within the New Zealand ETS.
43. NZIF does not believe auctioning should be introduced into the ETS.
44. NZIF strongly believes agriculture needs to be included in the ETS as soon as possible. We understand this will need to happen over time and suggest MfE or MPI offer advice to agriculture to help identify and plant land which is of lower productivity within they current land holdings. NZIF also believes consideration should be given to helping with the cost of planting to incentivise the agriculture sector to plant their less productive sites and consider limiting their emissions liabilities for 5 years.
45. If carbon credits generated through forestry are to be retained in the ETS, then NZIF believes the ETS needs to include the greenhouse gas 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 improvements in total biomass.

Yours sincerely

A large black rectangular redaction box covering the signature area.

James Treadwell

President NZIF