FOREST OWNERS ASSOCIATION

Submission

on

Additional proposed amendments to the Climate Change (Forestry Sector) Regulations 2008

Submission to:

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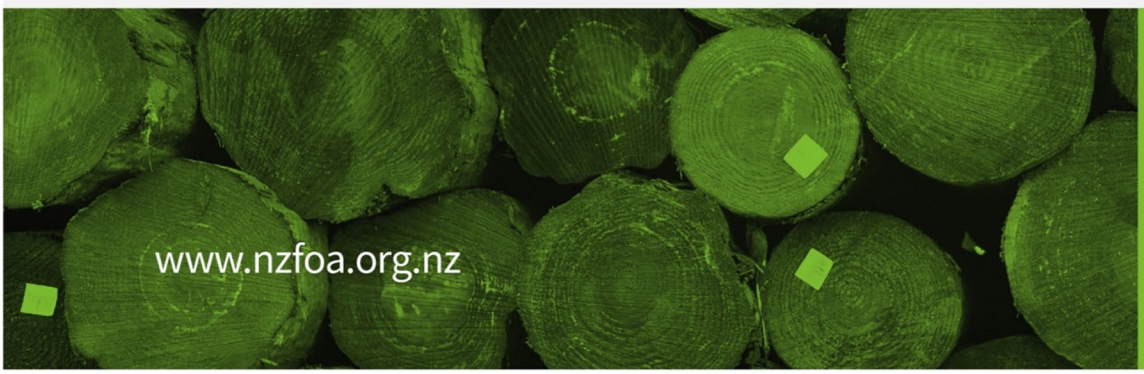

Growing Your Future

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Submitter

The Forest Owners Association (FOA)

The New Zealand Forest Owners Association Incorporated (FOA) is the representative membership body for the commercial plantation forest growing industry. FOA members are responsible for the management of approximately 1.2 million hectares of New Zealand's plantation forests and over 75% of the annual harvest.

In 2019, the forest growing sector was worth $6.93 billion in export value and has a 12% share of rural land use.

Summary

THE FOA welcomes further amendments by Te Uru Rakau designed to improve and simplify the participation of forest growers in the ETS. The Climate Change Commission's draft report reinforces, once again, the critical role that forestry will play in achieving our national targets and budgets. It is important, therefore, that any adjustments are aimed at minimising complexity and recognising as much as possible the sequestration undertaken.

Approximately half of those forest owners eligible to participate in the ETS actually do so. To a significant extent this is determined by the administrative burden and ability to extract value.

Forestry is a long-term investment and requires confidence in the government and its regulatory framework. Farmers, landowners and investors have put resources into forestry based on financial projections. In the ETS context, carbon credits can have a significant effect on the return a forest will generate. Especially important are the cash flow benefits, that can come with the sequestration of carbon, and it is imperative, that the proposed regulations will not – in themselves – reduce those projected benefits.

The majority of the participants in the ETS by number are small scale growers and by volume are large scale growers. The potential for further afforestation by farmers and owners of smaller parcels of land is high and due weight should be given to the concerns and issues affecting the owners of smaller forests. It will be important to strike a balance between the preferences of all growers.

Simplifying the ETS while also creating added certainty for ETS participants are all favourable adjustments to the current system. However, the current settings focus on sequestration over holistic systems benefit, which has the potential to create benefit in one area at the expense of another. This is particularly evident in the case of permanent forest classification and a

singular focus on carbon returns, resulting in the potential for significantly extended periods of land use change without supporting non-carbon economics. The ability and conditions under which forest owners can change from average accounting to a permanent forest regime need further clarification. We anticipate that this will be possible but that the rules, and definition of what qualifies as permanent forestry, may need further clarification, particularly given the implications for wood supply. There is the potential to enhance speculative, carbon-only activity, resulting in sizeable shifts away from active plantation forestry to permanent, carbon-based forests that could have detrimental rural and biosecurity consequences, especially when using industrially valuable plantation species. The ability to change to a permanent forest regime would also affect some the options discussed in the consultation document.

Averaging:

The FOA submitted previously in January 2020 on the MPI consultation document - *A Better ETS Emissions Trading Scheme for Forestry*. The comments provided then also form part of the feedback on the latest proposals. In particular we reiterate our position with respect to the options presented on band widths, viz: that there are arguments both for, and against, whatever band widths are chosen. Forest manager intentions and future circumstances will vary widely, and their band preferences will vary accordingly.

Given the relatively long investment periods involved in forestry it is not unusual for harvesting intentions to change from the time planting was undertaken. Any policy settings should recognise this and allow forest owners a reasonable level of flexibility without punitive penalties. There is a concern that a change in length of subsequent rotation will, under the proposals, trigger a significant penalty. This is likely to adversely impact small domestic wood lots where the next generation is unaware of settings signed up to. As noted, and to the extent possible the band setting should also avoid encouraging harvesting regimes that are detrimental to the domestic wood processing market.

In general, more specificity with age bands will mean that the average carbon returns earned are more closely aligned with what has actually been sequestered and allow forest owners with higher-than-normal harvest ages the ability to earn greater reward. This, however, requires greater forecasting ability several years ahead, increased likelihood the band chosen will not be appropriate, and greater compliance and administration costs. Broader band widths are simpler and provide greater flexibility for owners but could lead to a concentration of harvesting at the lower end of the band which could compromise the system and require review.

Owners of large multi-age class forests generally have good access to expertise and resources, and are therefore much better at planning and executing their harvest operations. In contrast, small scale growers have often no prior harvesting experience, have difficulties finding contractors and other resources, and lack the infrastructure required to start harvesting. Further, because smaller growers will harvest only once every 28 years or so, they are dependent on reasonable prices for their logs, and cannot afford to harvest, when prices are very low. By comparison, owners of large areas of forest will typically be continually harvesting, and will generally ride out the peaks and troughs of the log market.

Smaller growers may, therefore, incur material cost by harvesting at a time they had originally envisaged. So even though a forest owner may target the midpoint of a rotation band, there is a reasonable probability that, in reality, they will wish to harvest pre or post that identified period.

The longer the rotation bands, the more pronounced this effect is going to be.

Consultation Questions

Question 1: How would averaging accounting with only 1 age band for each forest type impact you?

Whilst providing simplicity, a single age band does not reflect the true nature of carbon sequestration and unduly limits system flexibility. A failure to provide adequate recognition for increased carbon sequestration during second rotations or delayed harvests also has the potential to unduly favour a shift to a permanent classification, which would potentially severely restrict the economic benefit of secondary harvesting and undermine forestry's role in creating a resilient rural community. Currently, the report implies that short rotation regimes could unduly benefit from this methodology, however counter to that position it could also stimulate the application of short rotation regimes to support a transition to greater biofuel production, which may be worth considering and being deliberate about including in the planned amendments i.e., providing exemptions to short rotation forest activity when applied for biofuel production.

A potential solution within this option could be to allow growers, to set a target date for the single rotation band. There would need to be accounting for any early/late harvesting, but there would be no further carbon accounting required post the first rotation.

Question 2: How would averaging accounting with four age bands for each forest type impact you?

Extended age bands would improve system flexibility and enable regime adjustments to occur, both in the primary and subsequent rotations, while avoiding short term decision making to result in legacy outcomes. However, a requirement to extend rotations for such significant periods based purely on carbon prices could still result in significant reclassification of forests to permanent and also be counter-productive to the supply security of wood processors, as a carbon-only forestry approach is favoured.

Many smaller growers grow several species, and own stands of trees covering all 4 forest types. Also, some growers grow the same species in stands with different management regimes.

While the proposed approach allows for more flexibility, it also introduces significant additional complexities, especially when considering that some CAA's may only be harvested partially, and the impact of any change in species or management regime post harvesting. It is likely that this approach may be too complex for small growers and question Government's and forest owner's ability, to manage this over decades

Question 3: How would averaging accounting with five-year age bands for each forest type impact you?

While it will introduce some complexity, it provides a more appropriate recognition of the level of carbon sequestered which the ETS is intended to do. As it is similar to the current mandatory reporting cycle, it would be workable, provided that no further carbon accounting beyond the first rotation would be necessary.

Question 4: Which of the three proposed age band frameworks (single average age, four age bands, or five-year age bands) do you prefer and why?

We consider the option of five-year bands provides an acceptable degree of compromise between simplicity and feasibility.

Question 5: Are there any further changes you would like to see made to your preferred age band framework? Why?

We have concerns about the process of setting age band values for species other than radiata. The data has been derived from the NEFD, and it is well known, that its information on alternative species is not reliable, as smaller plantations make up a large percentage of the resource and are generally not surveyed. As an example, a reasonably sized resource of durable eucalypts has been established via the NZDF project. Many of these forests are targeting sawlogs, with a harvest age of between 30 and 40 years. The proposed approach significantly disadvantages these growers. Consideration could be given to setting higher age bands for other species.

Inclusion of use-based exemptions, such as average age classification exemptions, when forests are harvested on shorter rotations for biofuels or other desirable uses, could mitigate the risk that the proposed changes create around a "lock and leave" approach. And while they would add complexity to the system, such complexity would only apply to each harvest instance and not require ongoing management.

As noted previously it is suggested that consideration be given to allowing forest owners to set a target date for the single rotation band. There would need to be accounting for any early/late harvesting, but there would be no further carbon accounting required post the first rotation. It may also be desirable to have some controls around the allocation of units beyond the "standard" target date (e.g. 28 years for radiata), to ensure that the system cannot be gamed. This risk however is not material, and in fact smaller in comparison to the risks associated with the current stock accounting approach.

Question 6: The outcomes of different age band options vary depending on timber and carbon prices, both of which are hard to predict. How should we account for that uncertainty when deciding on a final age band framework?

This needs to be seen in the context of the other objectives, i.e. simplicity and fairness. If log prices motivate and justify an early harvest, then it is fair to expect participants to repay any "unearned', but issued NZU's. If participants decide to grow their timber for substantially longer than anticipated, then they should have the option of transferring to a Permanent Forest scheme so long as the implications for the wood processing sector have been taken account of. Participation in the ETS is voluntary, and ultimately growers need to make a decision to accept some level of risk for the reward anticipated when joining the ETS.

Question 7: Are there any other variables you would like to see us test, or assumptions you would like to see refined, in our modelling of the age bands options? What additional testing would you like to see?

Understanding how these options may impact new processing opportunities would be valuable. We are already seeing some apprehension from current processors who are reliant on k-grade logs and the impact that they see from biofuels as a competitive threat for that resource. At the moment, the two key reference points used within the ETS modelling are timber and carbon, however modelling alternative choices such as biofuels might uncover some relevant and useful insights as it relates to delivering on the Climate Change Commission's report.

Question 8: Are there any other impacts you would like us to consider when deciding on the final age band framework? These can be economic, environmental, cultural, or social impacts.

The framework needs to cater for situations where the forest cannot be harvested because of events outside of a grower's control. Examples include that the forest becomes protected due to it providing habitat for rare species, harvesting becoming impossible due to erosion control zoning, or other regulatory measures with a similar effect. In those situations, the forest continues to accrue carbon, and this should benefit the forest owner.

As stated above, an over incentivization for "permanent" classification of plantation species or substantive and enduring changes in rotational decision-making could result in greater rates of sequestration but at the expense of other aspects, such as social and economic returns. Diversifying these processing opportunities (such as through direct incentivisation of biofuel production or domestic processing), would not only reduce carbon-only forestry incentives but also help to drive change, without the need for land use restrictions.

Question 9: Would you prefer to have detailed accounting on second and subsequent rotations, or no detailed accounting on second or subsequent rotations? Please explain why you have a preference and what the impacts of each option would be.

The answer probably depends on what is meant by "detailed".

Over such long timeframes, owners will change, records will get lost, and regulations are likely to have changed multiple times. It could become very difficult for both regulatory authorities and forest owners to meet any such requirements depending on the level of detail that was being sought.

It is acknowledged, however, that if the intent of the ETS is to accurately calculate the amount of sequestered carbon in New Zealand, then applying a single-rotation accounting approach, while easy to steward, essentially means that all forestry in New Zealand would be treated like pre-1989 forests are today, regardless of the rates of sequestration. This could significantly reduce the accuracy of carbon accounting over time (as currently being seen with pre-1989 forests that contain significantly more carbon today than they did pre-1989 on a per hectare basis).

Question 10: Do you have a preferred 'package' of settings for averaging (combination of age bands and second rotation accounting)? Why, and are there any further options you would like considered?

As noted, we consider that the 5-year "package" provides reasonable recognition of carbon sequestration without adding materially to complexity.

Question 11: Do you support our proposed method to calculate the average age of each forest type? Why or why not? If not, what changes would you make?

We have no issue with the method used to determine the average ages of the different forest types but question the reliability of the underlying data as it relates to assumed harvest age. The assumed harvest age is based on work by Bruce Manly, who qualifies his results by stating that:

- he only had a response rate of 16% from small growers
- his questionnaire was only sent to growers with at least 10 ha of forest

The reliability is only a question for species other than pinus radiata or douglas fir. Other research by Bruce Manly (SWP-T110 HBForestResourceInventory 2020) shows that in Hawkes Bay, the NEFD figures are understating the actual alternative species resources by 40%. Coupled with the low response rates, we do question the assumed harvesting ages for exotic hardwoods, softwoods and indigenous forest types which could all be underestimated.

Question 12: What has been your experience with the current sub-area definition? What works and what doesn't?

Accounting of sub-areas can become very complex over time, and any simplification is welcome. Road lining, crop failure, or adverse events are examples, where sub-area need to be created, and the accounting, mapping and documentation requirements can be very time-consuming.

Question 13: Do you support the proposed approach to introduce a one-hectare minimum area for the identification of areas of distinct forest attributes that are used to form subareas? Why or why not? If not, what alternative would you suggest?

Restricting the minimum qualifying forest area, while still enabling that area to be recognised under a "predominant species" approach would appear to simplify the approach for all parties and still afford appropriate recognition of the area, albeit in a slightly altered fashion.

We accordingly support the proposed changes, as they would greatly simplify the carbon accounting requirements.

Question 14: What kinds of additional information or services in our IT platform would improve your experience of sub-areas? Would any of these support tools change your views around accounting for small areas?

It would be a real improvement, if there would be a tool available to map sub-areas inside a CAA

Question 15: Do you support allowing excess land from a previous offsetting application to be used for a new offsetting application for up to two years since the 'offset date' of the previous application? If not, what alternative would you suggest and why?

Having an ability to utilise excess offsets for additional deforestation of pre-1990 forests, would be a more accurate reflection of the associated land use change, and therefore be a positive change. However, restricting the ability to apply for such allocations to 2 years post the "offset date" would seem an unnatural determination and may encourage undue deforestation. We would therefore request an extension of the eligibility for any offsets to be extended, potentially to a maximum of 10 years post offset date.

Question 16: Do you support our method to calculate carbon equivalence between a pre-1990 forest and a post-1989 offsetting forest? If not, what changes would you make and why?

The proposed methodology for carbon stock calculation appears to be consistent with other adjustments to the ETS, such as assumed harvest age and use of default carbon stock tables. However, the requirement for offsetting to achieve both an equivalent planted area and carbon stock, would appear unnecessary. Presumably, appropriate offsetting could be achieved if suitable carbon stocks are replenished, therefore removing the need for a secondary requirement to achieve a minimum planted area. This would provide forest owners with the

flexibility to change forest regimes to higher carbon sequestering systems with lower land area requirements, while still delivering on the base aspiration of offsetting.

Note on making this submission public

We consent to the submission being made public.

David Rhodes
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Forest Owners Association