FOREST OWNERS ASSOCIATION

Submission

on

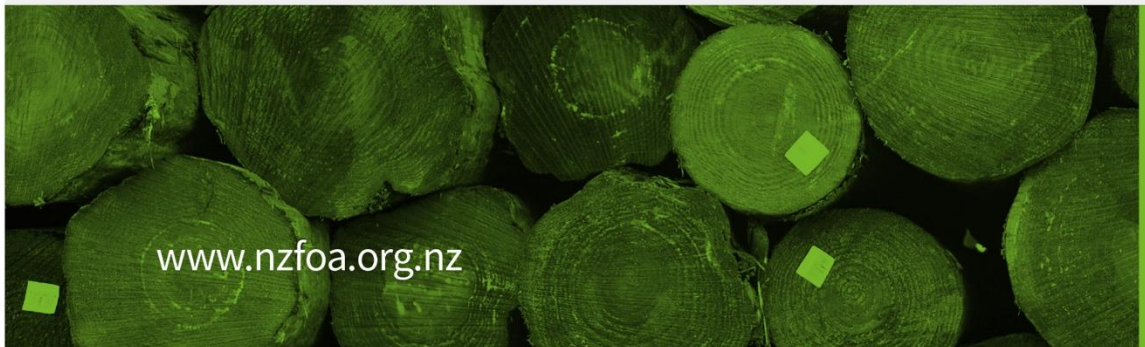
Managing exotic afforestation incentives

A discussion document on proposals to change forestry settings in the New Zealand Emissions Trading Scheme

Discussion paper 2022/02

And the associated Interim Regulatory Impact Statement - Managing Exotic Afforestation Incentives
https://www.mpi.govt.nz/dmsdocument/50158-Managing-Exotic-Afforestation-Incentives

Email for submission: mpi.forestry@mpi.govt.nz.



Growing Your Future

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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.

Forestry export revenue is forecast to reach $6.3 billion in the year ending June 2021, an increase of 12.8 percent from 2019-20 when the forestry sector was prevented from operating during Level 4 lockdowns. Harvest volumes are set to reach 36.5 million cubic metres in 2020-21, up 14.5 percent from last year. Log export volumes are expected to increase 21.4 percent, reflecting increased demand for export logs (SOPI, June 2021).

The NZ Forest Owners Association (FOA) wishes to be heard in support of this submission.

Summary

1. Context

We agree that it is appropriate to regularly review the emissions reduction policy settings to ensure societally optimal outcomes and note that the Climate Change Commission (CCC) specifically recommended the government consider the role of permanent exotic forests. It is appropriate for the government to apply controls on permanent forestry that align with the objectives of providing incentives, particularly given the relative profitability of permanent forestry versus production forestry and other land uses under the current carbon price based on estimated NPV values by Ministry for Primary Industries (MPI) and as quantified in the discussion document (Section six, page 12).

We also agree it is important that the level of afforestation does not compromise New Zealand's potential to reduce gross emissions, but the CCC targets have already been set ambitiously with this in mind.

A delicate balance must be maintained to ensure that the off-setting benefit of afforestation is realised, and that New Zealand does not fall short of the level of planting required to meet emissions budgets. The emissions reductions targets for New Zealand are very challenging and it is far from certain that sufficient exotic plantation rates can be maintained. As noted in the interim Regulatory Impact Statement (RIS) "*there are several parallel related policy changes that may impact on options described…..including RMA reform, the special forestry test under the overseas investment act, and forestry policies within the emissions reduction plan.* This reinforces our concern that the cumulative impact of these policy changes risks threatening the CCC recommended planting goals and that New Zealand will not therefore meet its emissions targets.

If this happens then either New Zealand will have to achieve more from emissions reductions including agriculture, or more likely we will have to spend a lot more money offshore on someone else's afforestation. The comment that afforestation reduces our need to purchase offshore mitigation is correct but equally the reverse holds. Even achieving the CCC afforestation recommended planting rates New Zealand will still need to purchase offshore.

One thing that is clear is that native planting is likely to fall well short of the CCC's proposals.

The primary concerns in the government documents can be summarized as:

- loss of productive land
- oversupply of carbon credits from forestry.

The overwhelming focus of the document is on the extent to which permanent forestry, and particularly non-production forestry is contributing to these concerns. As the document records "*New Zealand needs to make trade-offs in considering the role of permanent exotic forests*". Overall, we concur that some increased control is required over permanent exotic forestry particularly given that the superior profitability of permanent forestry will continue to increase relative to other productive land users. We also agree that shorter rotation species such as pine are not generally suited to permanent non-production regimes. That said, there will be examples where carbon only forestry can deliver a no-lose outcome and there may be other instances where exotics can achieve the canopy requirements under the permanent category while still delivering production. The focus should be on clearly defining where those *"exception to the rule"* situations apply.

One of the challenges is that the definition of permanency under the New Zealand Emissions Trading Scheme (ETS) is one that is unlikely to be found anywhere else and is artificial. A cut-off of 50 years is more correctly describing 50-year rotations. A 49 year-old forest, with a requirement to be replanted,

is little different in terms of its *"permanency"* and an inter-generational store of carbon. Limiting permanent to 50 years opens up a lot of forestry and brings the scope well within what is possible for radiata. This raises the question of whether using such a permanency definition is itself part of the problem.

There can be little argument that New Zealand farmers are very efficient producers of food and that, on a world scale, it makes sense to be undertaking production in New Zealand for the least carbon emissions per unit of production. The same however holds true for forestry. New Zealand and the rest of the world is also in need of fibre. The key point here is that it is appropriate for New Zealand to place an emphasis on maintaining its land production capacity whatever the produce delivered. In general, we consider it is inappropriate for the emissions trading scheme to provide a strong incentive to move away from production forestry to non-production forestry where the potential for production exists.

It should also be noted that nothing in the rural landscape should be considered permanent. For the foreseeable future an increasing price of carbon will, appropriately, prevent deforestation but ultimately New Zealand, and global, efforts will result in the price of carbon falling otherwise we will have failed in our endeavours. At that point the land may change once again from forestry to some other use according to what is most beneficial at the time.

2. Scale

The document states that the introduction of the permanent forest category "*is likely to result in large areas of land nationwide being planted [relative to historic trends] being planted in permanent forests*". While the area may be significantly more than historic trends under say the PFSI, this is not an appropriate baseline to use nor is it a fair and meaningful comparison. It is a given that New Zealand needs to move to much higher levels of forestry *"relevant to historic levels".* Over the previous decade the country lost around 100,000 hectares of forestry so the baseline for comparison is a poor one. Either way, in absolute terms, the level of forestry will not be high. It is its contribution, rather than what has been planted in the past, that should be the focus. Even if the 380,000 ha of plantation forestry is achieved it will not materially alter New Zealand's land use pattern. The area in plantation forest would increase from 1.7M ha in 2020 to 2.1M ha in 2035 - an increase from 6.3% of New Zealand's land area to 7.8%. Over the same decade and a half agricultural land would fall from 40% to 38.5%.

The discussion document and the interim RIS provide quantification of the magnitude of the offsetting that forestry delivers through to 2035. They do not, however, also acknowledge that to the extent that forestry displaces livestock there will also be a methane emissions reduction benefit. This will be an important element of agriculture meeting its emissions reduction targets whether through a He Waka Eke Noa model and/or the ETS.

Reference is also made to concerns about the potential for forestry to maintain its sequestration potential if land becomes scarce. Various independent agencies such as the Vivid group and the Productivity Commission have assessed the land suitable for forestry, without materially impacting agriculture, to be significantly more than the current afforestation targets. Scarcity would not appear to be an issue in the medium term.

3. Impact

The economic contribution of permanent forestry, production forestry and meat and wool are commented on numerous times, for example pages 12-13 of the discussion document and paragraph 27 of the RIS. The independent figures tell the following, compelling, story:

	Area hectares	% of total land	Employees	Exports ($M)	Employees /1,000 ha *	Export earnings/ha
Production forestry	1,700,000	7%	35,000	$5,500	20.6	$3,235
Sheep and beef farming	9,600,000	40%	92,000	$10,700	9.6	$1,115

*The discussion document uses the figures of 38 and 17 for forestry and sheep and beef farming respectively (Table 2 page 13). It is not clear how these have been calculated although the ratios are the same.

Put another way, if forestry occupied the same land area as sheep and beef farming it might be earning $31 billion (compared with $10.7 billion) and employing around 200,000 people. This is significant and the demand for fibre to support that is certainly there.

The picture for permanent forestry, however, is significantly different than for either production forestry or sheep and beef farming. Returns per hectare (~$30,000) are significantly higher (~ $20,000 and ~ $4,500, respectively) but the contribution to NZ earnings and employment is considerably less as reflected in Table 2 (page 13).

	GDP/1,000 ha $M	Employees /1,000 ha
Permanent exotic forestry	0.8	2
Production forestry	4.8	38
Sheep & Beef Farming	1.7	17

This contrast and the estimate that "*25 percent of recent afforestation is likely to be permanent exotic forests*" (paragraph 29 of the RIS) is why a review of the incentivisation of permanent forestry is warranted.

While the document focuses on the relative carbon sequestration contributions of forestry it fails to properly recognise that land use change to forestry from farming also reduces methane emissions in many instances. Whilst this is not the primary objective this emissions reduction is nonetheless beneficial. The document correctly notes that any reduction in the permanent forestry category will necessarily result in higher levels of agricultural emissions than would otherwise have been the case. It will also, almost certainly, mean that the government needs to purchase a greater number of emissions reduction units offshore than would otherwise have been the case. The CCC note that a reduction in farming emissions is required, and additional forestry is complimentary to that purpose.

It should also be noted that often forestry both commercial and permanent is established on areas not currently under productive use of any description. Examples of farm conversions to commercial forestry in Otago, for example, can result in up to a 25% gain in productive area per farm to the economy simply by converting gorse covered area to productive forestry uses. The potential for permanent forestry to occupy previously unproductive land should not be underestimated and in such cases the productive land area within New Zealand is increased with no loss to farming or alternative use. To successfully convert such areas economically, exotic species are required.

There are generalised comments in the RIS about "*impacts on communities*" associated with conversion of farmland to permanent forestry. However, this cannot be used as an argument for no

change to the status quo. Production forestry, in particular, has significant potential to contribute positively to regional economies and jobs even if the form of this resilience may differ from existing patterns.

Despite the RIS (paragraph 11) stating "*the proposals being consulted on for the NZ ETS primarily seek to address aspects of the problem definition relating to rural and local communities …….*" we are left wondering what those *"aspects*" are. It is important that this statement is not interpreted in a misleading and/or negative way and given the importance of this issue, proper studies are undertaken.

The discussion document (page four] appropriately notes the importance of the Forestry and Wood Processing Industry Transformation Plan (ITP). Any measures being contemplated to constrain forestry will not only have implications for New Zealand's emissions reduction targets but also the ITP targets.

As noted previously, the rural landscape is perpetually changing and forestry is not more, or less permanent than any other land-use, for example, Kinleith Forests that had remained for three forest rotations were part of the deforestation in the last decade.

4. Analysis of the options

While we support assessing the effectiveness of policy measures, we have concerns that the government is seeking a pre-determined outcome that is not fully based on analysis and facts.

It is clear from the documents that Ministers have a preferred approach and officials have had insufficient time to fully assess the options including the status quo. Despite this, and despite a lack of detail on the rural and local community "aspects" of concern the document is now being consulted on. Priority should be given to an adequate assessment of a complex range of potential pathways ahead of meeting the 2023 deadline.

We consider there is merit in considering a long rotation option for post-1989 forestry but caution that targeting or confining this to where production options are genuinely poor will be a challenge. We share the concern that there is a risk of exotic forestry currently managed for production, under either stock change or averaging, being switched to permanent forestry with potentially adverse consequences for the forestry and wood processing industry. Such risks are substantially mitigated by the predominant supply to New Zealand processing plants from pre-1990 forests.

It is also important to recognize that these considerations should not be restricted to only radiata. Redwoods, Douglas Fir and some other exotic species which are more suited to longer term rotation and have the potential to diversify the industry and assist the proposed ITP.

We agree that permanent exotic forests do not fall within the scope of the National Environmental Standards for Plantation Forestry (NES-PF) (paragraph and that "*there is an opportunity for this risk to be managed in other ways, such as through changes to resource management tools*". Given this, we consider that further analysis is required before concluding that "*there are limited existing options available under the NZ ETS and Resource Management Act that could be utilised to effectively address the problems identified".* Paragraph 13 (c) of the RIS.

FOA does not agree that there are limited existing options under the Resource Management Act (RMA) to deal with any issues associated with permanent forestry. Councils have the ability to regulate different types of forestry such as Marlborough District Council introducing controls on permanent forestry; Auckland Council differentiating between conservation plantings and plantation forestry; and Taraua District Council has different rules for protection and amenity forestry versus commercial

forestry. Furthermore, Councils under section 32 of the RMA must evaluate the social and economic impact of any proposed rule. The introduction of rules concerning nitrogen discharges and the grandparenting of existing forestry has involved extensive economic modelling.

5. Permanent versus production

Throughout the RIS there are a number of places where references to permanent exotic forestry and production forestry are mixed up and concerns related to permanent forestry are implied to be the same for production forestry. This shows a fundamental lack of understanding about the difference between the two. For example, in paragraph five it is stated that large areas of monoculture planting of exotic species pose long-term risks for pest incursions, fire risks and forest ecology. While these are significant concerns for untended permanent forestry, particularly for example manuka, the risk is considerably less for managed production forestry where forest health and biosecurity surveillance, pest control and fire management systems are actively undertaken and supported by science. When considering significant policy changes, it is important that MPI understands the differences in forest management, and their impacts, between permanent and production forestry.

The reference to exotic monocultures posing significant long term or perhaps greater biosecurity risks than other systems is a questionable assumption that is likely based on a widely accepted but unsubstantiated adverse view of monocultures for which there appears to be little supporting scientific evidence. While monocultures are likely more prone to pest attack than more diverse stands, this is dependent on the species, their use, the associated management regimes in place and the pests and pathogens that they are likely to be exposed to (which in turn is dependent on the effectiveness of border risk management). *Phytophthora agathidicida,* the pathogen that causes die back in our native Kauri trees, and more recently Myrtle rust, represent two very significant biosecurity issues that are threatening the very existence if several of our native taonga in their natural systems which go counter to this assumption.

6. Maori

The FOA strongly endorses the observation that Maori freehold land has different characteristics to general title land and that it is well suited to forestry. There is significant potential for Maori owners to benefit significantly from forestry and their inability to develop land to date for various reasons should not be foreclosed by introducing rules into the ETS which do not make allowance for this.

Maori are disproportionately affected by some of the proposed changes and we agree that the assessment criteria should include supporting Maori aspirations for their land. Maori typically represent owners who are invested across the primary sector in all land uses. Forestry is an important part of that portfolio, well suited to intergenerational timeframes, and an asset that is increasing in area and importance for them.

7. Biodiversity

Numerous comments have been made about the potential loss of biodiversity associated with exotic forestry. To the extent that the exotic forestation is responsible for indigenous scrub and shrubland conversion FOA concurs that this is an adverse outcome. We support measures that would see the ETS discourage exotics displacing indigenous forest and pristine tussock. This is what drives the international concern over plantation forestry, but such conversion is not common practice in New Zealand and certainly not something that members of the key forestry associations are involved in. The FOA membership comprises around 70% of the plantation forestry in New Zealand and the Farm Forestry Association accounts for a further 5-10%. Both associations are signatories to the Forest Accord[1] signed in collaboration with environmental and recreational groups. The Accord, amongst other codes and agreements recognises an important role for production forestry and also agrees that

[1] https://www.nzfoa.org.nz/resources/file-libraries-resources/agreements-accords/10-nz-forest-accord/file

production forestry will not take place where Indigenous forestry already exists. That accord has been in existence for over 30 years and remains relevant and viable today. Such protection is important but, conversely, it would not be appropriate for ETS rules to restrict planting where such values do not exist such as oversewn, depleted, tussock grasslands infested with weeds.

A matter that is somewhat overlooked is that in 2003 the RMA amended the functions of both regional and district council to include *"maintenance of indigenous biodiversity".* In practice this has translated into plan provisions that regulate the clearance of indigenous vegetation outside of areas that are identified as Significant Natural Areas. Consequently, it is not common for large areas of indigenous vegetation to be cleared for forestry without a major resource consent.

It is very important, and frequently overlooked, that production forestry is primarily taking place on pastoral land and typically low productivity land. Under these circumstances there will be a net biodiversity gain from afforestation. Management of production forestry involves pest control and there is a significant commitment to biosecurity. It is noted there are requirements and obligations under the NES-PF. In addition, many forest owners in New Zealand are members of the Forest Stewardship Council (FSC) or the Programme for Endorsement of Forest Certification (PEFC). Both are international, independently audited, environmental certification systems.

Even with permanent forestry it is not appropriate to dismiss biodiversity though this depends to a significant degree on the level of management. Paragraph 39 of the RIS states that "*permanent exotic forests provide a cost benefit cost effective option for severely prone erosion land however they don't provide the biodiversity benefits of indigenous forests*". While this is true, it is only relevant if they have taken the place of what would otherwise have been indigenous forest. The statement also overlooks the fact that even permanent exotic forests will typically be replacing ryegrass. It is thus misleading to imply they will have a negative impact on biodiversity as long as adequate weed and pest control is undertaken.

8. Monoculture

The use of the term monoculture itself is unhelpful. Pine or other single species plantations support a variety of flora and fauna meaning that the forest is not a monoculture. It is not the same diversity as in an indigenous forest, but it is not claiming, nor intended, to be indigenous forest. Both agriculture and forestry rely on a dominant production plant species, but this should not be portrayed as a negative through inappropriately labelling them as monocultures.

It is important that the outcome does not "demonise radiata pine". Much of the language in the document can easily be construed to be anti-*Pinus radiata*. It must be acknowledged that there is good reason why *Pinus radiata* is the dominant commercial tree species planted in New Zealand. Over 100 species have been commercially trailed in New Zealand over the last 100 years and *radiata* has become the principal commercial species because it offers the best combination of productive growth rates, commercial wood products and is resilient to pest and disease. This fact should not be thrown away based on the unsubstantiated notion of pines being a monoculture.

Feedback section (Page 10 discussion document)

The document states that there *"was support for the removal of …… Policies that are affecting rural land markets and leading to exotic afforestation on sheep and beef farms"*. In order to adequately reflect the views held it should also be noted that there was some support for the removal of some policies". Removal of all policy incentives is certainly not a commonly supported position.

What is the problem?

Discussion Document Questions:

Question 1: Do you agree with our description of the problem? Why/Why not?

Question2: Do you have evidence you can share that supports or contradicts this problem definition? Or that demonstrate other problems?

We are disappointed in the problem definition contained within the RIS. It is clear from that document (paragraph 13) that ministerial decisions to pursue policy interventions were taken late last year (note not 2022) and that the "*Ministers have indicated a preferred approach*" prior to consultation. Accordingly, officials have been left with insufficient time to assess the options proposed and the RIS document acknowledges that *"the evidence base is incomplete*" and more information needs to be collected through public consultation, particularly regarding the impact on different stakeholders and communities. It is concerning that the panel "*Considers that the RIA could have been affected from more time for the development, stronger analysis of the status quo and consolidation of the criteria used to assess the proposed options….it would also have benefitted from greater clarity about the trade-off between options two and three, …and what the impacts of the proposed actions will be on Māori land*."

The problem definition relies almost exclusively on concerns about permanent forests including displacing productive activities and negative environmental outcomes. Community implications are cited (paragraph five) but left undefined. All three "concerns" are then immediately used (paragraph seven) as the basis for presenting three options for managing permanent exotic forestry with no detailed justification. The problem statement is fundamentally flawed and the outcome pre-determined.

With respect to the three options presented in terms of dealing with exotic forestry in the permanent category it is concerning to read from the RIS that there has not been adequate assessment undertaken of options two and three, in particular, before a final discussion document was released for feedback.

Objectives and assessment criteria

Question 3: Do you agree with our criteria for managing permanent exotic afforestation? If not, what would you change and why?

We generally support the objectives and criteria as a comprehensive guiding framework with but not without some qualification.

Criterion 4. The references to well-being and communities are not defined. We agree that social impact including employment are relevant, however this should not be interpreted as meaning there should be no change to the status quo. Healthy communities are also dynamic, and part of their resilience will be adapting to change, including land use change, and this is essential to achieve the net zero target and other goals.

Criterion 6. it is too absolute to expect that any forest cannot be a source of pests. This would be unattainable for all land use types including, and in some cases especially, the conservation estate, which harbors large reservoirs of mobile pests.

Typically, in production forestry there is a significant level of pest control carried out. The same is not necessarily true of permanent forestry but could, and should, be a criterion for assessment rather than stating requiring an absolute goal of zero pest movement. Pests are often more easily controlled in forests as 1080 is available for use, it cannot be used on farmland for risk of poisoning livestock.

A potential conditional criterion could be the contribution to the Forest Industry and Wood Processing Transformation Plan. An element of this could be achieving increased diversification of production forests regimes/species.

Options to manage permanent exotic forestry

Question 4: Should we provide for exceptions allowing exotic species to register in the permanent forest category under certain conditions?

It should be noted that all 300,000+ ha of forests currently registered under stock change accounting can potentially be "permanent" if desired by the owner without requiring an application to the Forest Service and without needing to be registered under any permanent category, either as an exemption or otherwise.

A blanket rule prohibiting all exotic species is likely to also eliminate circumstances where plantings could satisfy the criteria set out in the document. Either through the permanent category or via an alternate pathway it could be appropriate to support longer term sequestration by exotic species where:

- normal production harvest cycles are not viable; and/or
- there is a viable and demonstrable pathway to transition to native species; and/or
- the exotic species may allow limited extraction of timber while satisfying the canopy cover requirements of the permanent category; and/or
- the exotic species in question is suited to much longer rotation periods.

It is important though that the ETS does not provide an incentive for what could be production forestry to be non-production forestry. This means that if exceptions are permitted there would have to be a mechanism for dealing with a change of circumstances such that the reason for the exemption no longer existed. For example, forests that were previously uneconomic could suddenly become economic if a wood processing or bioenergy plant was established nearby. Indeed, the potential also exists for forests committed to a "permanent" regime to impede the development of downstream processing.

Allowances should be made for longer term sequestration by exotic species where harvesting is no longer possible as a result of new legislation, such as the introduction of a National Policy Statement on Indigenous Biodiversity.

Designing the options to manage permanent afforestation

Question 5: Are there particular circumstances that you support introducing exceptions for (for example, exceptions for certain species of exotics)? Why?

- What are the likely impacts, risks and costs of allowing exceptions in these circumstances?
- If we allow exceptions for exotic species under certain conditions, should we place additional conditions on the granting of this exception? What could this be?

Certain species, presently limited in area, such as Redwoods grow on considerably longer timeframes than radiata. If these species are not permitted in the permanent category, then an alternative way of recognising their potential contribution should be available. There are other national and ITP benefits from encouraging greater expansion of these species. The current alternative of averaging that does not reflect the duration of these crops could be a significant impediment to their expansion.

For such circumstances the option of allowing the stock change approach and/or introducing additional averaging bands that cater for them, should be considered. This would essentially leave the permanent category as something relevant only to indigenous forestry.

Such species are highly unlikely to be established without an intention to harvest and produce timber but in order to confirm their status as longer rotation production species it would be consistent, and appropriate, to require a commitment to production as the OIA does currently. This also supports processing infrastructure planning.

Question 6: Are there alternative ways we can recognise and encourage these forests, either within, or outside the NZ ETS?

As noted above, the permanent forest category need not necessarily be the only means by which suitable longer-term rotations could be recognised. Allowing the option of the stock change approach in certain circumstances would be another means.

Outside the ETS the application of biodiversity credits has considerable potential to recognise, and encourage additional planting particularly, but not exclusively, for indigenous forest.

Question 7: Of these options, what is your preferred approach? Why? Are there other options you prefer, that we haven't considered?

We support limited application of Option 3.

There are circumstances where longer rotation exotic species could provide desired benefits and the document lists a number of potential circumstances where this could be the case, including remote land and non-radiata species such as Redwood.

On this basis a blanket exclusion of exotics will not lead to an optimal outcome. We acknowledge, and agree, that there could be challenges for both the administrator and the participant in managing such exemptions and support such exemptions being limited but, on balance, consider that some allowances should be made.

Question 8: Do you agree with our preferred approach (acting before 1 January 2023)? Why/why not? If not, what is your preference?

It is clear from the RIS that insufficient analysis has been carried out on the option of allowing exemptions versus total exclusion of exotic forestry. Adequate evaluation should be completed and should take priority over the desire to implement by 1 January 2023.

Question 9: Do you support exceptions by regulations (option 3a) or exceptions after a moratorium (option 3b)? Why?

We do not support Option 3B. A moratorium does not provide sufficient certainty. The document already acknowledges that there could be circumstances where it is appropriate for some level of permanent exotic forestry to be encouraged. As such these options should be actively assessed and either provided for, or ruled out.

If an exemption category is provided, then theoretically this provides an unlimited number of ways that permanent exotic forestry could be provided for and thus negates the need for operating a moratorium.

Managing the risk of forests in other ETS categories being managed as permanent

We agree that there is a limited risk of a small proportion of the exotic forestry estate currently managed for production, under either stock change or averaging, being switched to permanent forestry with potentially adverse consequences for the industry.

Implementing changes to the permanent forest category

Question 13: Currently the NZ ETS defines forests based on the predominant species in a hectare. However, forests change makeup over time. Do you think this definition of exotic and/or indigenous forests is appropriate for the post 1989category in the NZ ETS?

If exotics are going to be removed or restricted to monitored exemptions, then the distinction between native and exotic will continue to be needed. Basing this distinction on the predominant species is practical.

Question 14: What level of exotic species in a forest would be acceptable for the forest to still be classified as indigenous forest, and registered in the permanent post-1989 category in the NZ ETS?

Consistent with question 13, reclassification of a forest as indigenous should be maintained as long as the level of exotic trees does not materially impact the level of carbon sequestration being claimed, nor the biodiversity benefits expected.

Question 15: If forest changes from indigenous to exotic while registered in the permanent category, do you think it should be removed from the category (Option 1) or treated as indigenous (Option 2)? Why? Are there other options we haven't considered?

Any change away from status as an indigenous forest should be monitored and managed otherwise the carbon sequestration recorded at both a local and national level will not be aligned with what is taking place on the ground. Accordingly, we do not support a forest that has changed to exotic continuing to be treated as it was originally registered if this was originally registered as indigenous.

With respect to the alternative options (1B and 1C), these are not necessarily mutually exclusive. The participant could have the choice. If it is feasible to achieve 1C then this may be a preferred option. Alternatively, if it is considered too risky, or impractical, then the preferred option could be 1B. Clearly any truing-up of credits would need to take place.

These are known risks by anyone voluntarily entering the emissions trading scheme. This may require some increase in incentive but, as the document notes, there are also risks associated with over incentivizing indigenous forestry given the potential for a greater area of land to become unproductive or for an oversupply of credits. The problem definition risk is not restricted to exotics.

Proposed treatment of exotic forest in the PFSI

Question 19: Do you agree with the proposal to allow exotic forest land in the PFSI to transition into the post-1989 forestry activity, or would another approach be more suitable?

As the document notes, the PFSI was reviewed and, in 2018, the government announced that it would be replaced by the permanent post-1989 category with the option for PFSI participants to transfer across when it becomes available on 1 Jan 2023.

The option of allowing PFSI participants into the permanent category or operating under stock change approach should be provided and would properly recognise existing investment fairly made under historical law.

Averaging accounting for remote and marginal land.

Long rotation category under average accounting.

Question 20: Should the government create a long rotation category under the averaging accounting for *Pinus radiata* forests which are not profitable to harvest at age 28, recognising the additional carbon which is likely to be stored by these long rotation forests?

We conditionally support the creation of a category that would allow long rotation *Pinus radiata*.

Establishing a long rotation category under averaging accounting for *Pinus radiata* which is not profitable to harvest at age 28 may be helpful under some circumstances.

It is important to recognise that what may currently be unprofitable to harvest at age 28 could change depending on a number of factors including improved efficiencies, development of local processing, improved infrastructure, and research and development. However, developing significant areas of land under long rotation forestry that are not suitable for harvesting runs a risk that it could foreclose on some future industry wood processing development by displacing production forestry that could have fed such investment with non-production forestry that does not. We support a long rotation category for radiata under specific circumstances, but it should not be incentivised where production radiata potential reasonably exists. It is likely that each case would need to be determined on its own merits. As noted, it could also be appropriate to allow exotic forestry where the economic benefit of carbon allows a limited extraction regime with closed canopy cover that would not otherwise be economic, particularly if obligations to harvest were a condition of inclusion.

Question 21: What do you think the impacts of introducing a long rotation category as proposed would be?

As noted above, defining “remote” and “marginal” could be problematic as this may change for any given forest depending on how new processing, development costs or other infrastructure changes or develops. Flexible definitions should be adopted.

If a long-rotation category is established it should not incentivize radiata over other exotic options, for example, Redwoods. This is another argument for allowing the stock change approach. Whilst it does require a greater level of administration, stock change accounting should be considered as a voluntary alternate option particularly when the level of uptake in this category is likely to be relatively low.

Question 22: Do you think forests in this category are likely to be harvested? Are measures needed to prevent forests in a long rotation category being left permanently and never harvested, or to mitigate potential adverse effects of these forests being left permanently?

There will be a mix of harvested and unharvested forests within any long-lived category if it is created. Some exotic species will certainly be intended for harvest. Operating radiata or other short-lived species on a longer time frame however is the exception to the rule and there is reasonable probability they will not be harvested, or if they are the logs will not be suitable for domestic processing because of the size. If they are not intended to be harvested, then every effort should be made to ensure these forests will not have a negative impact on potential wood supply. This would act against the objectives of the ITP.

Question 24: Do you think a long rotation category aligns with the proposed changes to the permanent activity and supports the Governments wider forestry objectives?

Creating a long rotation category recognizes that removing exotics from the permanent category is not without its own issues and does create a problem for forests that have limited options outside carbon sequestration or with normal rotational cycles that easily meet the ETS definition of permanent. If they cannot be catered for within the permanent forest category, they should be catered for separately with appropriate caveats.

Question 25: Are there alternative options to a long-rotation forest category that could be more effective at addressing the concerns raised by stakeholders about remote and marginal land and that align with the Government's forestry objectives?

As noted, one alternative to a long rotation forest category is the stock change approach. As with the proposed long rotation forestry, there should be a maximum age limit appropriate to the species in question and an associated average age with the option of approach left with the participant. Redwoods for example are currently included in a category with cypresses and other pines and the averaging age (22) is not appropriate to that species.

Chapter 11- Biodiverse permanent indigenous forests

Incentivising indigenous vegetation

Question 26: Do you have any further feedback on how the Government can reduce barriers and incentivise permanent indigenous afforestation to ensure we deliver long-term resilient, biodiverse forests?

The FOA supports increased effort to achieve greater levels of indigenous planting. Current levels are well short of what is required and will remain that way without intervention. Some of the proposals in the document such as improving the economics of establishing native forests will be a step in the right direction. We also strongly support increased provision of advice and sharing of best practice and believe this should be undertaken in a partnership approach involving government alongside a number of private sector players. It is also important to maintain a focus on what potential industry and, associated social and economic, benefits are going to be created from the indigenous planting. This focus is currently underdone.

The CCC recommendation that, in general, permanent forests established as carbon sinks should be indigenous species and support biodiversity gains puts the spotlight on the definition of permanent. However, it also fails, once again, to recognize that biodiversity gains can be achieved from any sort of afforestation, including exotics. Consistent with this and with the emphasis on biodiversity in the criteria alongside economic and emissions reduction goals we consider that a system to provide a minimum level of biodiversity credits should be established. Such an independent line of recognition would be an easily controlled alternative to, for example, artificially manipulating the ETS or NZU values. Biodiversity credits would also help potentially with the option of establishing, and then

transitioning, *Pinus radiata* to indigenous and also assist where production forest options are not viable.

Note on making this submission public

We consent to the submission being made public.

David Rhodes
Chief Executive
Forest Owners Association