

# Submission

on

Resetting the Emissions Trading Scheme  
annual charge for post-1989 forestry  
participants

Submission to:

Te Uru Rākau – New Zealand Forest Service

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## Submitter

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 Aotearoa New Zealand's plantation forests and over 70% of the annual harvest.

The New Zealand Farm Forestry Association (FFA) represents people who own small-scale private forests and/or are interested in the many values of trees. Currently we have over 1200 members representing a good cross-section of the approximately 15,000 entities owning private forests in Aotearoa New Zealand. Small forest owners represent more than 80% of the participants in the New Zealand Emissions Trading Scheme.

In 2023, the forest growing sector was worth \$6.6 billion in export value and has a 12% share of rural land use. It contributes 1.6% of New Zealand's GDP and employs between 35,000 and 40,000 people in wood production, processing, and the commercial sector.

## Background

The FOA and FFA appreciate the opportunity to provide feedback on the discussion document currently being consulted on by Te Uru Rākau – New Zealand Forest Service (TUR) on resetting the Emissions Trading Scheme annual charge for post-1989 forestry participants. TUR are seeking feedback on two proposals:

- Reduction of the annual charge for post-1989 forestry ETS participants; and
- Amendment of the Climate Change (Forestry) Regulations 2022 (Forestry Regulations) for the field measurement approach during the 2023-25 reporting period.

The decisions taken on the New Zealand Emissions Trading Scheme (ETS) significantly, and directly, impact the forestry sector's ability to play a role in mitigating the impacts of climate change. The carbon sequestered by trees planted now will be required in later emissions budgets to deliver the levels of carbon sequestration required to avoid costly offshore penalties. FOA and FFA have

recently submitted to the Climate Change Commission (CCC)<sup>1</sup> that the planting rates desired by the government are not ambitious enough and that Aotearoa should strive for carbon emissions beyond zero and aim for net negative.

## Reduction of the annual charge for post 1989 ETS participants

The FOA and FFA are not opposed to cost recovery that is applied on an equitable and reasonable basis. By way of example FOA was an early supporter and adopter of the GIA framework for cost-sharing biosecurity readiness and response. However, we submit that the initial cost recovery proposal developed by the government did not meet the tests imposed of equity, transparency, justifiability or efficiency. When the government announced that a \$30.25 per hectare charge was to be imposed on all post 1989 ETS forestry participants the sector responded by questioning the scale of the charge, the justification for the split of the cost being imposed and how the costs were derived.

We appreciate the government's proposed steps to reduce the charge to \$14.90 per hectare, this is a significant step in the right direction. However, the FOA and FFA submit that many of the concerns set out in our original submissions to the Tranche 2 ETS Cost Recovery proposal<sup>2</sup> remain.

We agree with the statement on page 22 of the discussion document which states "*any charge needs to be put into the context of wider afforestation drivers such as the price of carbon and regulatory uncertainty*". We agree that the ETS cost recovery proposal cannot be considered in isolation. The compounding effect of the cost of compliance, the geopolitical constraints affecting log prices, and the proposed restrictions on afforestation by Land Use Capability are all driving down investor confidence and exacerbating a reduced rate of afforestation. We note that the government will be bringing in a system of legal harvest assurance in the near future and have signalled the system will require an element of cost recovery. When coupled with all of these factors, a per hectare charge of \$14.90 for post-89 ETS participants will significantly constrain afforestation and the sector's ability to meet 2050 planting targets.

We primarily want to see the mechanism for cost recovery re-examined, and to work with the Government to find a way to cost recover from forestry participants when they are transacting units. Asking for an ongoing financial contribution from particularly small-scale participants will discourage participation in the market and contribute to decreased planting rates over time.

Although the Regulations Review Committee did not uphold FOA's complaint to the House about the initial cost recovery regulations, they did ask it to be considered that:

- There is the potential of these regulations to impact on Māori forest owners particularly because of their proportion of native forest ownership; and

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<sup>1</sup> <https://www.nzfoa.org.nz/resources/file-libraries-resources/submissions/2024/890-climate-change-commission-2050-target/file>

<sup>2</sup> <https://www.nzfoa.org.nz/resources/file-libraries-resources/submissions/2023/876-nzofa-proposed-updates-to-ets-cost-recovery-tranche-2/file>

- That the public benefit of forests may have been understated in the initial setting of this cost recovery model.

We wish to continue to work with the Crown to address these two concerns, as the changes proposed to the annual rate do not currently reflect this advice from the committee.

### Transaction fees for emitters

The FOA and FFA reiterate our argument in previous submissions on cost recovery, that ETS emitters are also receiving benefits to their business from the system and therefore should also contribute to the costs of the system. The ETS framework has been established to allow an accurate, and internationally defensible, exchange of offset units that helps emitters achieve least cost abatement. It is as much in their interests for the rigor of the system to exist as it is for the providers of such units.

Whilst it is clear that private forest growers who participate in the ETS benefit from earning carbon credits, acknowledgement of the land set aside land for growing trees, invested money and effort in the establishment and maintenance of the forest, fees involved in joining the ETS and, in most cases, will end up paying tax on the sale of credits is not considered. Emitters simply have to purchase credits and, in most cases, transfer this cost on to consumers.

We submit that in TURs consideration of equity for the cost recovery proposal, that forestry ETS participants should not be considered in isolation from other users of the ETS. The significant burden and scale of the costs proposed for forestry participants explicitly, is not equitable. ETS emitters whose businesses also receive benefits from use of the system, should be required to shoulder a proportion of the financial burden alongside forestry participants.

We propose a transaction fee for emitters using the ETS to share the burden of cost recovery across **ALL** participants. Information supplied during the webinar hosted by TUR on the 7<sup>th</sup> of October 2024 indicated charging emitters a fee would require a legislation change. We submit that if it is possible to make the changes to make it mandatory to charge ETS participants annual fees, then it is also possible to amend the legislation to charge emitters. We note the government's concerns that the rate of emissions reductions has not occurred at the level hoped for; a participation fee for emitters proportional to the level of carbon emissions will further incentivize emissions reduction, ensure that afforestation is not undermined and spread the burden of costs across many more participants.

We also reiterate the call from the Regulations Review Committee that the public benefits returned by forests, and particularly native forests, should be better recognized in how the overall ETS cost recovery system is designed. We are living through a dual climate and biodiversity crisis, and while the Climate Change Response Act apparently allows for some reduction of climate action to administer the schemes to address it, a 68% contribution from the sector does not sufficiently recognise our public good contribution. Sixty six percent of our native forests have been lost since the arrival of humans in Aotearoa New Zealand, and New Zealand is projected to be over budget for our climate emissions from 2031 to 2035 by 17 million tons. This is a pay now or pay much more later scenario – by charging the forestry sector more now and making the financial hurdle higher for forestry participation, the government is undermining climate and biodiversity action that could save the country millions of dollars in the following decades.

We note that foresters, regulators and ENGOs are still struggling many months later to find solutions to manage highly erodible land in Tairāwhiti following the damage caused by Cyclones Hale and

Gabrielle. Retirement of the most erodible land, rehabilitation of slip sites and greater buffering of waterways is needed – the problem is there is no funding available to be able to carry out the pilot studies needed to design the best methodologies to achieve this. If significant per hectare charges are incorporated into the ETS then the tools available, i.e. tree planting of any species via the funding mechanism which facilitates planting, the ETS, will be diminished. This may render some projects below the line.

It was our chief disappointment with the Minister’s independent review that there was no benchmarking against comparable cost recovery schemes for the primary industries that included an evaluation of public good.

### **Cost recovery should cease at the point when no NZUs are generated**

In keeping with our earlier statement on aligning cost recovery to forestry cash flow, we submit that cost recovery fees should not be charged once an area of forest within the ETS is no longer earning NZUs. Cost recovery should cease at this point, more specifically, after 16 years under averaging. To charge further for a forest that is not generating and income via NZUs is not reasonable nor is it economically viable. It is anticipated that at this point there will be minimal costs, if any, incurred by TUR. Would-be forestry participants will be deterred from participation in the ETS by the period of time under averaging that incurs significant annual fees without generating an income to pay the fees.

### **Transparency**

If services are to be cost recovered from forestry participants, particularly for IT systems, we would ask the following:

- Ensuring that prioritising and scoping industry needs in partnership with potential system users e.g. industry groups are involved from the outset.
- Looking at possibilities around outsourced models, which have worked well and reduced costs in a couple of other primary industry examples.
- Ensuring that if there is going to be a user pays model that the sector is getting something it wants to pay for – for example. many of our members do not want a Rolls Royce system, they want minimum viable product to keep costs down but still get done what they need to.
- Benchmarking against the costs/benefits versus manual systems, in some cases government is building bespoke databases and user engagement systems where a spreadsheet, properly kitted out and utilised, would suffice. Obviously the ETS for forestry needs an IT solution, but the point about cost/benefit for different functionalities holds.

We acknowledge the creation of the Minister’s reference group for cost recovery for the registry, and look forward to engaging on these matters fully through that process.

We acknowledge MPI’s work to deliver the Tupuake system, but need to reiterate that we have many members who are still struggling to effectively manage their ETS participation through this system. We respectfully request online reporting of the status of the system and the worklog, so that the sector has a better understanding on a quarterly basis for the volume of transactions and the level of service that we are paying for.

### **Apportionment of cost recovery**

We disagree with the proposed apportionment of costs and request that the following cost recovery elements be reviewed:

- Compliance activities do not benefit growers but in the first instance they benefit the Crown and market participants. Compliance is essential for a robust ETS scheme which in turn is essential for the Crown to demonstrate our progress towards meeting Aotearoa New Zealand's climate change commitments. It is also benefitting traders in NZUs as a robust ETS is a prerequisite for a working market.
- IT maintenance and improvement costs are shown to be borne entirely by forestry participants. This is inappropriate as some of these costs will be related to service elements which are the Crown's responsibility. Examples are
  - Improvements/maintenance to make Tupu Ake more efficient – those will predominantly benefit the Crown
  - Improvements/maintenance to meet changing regulations – those are driven by actions of the Crown
  - Improvements/maintenance to support better compliance

### Small Growers

Small growers often struggle to obtain meaningful support, and we question the efficiency and costs related to the Help Desk service. Beyond a review of those costs we ask that the fundamental approach is changed to reflect industry best practice, with first line support able to resolve the majority of issues rather than just being a non-value adding call taking and recording service.

### Amending the Climate Change (Forestry) Regulations 2022 for the field measurement approach

We support the proposed amendments to the Forestry Regulations to clarify that for any emissions return that covers all or part of the shorter 2023-25 reporting period, all FMA participants will be able to calculate carbon stock using:

- Default carbon tables (in the Forestry Regulations) if they do not have FMA participant specific tables; or
- Existing participant specific tables if they are available to the participant.

This is a sensible and pragmatic approach that we strongly support. It incentivises efficiency and can deliver cost savings to forestry sector participants.

### Recommendations

In summary, FOA and FFA appreciate the reduction in the per hectare ETS charge and the clarification in the Climate Change (Forestry) regulations for the emissions return period between 2023-25, however we recommend that the following additional changes are made:

1. Review apportionment of costs.
2. Recognise the disproportionate impact on Māori foresters of cost recovery and native forests through more public finance of native forests in the scheme.

3. Amend the legislation to bring in a transaction fee for emitters participating in the ETS to spread the costs of the system over a greater number of participants. The transaction fee should be proportional to the level of emissions generated.
4. Remove the per hectare charge for the period of time that forestry participants are not earning NZU credits.
5. Reduce the per hectare charge further below \$14.90 to a manageable level for forestry participants.
6. We support the proposed changes to the Forestry Regulations for the FMA during the current 2023-25 reporting period. We recommend that these changes are progressed.

### Summary and closure

Additional costs imposed on the forestry sector, such as the ETS cost recovery charge (even if reduced to \$14.90 per hectare) are having a compounding effect such that the cost of compliance risks the continued viability of forestry in some regions of Aotearoa New Zealand. When coupled with other cost recovery initiatives, targeted rates, overly prescriptive regional compliance requirements and levies; the ETS cost recovery proposal, even if reduced, is driving down investor confidence and risking the sector's ability to meet Aotearoa New Zealand's climate change targets. FOA and FFA are not opposed to reasonable cost recovery however it must be at rate which is both equitable across the board and manageable.

We do not object to our submission being made public. We welcome the opportunity for further discussion and engagement.



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