

Submission

Proposed changes to the New Zealand Emissions Trading Scheme

Submission to:

NZ ETS Review

Te Uru Rākau – New Zealand Forest Service Discussion Paper No: 2025/01

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Submitters

New Zealand Farm Forestry Association Inc

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 FFA have over 1200 members representing a good cross-section of the approximately 15,000 entities owning private forests in New Zealand. **Small forest owners (< 1000 ha) represent more than 90% of the participants in the New Zealand Emissions Trading Scheme (ETS).**

New Zealand Forest Owners Association

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 70% of the annual harvest.

The value of all forestry exports to 31 March 2024 was \$5.87billion¹. Forestry 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.

Executive Summary

We thank the Ministry for Primary Industries (MPI) for the opportunity to provide feedback on the proposed changes to the ETS. In general, we welcome review of the ETS default tables and support most of what is proposed.

We believe that the new default tables will make the growing of alternative species more attractive and are long overdue.

We have some concerns with respect to the operational details involved with the transition to the new default tables and we oppose the proposed changes for the treatment of small areas. We suggest that the proposed transition measures be referred to the ETS Technical Advisory Group for sign-off to avoid perverse unintended consequences.

1. ¹ https://www.nzfoa.org.nz/images/Facts_and_Figures_2023-24_-_Web_version.pdf

General comments

The regulatory impact statement is silent on the effect of issuing more credits for the same afforested area in future. The proposed changes will likely affect the Climate Change Commission's (CCC's) recommendations and possibly the price of NZUs and government policy. We believe that the proposed rates of sequestration will also make it much easier for New Zealand to meet its international climate change commitments.

The consultation document argues that it needs to discount the calculated sequestered carbon by between 5%-12% in order to maintain a conservative approach. We note that tree productivity continues to increase, and the default tables are therefore by design conservative. In 10 years the tables will certainly be behind the actual productivity again. Against this background we suggest that to apply a 5% discount is questionable and cannot see any justification for a 12% discount for radiata pine.

We are concerned about the treatment of residual carbon. It is conceivable that a forest owner has obtained NZU's until harvest using the old default tables and will now have a higher liability for the residual carbon under the new default tables. This could have significant cost implications if such an area was going to be deforested. It would have been helpful to have some examples showing how the actual carbon storage will to be calculated during the transitional period. When a forest was planted/registered in the ETS, the participant did so on the assumption that these tables would apply. To provide more certainty to growers, we would prefer to have some grandfathering clause, where if a forest was harvested prior to the effective date of the new default tables, then the old default tables for residual carbon will apply until such time that all residual carbon has decayed. This should apply irrespective of whether the area has been replanted or deforested.

Concerns around FMA changes

The new default tables make it unattractive for most small growers to use the field measurement approach (FMA). The FMA is complex, expensive and time consuming to undertake, and with the updated tables there is not enough value for most small growers (nor for Te Uru Rakau) to continue with this. If the FMA remains mandatory for growers with at least 100 hectares of forest, then we predict that many will simply partition their forest into several areas each of which is below the 100 ha threshold.

This is not a desirable outcome and we suggest that the FMA should become voluntary for medium sized growers. We respect the importance of the integrity of the ETS measurement, but want to avoid foresters restructuring their returns unnecessarily, so we suggest a range from 100 ha to 500 ha. There are economies of scale with the FMA, so it is more efficient to continue using it in larger forests, but we cannot see any benefits using it in smaller forests just above the threshold. It would be very useful to have some feedback on this soon, as otherwise many growers will take steps to avoid the FMA well prior to the end of the year.

We suggest that a high priority should be allocated to reviewing the additional carbon stored in pre-1990 forests in comparison to the historic data used when the ETS was introduced. Irrespective of whether a forest was planted before or after 1990, it will today sequester much more carbon than in the past, as productivity has increased significantly. When the ETS

was introduced, owners of pre-90s forest were allocated generally 60 NZUs per hectare. We propose that owners of such forests should benefit from the additional carbon identified in such a review.

Part 1: Overview of proposals: Question 1 – Question 2

1. We agree with the assessment framework.
2. We generally agree with the approach to updating the ETS tables, but question whether, for exotic softwoods and redwoods the most recent PSP data has been used. The application of the new tables is not entirely clear and we suggest to provide examples of how to deal with transitional situations, for example, how the residual carbon is calculated where the forest was grown using current tables.
3. We would prefer a separate forest type for eucalypts growing on a long rotation regime. Otherwise, we support the proposed package.
4. We will comment in more detail on the technical amendments later in our submission.

Part 2: Exotic softwoods Question 5- Question 9

5. While the proposed tables are much better at reflecting the actual growth observed, the results from recent PSP measurements undertaken by Vaughn Kearns on behalf of TUR/MPI seem to have not been used. These measurements indicate better growth rates than what is reflected in the proposed tables, and we suggest that the new measurements be taken into account.
6. We agree with using a combination of cypress species as a basis for the new tables.
7. Our preferred option is to have a North Island and South Island table.
8. We suggest that the new tables will make the planting of species such as cypresses much more attractive and result in a significant increase of the area planted. FFA anticipate that much of this will come from landowners preferring to replant part of their estate in such species.
9. No further feedback.

Part 3: Redwoods Questions 10 – Question 17

10. We support a separate table for redwoods because of their very different growth characteristics.
11. We support using 45 years as a clearing age for averaging accounting.
12. Harvest age is determined by many factors other than tree species such as distance to port or harvesting costs, and we cannot comment on this.
13. We have no comment on the proposed clear-fell penalty value.
14. We question whether the latest measurements have been used for the calculation of the default tables. We are aware that a series of new plot measurements is currently being

undertaken on behalf of TUR, and suggest that this data should flow into the updated default tables.

15. Our preferred option is to have a North Island and Souths Island table.
16. We suggest that the new tables will make the planting of species such as redwoods much more attractive and result in a significant increase of the area planted. We anticipate that much of this will come from landowners preferring to replant part of their estate in such species.
17. No further feedback.

Part 4: Exotic hardwoods – Question 18- Question 22

18. We support extending the tables but cannot comment on specific growth rates.
19. We have no comment on the process around calculating the default tables.
20. Our preferred option is to have a North Island and South Island table.
21. Unless the harvest age used for averaging accounting is changed, then we see little impact on growers of eucalypts.
22. There are many growers of high value eucalypts such as durable eucalypts (for example, eucalyptus globoidea or eucalyptus bosistoana). These trees are grown generally to a harvest age of between 27 - 40 years. We suggest that it is important to create an opportunity for those growers to apply a higher clear-fell age under averaging accounting.

Part 5: Pinus radiata Questions 23 -Question 27

23. We support updating the default tables.
24. We disagree with discounting the measured carbon by 12 % in comparison to the 5% discount being used with other forest types. There is a wealth of data available both from measured production forest and research plots, and it is not comprehensible why a higher discount rate is used in the interests of being “conservative”, when the risk of overestimating the carbon sequestration for radiata pine is smaller than with other species.
25. For continuity reasons we prefer Option 1: update the 9 regional tables.
26. We agree in with the impacts described.
27. We would also support investigating a longer rotation length for pine, given the variation in management regimes.

Part 6: Default tables and potential future changes – Questions 28-33

28. While in principle we agree with the proposed transitional provisions, we suggest that the ETS Technical Advisory Group should be involved in the sign-off of the details

29. Most Douglas fir is grown in the South Island in forests exceeding 100 hectares in size, so these growers will derive no benefit from updating the default tables. While we do see no urgency to review the Douglas fir tables now, it will become important though if/when we are able to plant sterile seedlings, as we expect that this would lead to an increase in the area planted in this species.
30. We support reviewing the averaging accounting settings for exotic hardwoods as a priority. Our future lies in producing high value timber rather than a low value commodity product, which implies growing trees on a longer rotation. The current averaging settings act as a disincentive for a longer rotation regime and should be reviewed as a priority.
31. We have no view on the specific design factors.
32. We do not believe that research into the residual carbon tables for coppicing species is a priority.
33. We suggest that updating the default tables for native forests should be seen as a priority.

Part 7: Technical regulatory amendments – Question 34 – Question 39

34. We agree with the proposed treatment, but would like to ensure, that the criterion applied is the age of the trees, and not as mentioned on page 50, whether they have earned any credits. The latter situation may occur when a participant has completed a provisional return and may have earned some credits.
35. We agree to changing the deadline for the input calculator and prefer Option 1, i.e. 1 hour before the deadline for emission returns.
36. We support the proposed process for the transmission of interest.
37. From personal experience and the experience of many of our members, it is agreed that the previous process was not straight-forward, although it was well documented and is now reasonably well understood, as it has been in place for around 3 years or so. From the details published in the consultation document, it is not clear what you are proposing. We suggest that the impact assessment is deficient, and we are concerned that:
 - a. The new process may not deliver any significant benefits.
 - b. The impact statement is unclear on the impact on participants who used the current process for their 2022 mandatory return.
 - c. It creates uncertainty. A participant should be able to rely on the results of a completed MER. The treatment of small areas can have a large effect on a small forest. By changing the process for small areas, there could be a major change in carbon stocks, penalising such small forest owners.
 - d. It creates a lot of extra work. Most small growers use consultants to complete ETS returns. Consultants will now have the expertise to follow the current rules for small areas, so retaining these rules comes at no extra costs. However, changing these

rules will require extra time for consultants, and especially where previous small area rules were applied in the past, this would need to be “undone” and the new rules will need to be applied. Including the associated documentation and record keeping requirements I expect the additional time to be around 1 – 2 hours per small area. Where small growers are doing the work themselves, the situation will be similar, except that they will be slower dealing with the changes.

At this point, we disagree with the proposed changes. If Government believes that there is sufficient merit to proceed then we suggest that you would need to:

1. provide a much better description of what is proposed.
2. obtain user feedback from both, professional advisers and individual participants.
3. document how you intend to deal with the transitional issues that will arise.

38. We have no comment on the proposed definition of “area” in the technical regulations.

Closure

We trust these comments provide useful feedback. Should you need further information, the New Zealand Farm Forestry Association and New Zealand Forest Owners Association is willing to help in any further discussion on the above topics. We do not object to the submission being made public.



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