

Submission

On

Review of forestry in the Emissions Trading Scheme cost recovery settings

Submission to:
Ministry for Primary Industries

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

In 2024, the forest growing sector was worth \$5.75 billion in export value and it is anticipated that total export returns for forest products will reach \$7.33 billion by 2027¹. The sector has a 12% share of rural land use and a high proportion of Māori landowners (48%). The sector contributes 1.6% of New Zealand's GDP and employs approximately 42,000 people in wood production, processing, and the wider commercial sector. Commercial forests sequester approximately half of New Zealand's carbon dioxide emissions.

General comments

Thank you for the opportunity to comment on the discussion document *"Review of Forestry in the Emissions Trading Scheme – Cost Recovery Settings."* We welcome the review of cost recovery settings and appreciate that, in our view, recent changes are making improvements in how cost recovery operates for the ETS and clarifying its operation to participants. The reduction in the annual charge is a step in the right direction.

We welcome the government's engagement with the forestry sector on this important policy area and appreciate the efforts made to ensure the ETS remains transparent, justifiable, efficient and equitable. We acknowledge the Ministry's engagement to date and encourage a continued collaborative approach as ETS forestry settings evolve. A stable, predictable, and equitable ETS requires:

- Early dialogue with forest owners, Māori landowners, and the wider supply chain.
- Transparent modelling and clear evidence to support policy changes.
- Co-design of regulatory tools that work in practice as well as in theory.
- Recognition of the diverse motivations, scales, and land types represented within the forestry sector.

A durable ETS depends on policy settings that are fair, workable, and aligned with both emissions reduction and wider environmental outcomes. Ongoing partnership will remain essential to achieving these shared goals.

Consultation questions and answers

Part one – Club goods and the annual charge (chapters 4 – 5)

¹ https://www.nzfoa.org.nz/images/FOA_Facts_and_Figures_2023-2024_-_Web_file.pdf

1. What are your views on the proposed services that make up the annual charge?

FOA members have questioned the inclusion of some elements in the annual charge, and we believe they should have further examination. We have no issues with the inclusion of system enablers, compliance, and to an extent education and customer enquiries.

We do have questions about the efficiencies in IT maintenance and improvements, and whether these could be more effectively managed down and made more cost efficient in future through engagement with private sector. However, the system that the ETS for forestry operate within is technically a club good and if participants are going to be charged for the IT system the most appropriate place for that is in the annual charge.

We encourage the government to continue to look for IT improvements in partnership with the private sector. We also support the investigation of ways to add certainty to determinations of eligibility and other spatial checking processes through the development of agreed and improved spatial data resources. We believe this may also bring down the costs of related processes like reviews of decision.

We have had members question the proportion of club good in education and customer enquiries. While these have club good components, if either of these services is overused or over-delivered, then current participants are subsidising what could be a private good (overuse of customer enquiries by an individual participant) or a public good (over delivery of education by the Crown or delivery to nonparticipants). We would recommend continuing to work with the sector and participants on agreed amounts of service delivery for these categories that see them deliver club good benefit.

Reviews of decision are largely a private good and should be treated as such rather than cross subsidised by the wider participant group. We agree that access to justice is an important component of the scheme, but if the cost of service for a review of decision would be prohibitive if only charged to the participant, then access to justice surely becomes a public good rather than a club good, since the government is obligated to provide it. Therefore, we recommend this component be re-evaluated as a mixed private/public good.

Reviews of decision and customer enquiries are also areas of participation that generate a high level of cost and can take a long time to resolve – we want to continue to engage with the government on how to make these services and processes efficient and effective to bring down the costs for participants who need to access these services, but we do not believe that all participants should subsidise the delivery of them when they do not all use these services.

2. Do you agree with the assessment of components as either a club good, or a service that is best recovered through the annual charge? Why or why not?

See above, we believe that there are some components that merit re-examination, and others that if overused or administered become a private or public good.

3. Are there any services that should be excluded from or included in the annual charge? Please provide reasons with your answer.

We broadly agree with the government's reasoning that club good services or components should be included in the annual charge. However, as raised above, if some services or components are over-utilised or delivered then they can become private or public good. We are committed to continuing to engage with the Government on the balance of service delivery, and any areas that may need private industry to step in and support, in order to maintain a "club good" level of service. Our members have indicated that support for club good services is acceptable, but cross-subsidisation of others private good is not.

4. Do you agree with the proposal to reduce the per hectare annual charge? Why or why not?

Yes, the reduction in the annual charge is fair and will reduce the burden on foresters who are already experiencing high inflationary pressures, with a reduced carbon price.

5. Do you agree with the proposal to continue charging on a per hectare basis? If not, what alternative mechanism for calculating the annual charge should we consider?

We have had strong feedback from our members that a charge on a per hectare basis is not the most appropriate cost driver to determine the amount a participant should pay in cost recovery. There has not been a correlation demonstrated between the area registered and the overhead burden for administering forestry in the ETS. While applying a fixed fee, depending on where that fee is set, may then shift the burden onto smaller participants, we agree with our members who have proposed that alternative methodologies should be investigated that may include:

- A fixed fee for participation;
- A fee based on activity e.g. units traded, so that the costs are claimed when participants have income from ETS participation;
- A tiered approach based on size – this would recognise that there is not a linear correlation with the size and costs of participation, but rather aim to reduce how much participants are cross subsidising each other.

These proposals are not mutually exclusive, but the costs of administering them would need to be assessed to ensure there was not a perverse increase in administration costs for implementing cost recovery settings.

6. Would you prefer one annual charge rate for the next three years (status quo) or an annual charge rate that varies by year (option two)? Please provide reasons for your answer.

We agree with the government's analysis that a rate that varies by year would add complexity and uncertainty for participants, and prefer to maintain status quo.

7. Do you agree with the approach to return the surplus back to the sector through the annual charge? If not, what is your preferred method for how the surplus is returned?

Yes, we agree that returning the surplus via the annual charge is sensible, but depending on the amount of surplus or deficit believe that this setting may need revisiting in future.

8. What is your preferred option for how the annual charge should apply to "forests that no longer report changes in carbon stock"? No change (status quo), or a reduced annual charge for 10 years, followed by no annual charge (option two), or something different? Please provide reasons for your answer.

We do not agree with the current proposed step down, and would instead recommend that participants who no longer receive NZUs should not pay the annual charge. These participants should, once they stop receiving units, only pay service fees as a private good. We disagree that option three is a non-feasible option, and believe there should be a fuller assessment of what services participants that no longer report changes in carbon stock would be using. Based on table 11, we believe that the level of participants who will meet this category will be relatively small, and contrary to the government's assertion that participants with changes in carbon stock will end up subsidising their participation, we believe there is a greater risk that participants with low or infrequent income subsidise participants with forests with changes in carbon stock.

If participants with no reported changes in carbon stock do have to continue to pay a charge, we agree that option two would be the preferred methodology, so that the charge is reduced over time. We in principle disagree with the imposition of charges in perpetuity – not only does this discourage participation for Māori who have a cultural need to revisit decisions for their iwi/hapu/whanau generationally, but it also means forest valuations can lose substantive value due to the NPV of in perpetuity charges.

As an overall change in settings, we request that no charges are imposed “in perpetuity” but that they have a review date and/or clause that allows them to be a discrete forest expense.

9. What timeframe would you consider to be appropriate for applying a reduced annual charge to “forests that no longer report changes in carbon stock” under option two?

We understand the logic of 10 years being two MERPs, but would like to revisit this as more information comes to light as to the costs/benefits outlined above for this group of participants – it may be that with further analysis one MERP is a more appropriate step-down period, for instance. Cynically this also aligns somewhat with the depreciation period for the IT system – the concern would be that the IT system is substantially refreshed before the end of the step-down, necessitating ongoing costs for the infrastructure of the ETS. This highlights the need to find long term efficiencies in this component of ETS operations.

10. What are your views on the assessment of benefit received by participants with “forests that no longer report changes in carbon stock” from annual charge components, outlined in table 11?

As mentioned above, our chief concern is that the services outlined in table 11 that participants that no longer report changes in carbon stock would be subsidising participants who have far more interactions with the system. We also believe table 11 highlights the importance of bringing down the costs of IT management and upkeep, since that is the majority of the costs that would be recovered from this group of participants even through the proposed step down.

11. Is there anything you would like us to consider for how the annual charge should apply to “forests that no longer report changes in carbon stock”?

As outlined above, there are two components that we wish for the government to consider when implementing these proposals:

- What is the proportion of participants who are utilising services – if the forests that no longer report changes in carbon stock are an overall small percentage of participants, then the cost/benefit of implementing the step down approach may be relatively small compared to

the option 3 of them paying no annual charge. We need more data to determine which is actually more sensible and who would cross subsidise who.

- Timing matters – The way the step down could play out for different participants with different forest types needs to be better understood.

12. What are your views on introducing part charges for new participants, to be applied in the same way part charges are applied to existing participants who add forest land into the ETS?

We believe that part year charges to new participants should align with the charges to existing participants who add land to the registry. As proposed, existing participants would subsidise new participants until 1 July.

13. What are your views on the options we have identified as “non-feasible”?

As mentioned above, our members are interested in further investigation of options that would charge at the time when participants are receiving income or the potential for a tiered approach. The non-feasible options listed are not aligned to the requirements from our members, which are largely around the charges aligning with:

- When is a participant using the system or deriving value from it?
- When is a participant receiving income?
- How do we ensure fair cost sharing without a high level of cross-subsidisation, accepting that some cross-subsidisation is likely to occur.

14. Are there any other approaches to the annual charge, who pays, and how the cost is distributed across participants that you think we should consider? Part two – Private goods and service fees (chapters 6 – 7)

Please see above – our members strongly believe that, despite the complexities listed in the consultation document, the NZU option should have further investigation.

15. What is your preferred option for how the hourly rate is applied for the next three years? One hourly rate applied for three years (option one) or an hourly rate that increases each year (option two), or something different? Please provide reasons for your answer.

We prefer one rate across three years for certainty and reduction of complexity.

16. What other feedback do you have on the proposed hourly rate?

We appreciate the work done to date on reducing the hourly rate.

17. What are your views on the proposed changes to the hours that underpin existing service fees?

We support the changes and appreciate this level of transparency in charging. We are happy to support the government to continue to find ways to reduce the time needed to complete these services.

18. Are there any existing service fee services that should be recovered through the annual charge instead? If so, which ones and why? Part three – Proposals for new service fees (chapter 8)

Not to our knowledge.

19. Do you agree with the cost recovery assessment of proposed fees for assessments and amendments of emissions returns? Why or why not?

We agree with how the assessment has been laid out in this document, however, as outlined in our support for options below, we think a missing element in this description is what happens when the government has made a judgement of non-compliance in error.

20. What is your preferred option for how assessments and amendment service costs are recovered? Through the annual charge (status quo), or through two separate service fees (options two and three), or something different? Please provide reasons for your answer.

We agree with option two and three – if a participant makes an incorrect return or fails to submit a return then the onus and the cost should be on them to remedy their mistake. If, however, through working through the return the government finds that they have incorrectly identified a missed return or a mistake, then we support the charge going back onto the government rather than being charged to the participant.

21. Do you agree with the cost recovery assessment of proposed fees for removing permanent forest carbon accounting areas? Why or why not?

Yes, we agree with the assessment that the lack of fee is likely a historical carry over from permanent forests previously being managed under a different scheme and we support the alignment of this fee with the principles of cost recovery.

22. What is your preferred option for recovering the costs associated with removing permanent forest carbon accounting areas? Through the annual charge (status quo) or through separate service fees for whole or part removals (option two), or something different? Please provide reasons for your answer.

Our preferred option is to remove this from the annual charge and introduce a separate service fee (option two). This aligns with the removal of permanent forest carbon accounting areas largely deriving private benefit, not club good.

23. Do you agree with the cost recovery assessment of the proposed service fee for notification of post-1989 forest land being complete? Why or why not?

We agree with the assessment in part but believe that offsetting on Māori land should be treated differently due to the different set of circumstances that these landholders often have for offsetting, and their difficulties in obtaining finance for land use transition. In these circumstances we believe the the government has a responsibility as a treaty partner to cover the charge from a public good perspective, rather than other participants subsidising the charge. Overall, this is likely to represent a small proportion of participants, but the principal is an important one.

24. What is your preferred option for how the costs associated with notification of post-1989 forest land being complete are recovered? Through the annual charge (status quo), through a service fee (option two) or something different? Please provide reasons for your answer.

As mentioned above, we support a service fee but would like the government to look at not applying that fee to Māori land, in the same way that the LUC registration restrictions do not apply to Māori land.

25. Do you agree with the cost recovery assessment of the proposed service fee for removing land status notices? Why or why not?

We agree with the assessment.

26. What is your preferred option for how the service of removing land status notices is recovered? Through the annual charge (status quo), through a service fee (option two) or something different? Please provide reasons for your answer.

We agree with administering this through a service fee, given it is largely a private benefit to remove land status notices at pace from a title.

27. Do you agree with the cost recovery assessment of proposed service fees for LUC Class 6 ballot applications? Why or why not?

We wish to record strong concern regarding the continued use of Land Use Capability (LUC) criteria as a basis for regulatory differentiation within the ETS.

LUC was never designed to serve as a proxy for land-use suitability in climate policy. It is a coarse planning tool, and applying it within the ETS:

- Oversimplifies the complexity of land, soil, climate, and commercial capability.
- Fails to reflect the actual environmental outcomes associated with afforestation in different regions.
- Leads to inconsistent or inequitable treatment of landowners, particularly where LUC classifications poorly reflect real productivity or constraints on the ground.

Using LUC to restrict or differentiate participation may:

- Suppress investment in otherwise suitable land.
- Undermine afforestation that supports erosion control, water quality improvements, and regional economic development.
- Create uncertainty for existing and prospective participants, with flow-on effects for rural communities and carbon markets.

We encourage the government to reconsider the role of LUC and instead work with industry, councils, and land experts to develop evidence-based approaches that better reflect actual land performance and climate objectives.

Ultimately this charge, and the LUC registration restrictions associated with it, will discourage planting. We already have reports from nurseries that there has been a 20-50% drop in orders following the introduction of these restrictions.

Without clarity on how the ballot system will be implemented, it is difficult to comment on the fairness of these charges.

28. *What is your preferred option for how the service of processing LUC Class 6 ballot applications is recovered? Through the annual charge (option one) or through a service fee (option two) or something different? Please provide reasons for your answer.*

We agree with option two – not all participants will be converting farmland and those who are not should not have to subsidise those that are, so the service of processing LUC Class 6 ballot applications should be recovered through a service fee.

29. *Do you agree with the cost recovery assessment of proposed service fees for Reviews of Decision? Why or why not?*

We think it is more appropriate that Reviews of Decision regarding land eligibility are considered a private good.

30. *What is your preferred option for how Reviews of Decision are cost recovered? Through the annual charge (status quo), through a service fee (option two), or something different? Please provide reasons for your answer.*

For the reasons outlined above we believe this charge should be recovered as a service fee, option two. These reviews are specific to participants and do not have benefit to participants with land already registered.

31. *Do you have any other feedback or comments on the proposed new service fees outlined in this section of the consultation document?*

No.

32. *Are there other services that do not have a service fee attached, that you think should have a service fee? If yes, which services?*

Not at this stage, but as mentioned previously, analysis of reviews of decision or customer service and the usage of these services may lead to there being evidence of a need for a fee associated with higher use cases.

33. *Do you have any final comments on this consultation document?*

No.

34. *Is there anything else you think we should consider when reviewing cost recovery settings for forestry in the ETS?*

We continue to believe that the public good element of foresters participating in the ETS is underrated in the construction of the Climate Change Response Act and in the administration of the ETS. As the only ETS participant that delivers carbon sequestration, the lack of recognition of the full extent of the public good continues to support an underappreciation of our efforts and contribution as a sector to meeting New Zealand's climate targets.

35. *What further information, if any, would be helpful for Te Uru Rākau – New Zealand Forest Service to publish on how cost recovery settings are determined?*

Annual participant numbers and hectares by activity would be great, and appreciate the comments in the consultation document on the lack of data on age class etc. We will continue to work with the

Insights directorate in Te Uru Rakau to develop better data on the forest estate that could meaningfully benefit ETS administration and understanding.

Closure

We do not object to our submission being made public.

We welcome the opportunity for further discussion and engagement.



Elizabeth Heeg

CEO

Forest Owners Association

Contact Details

Elizabeth Heeg

CEO

Forest Owners Association

Level 9, 93 The Terrace, Wellington.

Email: elizabeth.heeg@nzfoa.org.nz

Web: www.nzfoa.org.nz