

**Climate Change Consultation
New Zealand Forest Owners Association submission on
Ratification and Policy Options**

Introduction

1. The New Zealand Forest Owners' Association welcomes the opportunity to comment on the Government's Climate Change Consultation Paper "Kyoto Protocol – Ensuring our Future" and the accompanying papers.
2. The Forest Owners' Association is a voluntary organisation representing the interests of commercial forest growers. The Association has 220 members whose forest holdings represent approximately 85% of New Zealand's commercial forest estate. The members include all the major forest corporates, the majority of medium sized forest companies, many forest syndicates, and a number of farm foresters.
3. In terms of the Kyoto Protocol, Association members have a mix of different age classes of plantations. The age profile of the larger members' forests will include both pre and post 1990 forests while many of the smaller owners will have largely post 1990 (Kyoto) forests. Overall 67% of New Zealand's radiata pinus forests were planted before 1990.
4. The Association supports global action on the management and reduction of greenhouse gases (GHG) emissions but has very significant concerns about how the Kyoto Protocol will impact on the international competitiveness and expansion of the New Zealand forest industry and national economy out to 2012.

Involvement with Climate Change Issues

5. The Association has been very closely involved in the climate change policy discussions over a number of years. Over the past year, the Association has worked very closely with other industry organisations in analyzing the Kyoto Protocol and more recently in examining the potential impact on the industry of the Government's climate change proposals.
6. We have consulted intensively with the industry, have been part of the Wood Processing Strategy's Climate Change Group, and co-funded with the Forest Industries Council and Ministry of Agriculture and Forestry the two NZIER reports on the potential impacts of the Kyoto Protocol on production forests.
7. The Forest Owners Association, which is a member of the Forest Industries Council, fully endorses the Council's submission. The Council's submission

addresses the broader strategic issues which the Kyoto Protocol and the Government's proposals present to the industry.

Impacts of Kyoto Protocol on the Forest Growing Sector

8. In regard to the NZIER reports noted above, they confirm industry's commercial assessments of the likely impacts of the Kyoto Protocol on the forest sector. Increases to the sector in wood fibre costs – arising from the distortions between pre and post 1990 forests – and energy relative to non Annex 1 competitors which have no Kyoto Protocol obligations or costs will reduce the New Zealand industry's competitiveness and attractiveness to future investors.
9. Stage 2 of the NZIER report estimates value destruction to the industry of between \$0.7 billion and \$3.4 billion depending on domestic policy proposals relating to ownership of forest credits and emission liabilities associated with wood processing and the harvesting of pre 1990 forests.
10. The Association has concluded from its close involvement in the whole process and from the results of the NZIER reports that New Zealand would be extremely unwise to ratify the Kyoto Protocol until:
 - Domestic climate change policies have been agreed and their implications fully assessed.
 - New Zealand's major trading partners have agreed to ratify, and
 - Non Annex 1 countries have agreed to commitments for Commitment Period 2 i.e. from 2012 to (probably 2017).

Ratification Timetable

11. There is no legal or other requirement for New Zealand (or any other country) to ratify before 2007. We also note that each party to the Kyoto Protocol has significant flexibility in developing and implementing domestic policies which best suit its particular needs.
12. New Zealand should take advantage of this flexibility to develop policies which meet New Zealand's special economic conditions and which satisfy the agreed environmental outcomes at "least cost abatement". To rush to ratify before adequate time has been provided to design policies which meet New Zealand's economic and other needs and to accurately assess their economic, social and environmental implications would not be prudent or sensible. Certainly it is the Association's view that to expect the forest sector to virtually sign a blank cheque is both unreasonable and unfair.

New Zealand Forests Part of the Solution

13. Rather than view the sector as part of the problem, New Zealand should capitalize on the real advantages of forests to provide part of the solution. The Kyoto Protocol itself, by including forest sinks as an integral part of tackling the climate warming issue, explicitly recognizes forests in this light. During the first commitment period, it is estimated that New Zealand “Kyoto Forests” will remove around 110 million tonnes of CO₂ equivalent or 30 million tonnes of carbon from the atmosphere. If the role of pre 1990 forests was recognized, the amount of sequestered carbon would be substantially higher. In addition, the use of biofuel from the industry reduces the demand for fossil fuel usage and thereby also plays an important role in CO₂ reduction.
14. Equally important as the fact that forests sequester vast quantities of carbon is that this is achieved in an environmentally positive and sustainable way.
15. In addition to its positive environmental role in removing carbon from the atmosphere, the forestry sector is a major contributor to the economy of the country. Currently the sector generates around \$3.6 billion in foreign exchange earnings, represents 4% of GDP, and employs 23,000 persons largely in regional areas. On current projections, by 2025, and in the absence of the potential adverse impacts from the Kyoto Protocol, the industry will earn around \$20 billion in foreign exchange, represent around 14% of GDP, and employ around 60,000 persons.
16. The realization of this growth potential is dependent on New Zealand maintaining a competitive advantage in international wood product markets. The Association believes that the adoption of the policy proposals in the Discussion Documents would place the New Zealand industry at a serious disadvantage relative to several of our trading parties and Non Annex 1 countries which will not be subject to the Kyoto Protocol provisions during the first Commitment Period.

Policy Proposals Flawed

17. A fundamental flaw of the provisions of the Protocol and New Zealand’s proposed responses is that they will not result in the desired outcomes of increased forest plantings in New Zealand. Certainly they will have the effect of penalizing forest growers through retrospective taxes on previous plantings made in good faith.
18. This is highlighted by the totally artificial distinction between the way in which pre 1990 and post 1990 forests are treated under the Protocol. To retrospectively place a potential liability on the owners of pre 1990 forests is iniquitous. It ignores the fact that many pre 1990 forests were established

on farmland or bare land and that many will still be sequestering carbon during Commitment Period 1.

19. Similarly, it is incorrect to imply, as the Protocol does, that forest owners decisions to plant forests after 1990 were influenced by the possibility of sequestering carbon and receiving a direct monetary benefit. While some forest growers may now benefit from the ownership of post 1990 (Kyoto) forests, this is purely fortuitous.
20. The Association believes that New Zealand should not have agreed to the 1990 sink distinction, or alternatively, it should have sought an exemption similar to Australia's concession for native deforestation. From an environmental perspective, New Zealand's fast growing plantation forests are unique in that they represent an expanding sink that will continue to sequester carbon into the future

Meaningful Discussion Imperative

21. If the Government is serious about influencing afforestation for the purpose of reducing atmospheric carbon, it should enter into meaningful discussions with the industry on how this could be achieved without creating unnecessary costs and distortions which the present proposals do. Such discussions would take some time as there remain many issues in which there is considerable uncertainty as to how the policies will be implemented in practice. As noted in this submission and that of the Forest Industries Council, discussions between the industry and officials identified a long list of issues where work is still underway, has yet to be commissioned, or which depends on political decisions. With this level of uncertainty, it is just not possible to reach informed and sensible decisions on a preferred policy option.
22. Discussions with the industry to develop a scheme which meets the over-riding objective of reducing atmospheric carbon for the benefit of the environment and New Zealand would need to address the following flaws in the current proposals:
 - a. The artificial distinction between pre and post 1990 forests.
 - b. The disadvantages to the forest sector of the increased transport and energy costs.
 - c. The non inclusion of Article 3.4 measures for carbon sequestered by pre 1990 forests through changed management practices.
 - d. The absence of recognition of the carbon stored in harvested wood products.
 - e. The absence of measures to mitigate the adverse impacts on the New Zealand forest sector from subsidies paid to Non Annex 1 competitors.

23. Failure to address and reach solutions on these outstanding issues would:

- Unnecessarily seriously disadvantage the NZ forest industry.
- Result in less employment in the industry through “leakage” of processing capacity overseas and create a disincentive for new wood processing investment in this country. This leakage would undermine the environmental integrity of the Protocol because the further processing would probably be relocated in Non Annex 1 countries not subject to the strictures of the Protocol.

24. Taking each of these in turn:

a. Artificial Distinction between Pre and Post 1990 Forests.

The 1990 date creating an arbitrary distinction between forests lacks environmental integrity. *Pinus radiata* continues to sequester carbon until around 80 years of age when mortality rises to equal growth. To therefore deny pre 1990 forest growers credit for the increased sequestered carbon for trees planted well before 1990 does not have environmental integrity and penalises rather than rewards those who are contributing to the solution of the greenhouse gas problem. This iniquitous situation is exacerbated by the proposal in the Discussion Document to also deny the pre 1990 forest owner the right to benefit from Article 3.4 activities. The reasons stated for New Zealand proposing to not recognize 3.4 activities are:

- difficulties of measurement
- that New Zealand may be in a net carbon loss situation.

It seems strange that other countries are able to measure the carbon gains from 3.4 activities but that New Zealand is not able to do so.

While in respect to Article 3.4 New Zealand as a whole may be in a net carbon loss situation, many individual forest owners are in a position to increase the amount of carbon sequestered over and above “business as usual”. To deny these forest owners the ability to earn credits is contrary to the objectives of the Kyoto Protocol and unfair in that it denies them the opportunity to offset some of the disadvantages of happening to be on the wrong side of the 1990 divide.

b. Increased Transport and Energy Costs

Until the Government decides on the domestic policy to meet New Zealand’s Kyoto Protocol commitments, it is not possible to assess the extent to which increased energy and transport costs will impact on the viability of the forest sector. What we do know is that to remain internationally competitive, and to further process in New Zealand the increasing supplies of wood fibre, will require increased quantities of energy at reasonable prices. Although the

processing sector of the industry has made significant improvements in energy efficiency over the past few years, its potential for further efficiency gains is limited.

Any increase in energy prices relative to our international competitors, particularly Non Annex 1 countries, would impact seriously on the international competitiveness of the industry. In this situation, it is inevitable that a portion of the existing processing capacity would relocate off shore and that new investment would be discouraged from locating in New Zealand. As some at least of this capacity would transfer to Non Annex 1 countries not subject to the Kyoto Protocol requirements, the environmental outcomes would be negative.

c. Non Inclusion of Article 3.4

As noted above, the Kyoto Protocol provides for Annex 1 countries to benefit from changes in forest management practices which result in increases in sequestered carbon in pre 1990 forests. It is of concern to forest growers that the Discussion Document suggests that New Zealand does not propose to take advantage of these opportunities. The Association urges that work be undertaken to develop ways of measuring the carbon gains from changes in management practices so that owners of pre 1990 forests can take advantage of the potential benefits.

d. Harvested Wood Products

Again for technical reasons (rather than principle) the Discussion Document proposes that all forest growers should be denied recognition of the carbon stored in wood products on harvesting. It is simply wrong to suggest, as the proposals do, that all the carbon stored in a tree is released immediately the tree is harvested. What makes this suggestion even more iniquitous is that in respect to fossil fuel, it is the user of the fuel rather than the producer who meets the cost of releasing the carbon through burning.

Carbon stocks do not revert to their initial level when a forest is harvested for two reasons:

- Carbon remains stored in the roots, slash and soil for some period, and
- Carbon is locked up in products produced from the wood fibre – furniture, structural lumber, and even paper.

While there are technical issues involved in measuring the amount of carbon stock stored in roots etc. and wood products over time, it is wrong to use these difficulties as a reason to deny forest owners the benefit of this positive contribution to the removal and storage of carbon.

e. Subsidies to Competitors

The proposals in the Discussion Documents give no recognition to the serious price disadvantages which would be caused to New Zealand forest growers by the subsidies paid to their competitors in Non Annex 1 countries to plant trees (CDM), and for the higher energy and transport costs faced by New Zealand forest growers viz a viz their competitors. Not only will the subsidies depress international timber prices in the short term, they will also do so in the medium to long term by artificially increasing the supply of competing fibres.

Conclusion

25. Because of the serious flaws in the underlying principles of the Kyoto Protocol, and the inadequate information and analysis available on New Zealand's proposed policy responses, the Association is not in a position to comment in detail on specific proposals set out in the Discussion Documents.

The Association strongly requests that the Government not ratify the Protocol until a fairer system with environmental integrity has been agreed to which meets the underlying objective of the Kyoto Protocol – the reduction of atmospheric carbon at least cost – and the Government's own stated criteria. Until such a set of proposals has been developed in consultation with the industry, the Association is not in a position to comment on the current proposals which are ill-developed and lack environmental integrity.

The Association in conjunction with the Forest Industries Council and the New Zealand Farm Forestry Association requests the opportunity to enter into further discussions with the Government and its officials to develop a set of proposals which better meet the Protocol's objectives.

Yours sincerely

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NZ Forest Owners Association