

Forestry and the Emissions Trading Scheme (ETS) Policy Matters to be Addressed

Context

Proposals put forward in this document are the considered response of forest owners comprising the New Zealand Forest Owners Association and the Kyoto Forestry Association, as well as the views of PF Olsen Ltd in its capacity acting for a wide range of forest owner types in New Zealand.

Policy matters are addressed in terms of the longer-term health of the forestry sector and benefits to New Zealand.

Government has elected to import artificial distinctions under the Kyoto Protocol. These detract from a positive and durable forestry and land use policy.

Balancing the Kyoto carbon accounting books in CP1, while important, should not be the primary driver of such fundamental changes to NZ land use laws, particularly given the total NZ emissions profile blowing out in 2016 to 2030.

This is not a comprehensive submission. It is just a heads-up on key concerns.

Role of forests

Forests do not “emit” CO₂ in the same way that fossil fuels, fertilisers or livestock do. All “emissions” have relatively recently been absorbed from the atmosphere. To the extent that wood products lock up CO₂, even a forest felled and removed has had a net positive impact of atmospheric CO₂.

New Zealand is one of the few countries that can grow trees fast and has a low-producing pastoral hill country land bank (>1.0 million ha) that would benefit both the atmosphere and our soil retention and water quality if it had forest cover.

Forests offer NZ a relatively low-cost 50 – 100 year opportunity to meet even more demanding greenhouse gas emission reductions while the economy adjusts to low greenhouse gas emission through technology and changing practices.

ETS generally

The forestry sector supports Emissions Trading as the second-best option for New Zealand, after the politically rejected but much simpler and even-handed flat emissions tax.

Issues we have are based on the unequal treatment both within the forestry sector (forever) and across sectors (transition phase to 2025 only).

Equity

Equity across sectors is a stated objective of the ETS design. This is nowhere near achieved for the forest sector because:

- The linkage between sequestration credits and liabilities is not applied to pre-1990 forests (100% of deforestation liability but no sequestration recognised). This artificially splits the forestry sector into two sub sectors forever with different costs, revenues and land values.
- Agriculture will face no emissions reduction requirements until 2013, not even the relatively win-win requirement to apply nitrogen inhibitors. In 2013 it will face 10% of its 2005 emissions. Pre-1990 forestry will face 95% of its emissions in 2 months time.
- Even the forestry sector competitors (steel, aluminium and concrete) enjoy a delay of 2 years to face emission obligations.

The impacts of these policies will be to drive up the value of bare farmland, while driving down the value of forest land. This will discourage investment in new planting – the opposite of what is needed.

The impact on values of forestry land handed back to Maori as Treaty settlements will be particularly material.

Badly needed new entrants to wood processing are disadvantaged vs. partially shielded existing and more polluting competitors in steel and concrete.

Certainty and durability

Forest investors require policy stability over 8 or 9 election cycles. There is a real concern that if the deforestation tax on pre-1990 landowners passes into law as a way to help balance the CP1 books, a future government could just as easily pass a law to prevent deforestation or even control harvesting of post-1989 forests that chose not to enter the ETS. This concern is exacerbated by the massive impact of harvesting these forests on total NZ emissions from about 2016.

Dropping of the deforestation tax and retaining land use flexibility would be positive from an economic efficiency of land use and sovereign risk perspective.

Outcomes sought Given the positive impact that avoided deforestation and new land planting can have on NZ’s emission profile over the next 50+ years, the overall package of policies in respect of forestry should seek to:

Objective	Current Policy Positives	Current Policy Negatives
Enhance stumpage returns from selling logs	<ul style="list-style-type: none"> • Bio-energy support • NZ Wood campaign • Expansion in R&D • AGS & ECFP (on margins) • Tariff reduction efforts • Illegal logging action 	<ul style="list-style-type: none"> • Blockages to new processing investment (RMA, lack of National Environmental Standards) • Unequal treatment of competitor products (steel, concrete, aluminium)
Land value to reflect true cost of environmental externalities		<ul style="list-style-type: none"> • Shielding of agriculture • Behaviour of ECAN & EW (water rights and N emissions)
Facilitate high price for NZUs	Accelerate Biomass to Liquid transport fuel switch over (drive innovation in 2nd generation biofuels)	<ul style="list-style-type: none"> • Potential access to cheap Russian & Ukrainian AAUs • Opposed by other sectors
Low investor risk	Addition of NZUs as income stream (post-1989 forests only)	<ul style="list-style-type: none"> • Imposition of retrospective tax on pre-1990 (sovereign risk ↑) • Uncapped liability at harvest • Harvested wood products not recognised as store of CO₂ • CO₂ sequestered 1990 to 2008 lost forever.
Flexibility on where forests are located		<ul style="list-style-type: none"> • Deforestation tax removes flexibility and creates a lock-up. • No ability to plant elsewhere to offset deforestation (atmospheric neutral).
Low compliance costs	Stated intention of ETS	<ul style="list-style-type: none"> • Lack of certainty constrains early investment in C farming
Efficient tax treatment	Submissions being sought	<ul style="list-style-type: none"> • Potential to tax in advance of cash revenue receipt • GST timing and compliance if not zero-rated