

Managing Exotic Forestry Afforestation in the ETS

The Government has recently released proposals to change some of the forestry settings in the Emissions Trading Scheme.

The Ministry for Primary Industries (MPI) has identified that the current settings in the Emissions Trading Scheme (ETS) are driving increased levels of exotic afforestation, particularly due to the financial incentives associated with exotic forests (as compared to natives).

This increased level of exotic afforestation has raised three concerns:

1. the displacement of other land uses (such as sheep and beef farming) due to higher financial returns per hectare, which also displaces the associated employment opportunities and contributions to national GDP;
2. an increasing supply of NZUs putting negative pressure on the price of NZUs, thereby reducing the incentive to lower emissions and/or invest in emissions reductions technologies, which prioritises short-term offsetting rather than long-term reductions; and
3. long-term environmental concerns associated with ecological risks such as lack of biodiversity, increased pests, diseases and wildfires.

Permanent Forests

In light of these concerns, the Government is proposing to amend the permanent forest category under the ETS to exclude exotic species of forestry. Holders of existing permanent forest sink initiative covenants would still be permitted to transfer to the new permanent forest category.

The permanent forestry category is due to come into effect from 1 January 2023. If a forest is registered in this category, it cannot be harvested for at least 50 years after it is registered in the ETS.

MPI's consultation document does however discuss the potential for exotic forestry to be planted under the permanent category in special circumstances where there is a demonstrable benefit in doing so. Examples of these special circumstances include:

- allowing Māori freehold land and Māori land trusts to register exotic forest due to the different characteristics of Māori freehold land that make it well suited to long-term rotation or permanent forestry;
- allowing exotic planting for environmental benefits, such as supporting erosion prone land;
- allowing smaller parcels of land to register exotic forests where the land is marginal or an environmentally sensitive area;
- allowing a certain number of some long-lived species such as redwoods to be registered; and
- allowing a managed transition from exotic to native forest over time, subject to conditions.

Further exceptions could be incorporated into the Climate Change Response Act 2002 through regulations.

Long rotation exception

All forests (except permanent forests) registered under the ETS from 1 January 2023 onwards will be required to use the average accounting method to determine that forest's NZU entitlements. This would see exotic forestry earn NZUs up until its long-term average carbon stock. The long-term average carbon stock is the amount of carbon the forest will store on average over multiple cycles of growth and harvest, based on typical harvest ages.

For example, radiata pine is typically harvested after 28 years, but it will earn NZUs until the forest reaches age 16 which is when it is expected to reach its long-term average carbon stock over multiple rotations of harvesting and replanting. Each forest type in the ETS has its own average age and once the forest reaches

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that age, no further NZUs are earned. This replaces the existing system of stock change accounting where forests continuously earn NZUs as they grow but are required to surrender NZUs when harvested.

However, a new long rotation forestry category is proposed as an opportunity to plant productive forestry on remote and marginal land. The new category seeks to recognise that it may be inefficient to harvest the forest on remote and marginal land due to the higher costs associated with harvesting in these areas.

Under long rotation, the harvest point for eligible forests could be extended. For radiata pine, the harvest age could be deferred to 40 years and the forest would earn NZUs until it reaches its average age of 21 years.

Further advantages of a long rotation category include:

- the ability to choose to harvest in favorable market conditions (e.g. when commodity prices are high);
- the ability to plant other exotics that require a longer rotation such as Douglas Fir; and
- increased biodiversity over longer rotations.

Summary

While each forest type will have different average ages and harvest ages, below is a simple comparison of the harvest ages and NZU entitlements for each of the three categories for radiata pine.

| Category | Harvest Age | Years NZUs earned |
|--------------------------|------------------|---|
| Short rotation (default) | Minimum 28 years | Up until 16 years (average carbon age) |
| Proposed long rotation | Minimum 40 years | Up until 21 years (average carbon age) |
| Permanent forestry | Minimum 50 years | For as long as the forest is not harvested and the carbon stock is increasing |

Note that radiata pine will be excluded from the permanent forestry category if the proposed changes go ahead.

Failure to replant the forest under the rotation categories will require the surrender of NZUs. Similarly, harvesting prior to the minimum harvest age will affect the average carbon age and will require the surrender of NZUs.

In relation to permanent forestry, harvesting prior to the 50-year timeframe is only permitted if it is deemed selective and small coupe. Otherwise harvesting will require the surrender of NZUs and penalties will be incurred.

Further consultation and consideration of a long rotation forestry category is being undertaken, particularly as its introduction would run counter to the objectives sought by limiting the permanent forestry category to native forests only.

Looking ahead

There is indication that Local Councils could be given the authority to decide what land areas should be planted in permanent or long rotation forestry in order to manage the social and economic effects on rural communities.

Submissions on the Government's proposals are due by 22 April 2022 with final decisions to be made around mid-2022.

Want to know more?

If you have any questions about forestry in the context of the ETS please contact our [Carbon Trading Team](#).