



Introduction

The New Zealand Institute of Forestry (NZIF) represents the interests of NZ's forestry professionals. Our purpose includes acting as an independent advocate for all forms of forestry. This includes advice on the multiple roles of forestry in the NZ landscape and the motivations of those who choose to afforest, recognizing it is only one of several alternative uses of land.

Submission

The New Zealand Institute of Forestry is encouraged by the Government's recognition of forestry and wood products as assisting New Zealand's transition to a net zero emissions economy. That said, the NZIF has little confidence based on the evidence of the last 10 years that the ETS, with or without auctioning will undermine forest sector investment by adding uncertainty to investment in land purchased for forests. The auctioning of credits will have a price impact on carbon and therefore on investment in planting new forests or replanting existing forests. A poorly implemented auctioning system resulting in additional supply of NZUs will delay afforestation and other investments required to achieve a low emissions economy by 2050.

NZIF has stated in earlier submissions that it is not clear that the ETS as applied to forestry will motivate afforestation. A diagram in the consultation document explaining how auctioning is intended to work that new forests will be used to offset business-as-usual emissions. This is absolutely the wrong way to use forestry credits, because it limits future options of land without making a fundamental difference to the country's long term emissions profile. Forestry credits should only be used to offset temporary emissions (i.e. those for which there are credible plans in place to effect reductions over time, through investment in low emissions technologies). The diagram in the Consultation Document explaining how auctioning works suggests if government measures are successful in reducing gross emissions there will be no need for forestry credits. The basis for such an optimistic outlook is not clear. Assuming the diagram is correct the assumption of little need for carbon credits from forests marginalises new forests in New Zealand as a contributor to mitigating climate change and will logically act to discourage new plantings, at least for carbon sink reasons.

Planting a new forest generates a flow of carbon credits into the future. Planting is undertaken based on the assumed investment returns from the future sales of the carbon credits created. Emitters currently recognise this by buying credits forward from forest investors (and there have been many examples of this type of contract between emitters and forest growers). Auctions occurring annually will add significantly to the uncertainty around carbon forestry. It therefore follows that emitters will be less willing to enter into forward contracts as a consequence because of the additional sources of uncertainty that auctioning confers. Obligate buyers of credits (other than speculators) have no interest in anything other than the lowest carbon price and delayed payment of emissions liabilities for the longest legitimate time. The cap applying to the cost of emissions in NZ serves to preserve buyer's forward position. The auction offers the possibility of an auction price lower than the capped price coupled with the benefit of retaining liquidity.

It is unclear how the number of removal units from forestry is to be estimated by Government in determining the need for and scale of any auction? Clarity on that point would enable landowners to fairly assess the returns from forestry carbon as compared to alternative use of the same land.

The supply of forestry units depends on two very different decisions: the planting of new forests, and whether or not to sell credits currently held in an NZEUR account. Further, a decision to plant will have a multi-year impact on the supply of credits, which can be modified or changed by subsequent management actions by the forester, including silviculture, application of fertiliser and selection of rotation age.

Do post 89 foresters who chose to hold their credits in order to protect land use flexibility and capital value risk expropriation of that value at some time in the future? In the absence of certainty that 'sovereign risk' associated with intervention in forestry under the auspices of climate change policy, a land owner may be motivated to sell forest carbon at below the predicated long term 'market' price to protect themselves from future expropriation. The alternative motivation may be to retain land in its alternative (non-forest) land use, a more likely prospect for as long as alternative uses of land are exempt any associated emissions liabilities.

Auctioning will add considerable complexity to the ETS in other ways. Policy makers should be concerned that the existing emissions trading scheme is already too complex and a large proportion of the populace, (crucially including current and future potential forest growers), do not understand it. There is reported evidence of unintentional non-compliance on a broad scale, a problem that auctioning could be expected to exacerbate. There is reported evidence of forestry participants in the ETS subsequently opting out of the scheme because of difficulty with compliance. It is not clear from the consultation document what was wrong with the previous system, where effectively unlimited credits would be available at the price cap. This had the advantage of giving some certainty to potential investors in new forests that post-harvest emission liabilities could be managed affordably. A price cap is considerably simpler and more predictable than what is proposed.

The point was made during consultation that auctioning schemes are used commonly overseas. While it is true that auctioning is used to distribute credits in a cap and trade scheme, has anything like the current proposal been implemented elsewhere? Is the auctioning system only open to emitters or is it all comers. If the latter, the speculative attractions of the scheme may outweigh and even work against any actual benefits to reducing New Zealand's greenhouse gas emissions. If not open to all, what is the definition of a legitimate auction participant? Are pre-1990 forest owners (including Iwi) wishing to remove the emissions encumbrance on their land a legitimate participant? Would a participant legitimately purchasing credits via auction be eligible to resell them in the event of a change in plans or the market value of the credits?

The price of carbon should be driven by the perceived seriousness of the problem and NZs progress towards meeting its target. It is hard to see how the proposed mechanisms will reflect these realities. The proposal on auctioning reinforces for NZIF the apparent inconsistency between Government's commitment to a net-zero economy and the perceived desire to limit the political cost of effecting the necessary changes in land use, choice of fuels and consumption more generally.

NZIF remains to be convinced that the ETS is a genuine attempt to contribute to the global reduction in anthropogenic GHG emissions in line with NZ's Paris commitments. The evidence of the last 10 years is that the ETS primarily serves to give the appearance of action on an unquestionably difficult environmental problem without causing any material shift in economic patterns or investment. Proposed auctioning adds to the appearance rather than the substance of NZ's commitment to a reduction in national emissions.

A handwritten signature in blue ink, appearing to read 'D. Evison', with a long horizontal stroke extending to the right.

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