

# A message about the ETS

## Get informed, get involved or get hamstrung

Stuart Orme

*The Emissions Trading Scheme (ETS) has recently been highlighted in the media as the government announced a number of changes to be implemented in legislation to be passed later this year. This article explains what these changes are and what they mean for ETS participants and those thinking about joining the scheme.*

The good news is that the second tranche of pre 1990 compensation will still be allocated. The not-so-good news is that forestry appears to be expected to subsidise the New Zealand ETS in the short term. It will continue to generate credits that the Crown can benefit from in Kyoto returns, but which forest owners are unable to sell at a realistic price.

In the table on the opposite page, the left hand column outlines the recent government announcements and in the right hand column are comments.

### Aspects not covered in the table

The second commitment period of the Kyoto agreement looks to mean that post 1989 forest owners must surrender all credits sequestered, not just those allocated in the ETS. There is legally no alignment between New Zealand Kyoto obligations and the ETS, other than how the government wants it to intertwine. Pre 1990 forest owners became the first ones affected by the ETS in New Zealand. Therefore whether you are in the ETS as a post 1989 forest owner or not, you may not be protected from the government choosing to inflict a surrender obligation on you as a forest owner in the future.

Currently the New Zealand Units can be converted to Assigned Amount Units and sold off shore. This may not be an option from 2013 onwards. We would suggest that you lobby for this to continue after 2013. If emitters can buy offshore, forest participants should be supported to sell offshore.

Whether foresters can sell units offshore depends on whether we enter the second Kyoto commitment period. If we do not then it appears New Zealand Units will not be recognisable in international markets, unless there are arrangements with other countries. So foresters are damned if we do or damned if we do not.

### What does it all mean?

Some ETS commentators have reacted by saying the carbon market has been 'buried' and others are saying it is merely in suspended animation. However, for many the confirmation that the second tranche of credits will be allocated is welcome

news – landowners will continue to receive their second tranche allocation of New Zealand Units in full. Where landowners have approval to take up offsetting in the future they will be required to pay back any second tranche units they have received.

Offsetting opens up the way for better land use and should be understood by anyone able to benefit from it. Offsetting means that pre 1990 forest landowners will be able to convert forest land without deforestation liabilities, assuming that a new forest is established elsewhere. It will be an option for pre 1990 forest landowners from 2013. The

**STUART ORME**  
Registered Forestry Consultant



**woodnet**  
PO Box 758  
Masterton  
Ph. 06 370 2068  
Fax. 06 370 2069  
e-mail stuart@woodnet.co.nz

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**Important dates**

<b>Applications for Post 1989 ETS/PFSI Participation</b>	<b>Applications must be with MAF and Approved by 31st December 2012 or earlier to receive the first 5 years of credits</b>
<b>Emission Returns covering the period of 2008-2012</b>	<b>Mandatory return must be submitted to MAF by 31st March 2013 (available Jan-March 2013)</b>

"What's your best land use – if it is growing vegetation the ETS/PFSI could be for you!"

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Government announced changes in the ETS	Comment by the author
<p>Pre 1990 landowners will continue to receive their allocation of emissions units in full, unless they take up offsetting. In recognition of the benefits offered by offsetting, pre 1990 forest landowners who take up offsetting will need to return the second tranche of this allocation.</p>	<p>Those affected know that the true costs of pre 1990 forest land deforestation obligations are higher than the compensation offered.</p> <p>The second tranche was the only justifiable decision that could be made. Like many, I submitted in favour of the second allocation and failed to ask for more at consultation time.</p>
<p>The introduction of offsetting as an option for pre 1990 forests gives forest landowners the flexibility to convert their land to a better use. They avoid ETS deforestation costs by planting a carbon equivalent area of forest elsewhere.</p>	<p>Offsetting is a step in the right direction to help ensure we have a best fit for purpose land use.</p> <p>If forest owners were treated equally then only having to plant half as much land as was cleared would be appropriate.</p>
<p>The start date for surrender obligations for biological emissions from agriculture has been deferred, pending a review in 2015.</p>	<p>I think we missed an opportunity to send a signal that land use should be the basis of decision making. Where are the corresponding signals that farmers should look to plant or retire marginal land and gain credits from it? Eventually there will be a government change and the policy of the day may well affect farming significantly. A transition, such as encouraging planting, could have gone a long way towards reducing this effect.</p>
<p>The transitional measures designed to reduce the initial cost effects of the scheme beyond 2012 have been extended. In particular, these will extend the ability of many of those with ETS obligations to surrender one emissions unit for every two tonnes of emissions. In addition, participants will also have the choice to meet their obligations by paying the government \$25 a tonne of emissions.</p>	<p>This is disappointing. It sends a signal that, apart from pre 1990 forestry emitters, everyone else is to continue to be allowed to continue non emission reduction behaviour. Why is forestry targeted in this way?</p> <p>In Australia, invoices issued since July now note the carbon tax component of the purchase. In New Zealand all we know is that it is between \$25 a tonne and the market rate for credits. I recall receiving a letter from my power company some time ago saying that they would be charging \$25 a tonne equivalent – I do not recall getting one saying that they have reduced that figure.</p>
<p>Government will have the power to increase the supply of New Zealand Units by an auction, within an overall cap on the number of units auctioned and allocated. This will help to ensure that ETS participants do not need to fund more emissions reductions in other countries than New Zealand needs to meet its international obligations or domestic targets.</p>	<p>Like many I still struggle to understand how this can help ETS participants who are forest owners.</p> <p>It seems to be a way to sell credits cheaper than forest owners or international suppliers are prepared to do. Why else would an emitter purchase them?</p>
<p>Quantitative restrictions on the number of international emissions units that can be surrendered by those with ETS obligations will not be introduced. This will ensure that the carbon prices faced by ETS participants continue to reflect international prices.</p>	<p>This seems to mean the cheapest international price. International carbon prices vary from country to country. Our closest neighbour has a floor price of AU\$15 and a cap price of AU\$23.</p> <p>The UK has a fixed price equivalent to NZ\$32 to apply from April 2013 and expected to rise to \$60 equivalent by 2020.</p>

## Operational amendments

The government intends to make the following changes to improve the operation of forestry under the ETS.

ETS rule change	Comment
Minor clearing of forest land boundaries will not be counted as deforestation.	This is excellent and allows for land which was in trees, but used for skids sites, roads or needing to be cleared for road or waterway offset, not to incur a deforestation obligation.
Pre 1990 tree weed exemptions will be extended beyond 2012.	This makes sense regarding good land use and management.
Forest land with tree weeds will not be eligible for post 1989 registration unless the risk of spread is low.	In theory a good management plan will give comfort, whether this can be achieved or not.
Forest land that cannot be replanted due to natural disturbances will not be treated as deforested.	This allows forest land lost due to river erosion and potential other acts of God not to incur a deforestation obligation if it cannot be physically replanted.
Restocking requirements will be more flexible for forest land which has been cleared and is naturally regenerating to indigenous forest, or where poplars and willows are planted for erosion control.	This appears to be a relaxing of the requirement to have 500 stems per hectare growing at age four, and makes perfect sense.
The time for submitting post 1989 emission returns will be extended from three months to six months.	This allows longer for participants to apply for their carbon allocation and longer for MPI to process them.
Sole professional trustees, including the Maori Trustee, and trustees appointed under the Te Ture Whenua Maori Act, will be able to apply for less than 50 hectares deforestation exemptions.	This opens the way for land owners who could not apply for a deforestation exemption before the end of September last year to reapply if affected by rules of forest ownership by association.

pre-1990 forests which have been harvested before 2013 will also be eligible if these areas are not already considered to be deforested.

Major emitters were expecting to have to progressively increase the number of units they had to surrender and therefore purchase from next year. As the government has now chosen to retain the one for two policy, it is expected that the potential increase in demand for forest credits will take longer to appear.

### Low carbon prices

Despite calls to follow Australia's lead and introduce a mandatory proportion of carbon offset purchases to be sourced from within the country, the government has continued to allow emitters to source units from overseas to meet their surrender obligations. Unfortunately this effectively benchmarks the price of New Zealand Units, for those able to sell them, against the cheapest end of the international market. It does little to affect an internal balance in the emissions reduction programmes.

The introduction of auctioning appears to allow the government to provide units to the market to generate cash

returns for the government. This will help to keep the money in New Zealand, but it is a concern that these credits may sell at less than or equal to international rates and effectively be in competition with forest produced credits.

The good news is that the European Union carbon programme participants are unhappy with low carbon prices and are looking to a policy which will put upward pressure on prices. However, we all know they have some major economic factors to consider at the same time. The ETS appears to be here to stay and if you have land that is better in exotic forest or indigenous reversion, then the ETS is still a worthwhile consideration. Our message for post 1989 forest landowners still remains the same –

- Up to 80 per cent of eligible landowners who could register and benefit have not yet done so.
- Participants can register any time but if not registered before the end of this year they will miss out on the 2008 to 2012 allocation of credits.
- Be aware of both the opportunities and the obligations.

*Stuart Orme of Woodnet is a Registered Forestry Consultant based in Masterton* 🌲