

# Emissions Trading Scheme now ten years old

Stuart Orme

At the start of this year the Emissions Trading Scheme had been in existence for 10 years. Despite many comments that it has been a changing beast over that time, the fundamentals have remained remarkably unchanged.

The interpretation of the Act has caused some grief as sections of it are called upon and interpretations are cemented in to reality. This is often due to the written word as opposed to how the Act was expected to be actioned. However, these problems will be solved as time passes. The advice here is to act on what you are aware of and not ignore a possible infringement and bury yourself in what can easily become an inescapable legal and financial hole.

At the Climate Change Business conference in Auckland late last year a video link to the UK saw their Chair of the UK Climate Change Commission describe the successful commission which is operating there. Shortly before Christmas, Climate Change Minister James Shaw announced that Cabinet agreed to establish an interim Climate Change Committee in early 2018. By mid-2018 we can expect public consultation on a zero carbon bill including options for a 2050 greenhouse gas emissions reduction target, and options for the permanent Climate Change Commission. The aim is to have a zero carbon act in force by mid-2019.

We would expect a similar timeline in relation to the Emissions Trading Scheme, with any legislative changes to the Climate Change Response Act to be made by the end of 2019. This may well confirm potential carbon stock accounting changes which have been previously discussed which will make more 'enduring' carbon available for potential sale by forest growers.

## Carbon price

The government has already signalled that consultation on a different price ceiling is likely to take place. The start of the year has seen the carbon unit price go into the \$21 range, trading between \$21.20 and \$21.45 with some buyers now purchasing 12 months out as opposed to just on the day required.

The close of 2017 saw the end of Commitment Period two and the requirement for all those registered

in the ETS to complete and submit a Mandatory Emission Return. Failure to do so will result in a potential prosecution. Registered participants include those who have actively registered into the ETS as well as those who have become participants by buying land registered in the ETS or those who have registered a forestry right over ETS land.

For those actively involved, remember that if you have had a material land ownership change by, for example, a change of trustee or sale to a family company, you may have triggered an ETS transfer without realising it. As Mandatory Emission Returns are processed by MPI we expect that they will be looking for such examples and remedial transfers will be required to be carried out before the returns can be processed.

## How to encourage more tree planting

The details have yet to be fleshed out, but the new government's target of seeing a billion trees planted during the next 10 years is achievable. However, land use change is something that all land owners take seriously and will only happen if the incentives to do so are understood and are clearly a long-term benefit environmentally, socially, emotionally and economically.

A billion-tree target means planting around 100,000 hectares of trees each year for a decade. It is assumed that replanting, and new planting will each contribute 50,000 hectares year on average to reach the 10-year target. Double this new planting rate was achieved in the past when 98,000 hectares of new planting peaked in 1994. This was up from a mere 15,000 hectares of new planting only three years before, with 50,000 or more hectares of new planting achieved for seven straight years.

Then a quite different pattern emerged as the new area each year slowly declined after 1994. The exception to this was increased plantings when the ETS policy and good carbon prices aligned between 2009 and 2011. This was before the government's inability to support a strong carbon price by allowing the surrender of cheap Kyoto units. Since then the total forest estate area has actually shrunk.

For next winter's planting, the number of seedlings

has already been organised by the nurseries. Somewhere around 70 million seedlings are in production for 2018 and that number cannot be increased at this time of the year. Overall seedling production has increased by about 10 million seedlings a year over the past two years. This volume increase does not necessarily represent new plantings, but reflects an increase in harvest volumes and therefore an increasing area which needs to be replanted to maintain the overall size of the plantation forest estate.

An important qualification to the government target is the inclusion of erosion protection planting and desire to include native trees in the scheme as well. The National Environmental Standard for Plantation Forestry identified large areas of land as effectively out of bounds for production forestry. Similarly, the RMA provides for district plan restrictions on forestry to protect areas of significant kanuka and manuka regrowth.

It is unknown so far what funds and under what terms the government will incentivise planting.

However, we believe that New Zealand could easily reach the levels of new planting and afforestation aspired to with little loss of agricultural production and profit, an enhanced production forest estate and indigenous resource and a land owner's ability to invest in sustained land use change assuming that there is –

- A trusted ETS policy platform that a non-political climate commission could provide
- Encouragement for farmers to allow marginal lands to revert to provide permanent carbon sinks
- Improved carbon accounting mechanisms which allow more carbon to be traded without the requirement for eventual surrender when trees are harvested
- A better understanding of how to manage tree crops to benefit from the sale options which can be used for carbon units.

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## Annual conference in Nelson



**From 6 to 9 May 2018**

It is now time to book flights, accommodation and register for the NZFFA Annual Conference in Nelson. The organisers are ready to turn on the colour and fresh mornings for you in Nelson this autumn.

There will be some meetings, but also lots of fascinating field visits to farm forests around the district. Apart from the tree-based field trips there will be alternative tours and some suggestions that may tempt you to linger at the top of the south for a bit longer.

The registration form is enclosed with this issue of *Tree Grower*, but you can also book using the NZFFA website. Book now, do not leave it too late. 🌲