

# Review of the New Zealand Emissions Trading Scheme

Redesign of NZ ETS Permanent Forest Category

Public Consultation 19 June – 11 Aug 2023



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New Zealand Government



# NZ's Climate Change building blocks

## Emissions reduction targets

### By 2050

Long-lived greenhouse gases are net zero

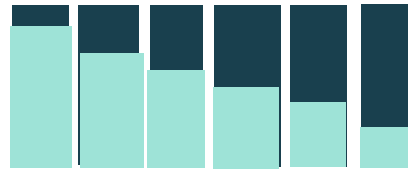
Biogenic methane emissions are 24 – 27% below 2017 levels

### By 2030

Net emissions reduced by 30% below gross 2005 levels (NDC)

## Emissions budgets

Act as interim reduction targets that step towards 2050



## Emissions reduction plans

The policies and strategies to achieve the emission budgets



## Adaptation measures

The strategies and policies to help us understand and respond to unavoidable climate change impacts and risks

### Climate Change Commission:

provides independent, expert advice to the Government on each building block.

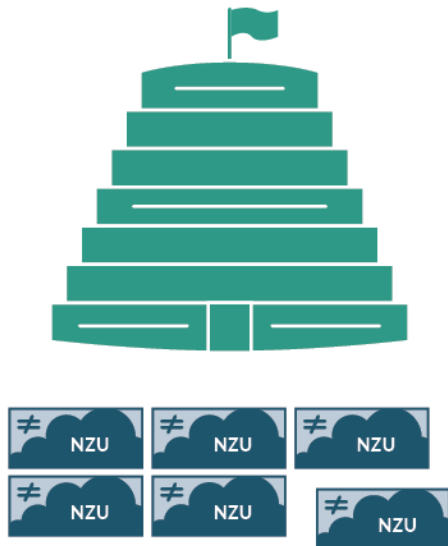
# We need gross emissions reductions and removals to meet our targets



# NZ ETS

## Government

Sells or allocates  
a specified number  
of units to emitters



## Emitters

Required to purchase  
NZUs to pay for  
greenhouse gas emissions



## Removals

Can earn NZUs based  
on carbon stored and  
sell them to emitters



# Māori interests in our climate response and the NZ ETS



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Through previous consultations we have heard :

- Māori have expressed a strong interest in the nature and ambition of Aotearoa NZ's climate response and the need to protect te taiao
- Māori have a range of interests including as rangatira, kaitiaki, land and forest owners, rangatahi, rural communities, workers, business owners and whānau who are subject to the rising costs of living.
- Forestry plays a key role within the Māori economy:
  - Estimated 30% of Aotearoa New Zealand's 1.7million ha or plantation forest on Māori land
  - In 2018: Māori estimated to own \$4.3billion in forestry assets and around 2,200 Māori employed in the sector
- Need to consider the rights and interests of future generations

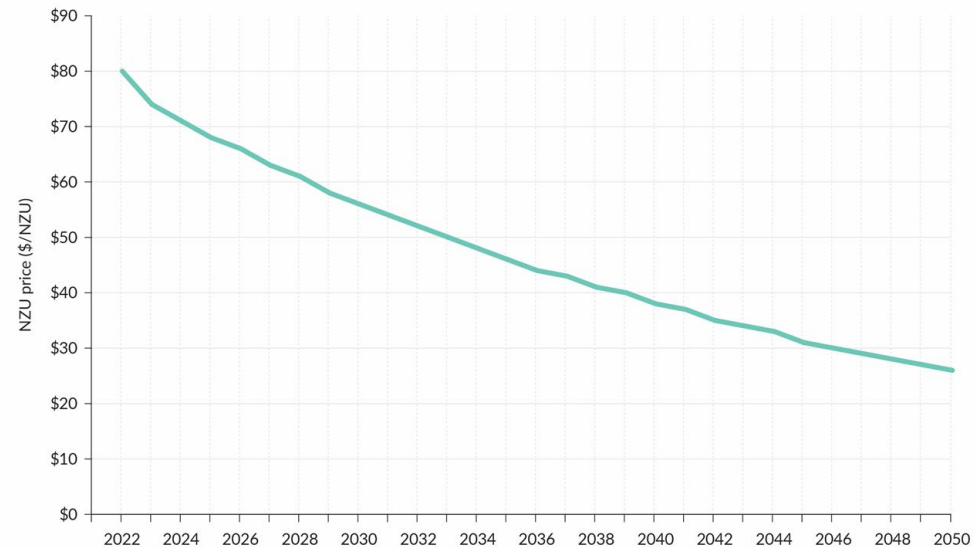
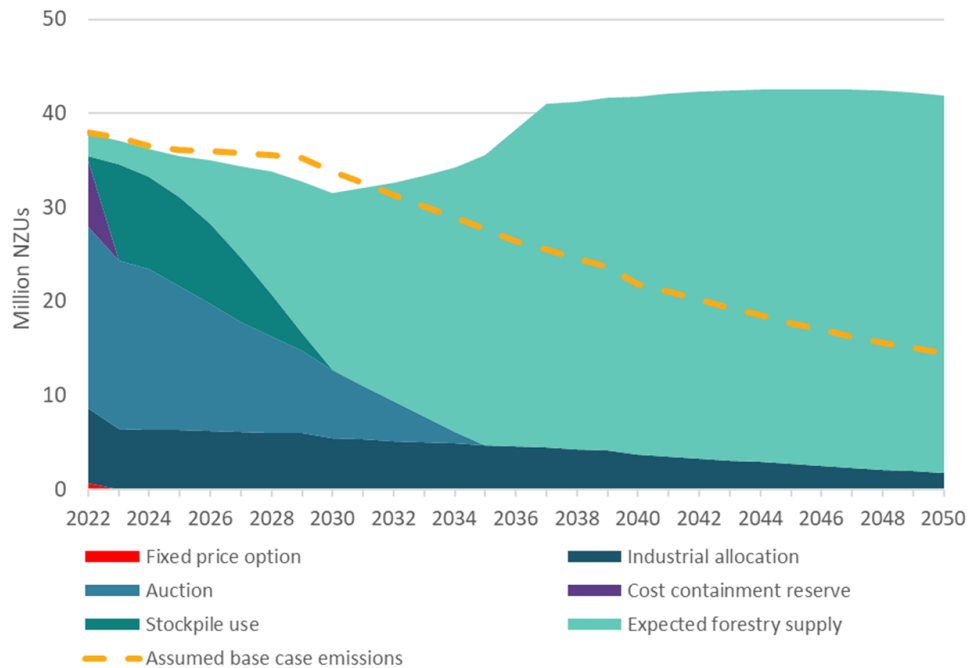
# Why review the ETS?

- Climate Change Commission recommended amending the NZ ETS
- First Emissions Reduction Plan agreed to prioritise gross reductions, while maintaining support for removals and to look at whether the NZ ETS should change to support this
- **The NZ ETS review is asking:**
  1. Should we change the ETS to prioritise gross reductions, while maintaining support for removals?
  2. If yes, how should we do this?



# Should we change the ETS?

Current NZ ETS drives least-cost abatement, which is currently exotic forestry; in other words, the NZ ETS will predominantly drive removals instead of reductions



There is a case for the ETS prioritising gross emissions now.

If we want to use price to drive gross reductions, as well as forestry, we would need to change the ETS

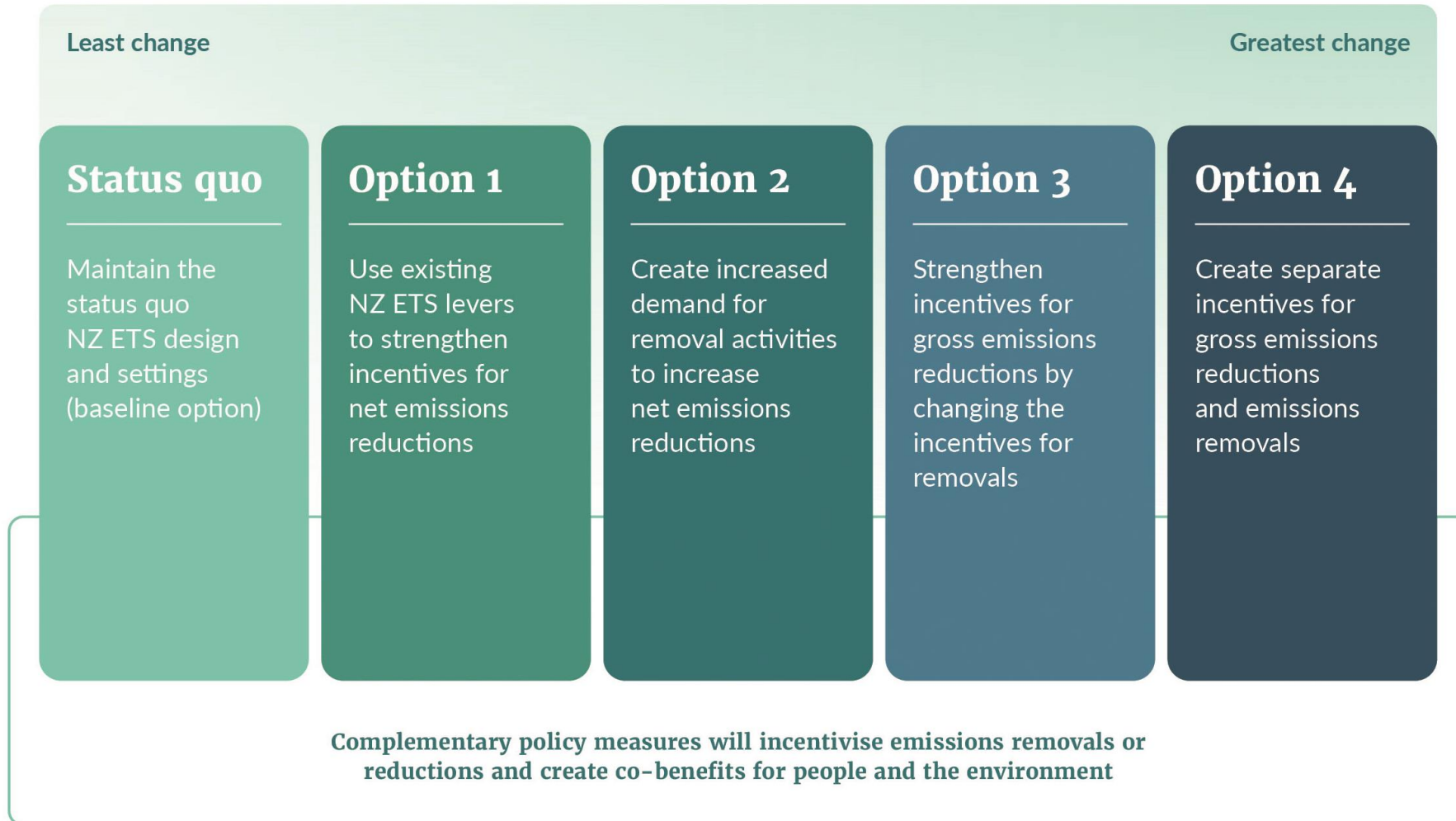
# If we decide to change the ETS how should we assess our options?

- Our primary criterion is whether the options can **drive the gross emissions reductions and removals** we need to meet our budgets and targets
- The Crown is committed to meeting its obligations under **Te Tiriti o Waitangi**
- Further considerations:
  - Costs on businesses
  - Cost on whānau and regions
  - ETS market function, and
  - ability to support co-benefits.





# If we decide to change the ETS what are our options?



# Option 1

- Decreasing the amount of NZUs in the market, so the carbon price rises
- Could be effective in the short-term:
  - emitters reduce emissions faster, and
  - landowners to plant more trees
- Not effective over the long-term:
  - with more carbon removals, the carbon price will likely drop.



# Option 2

- Allow the government and/or overseas buyers to purchase NZUs
- May raise the price of carbon, incentivising emissions reductions and removals (eg, forestry)
- Effectiveness may be limited - uncertain outcomes



# Option 3

- Fewer NZUs available to emitters by placing restrictions or conditions on use of removal units
- Emitters purchase more emissions units from government or draw from stockpile
- May encourage emitters to reduce emissions - may not encourage new forests to be planted.





# Option 4

- Creating two NZ ETS markets: one for gross emissions and one for removals
- Emitters can only use NZUs from the government for surrender obligations
- Removal activities are incentivised through a separate market (with choices on who purchases units)



# Co-benefits and other removals

The review is also considering whether the NZ ETS should:

- Strengthen incentives for removal activities with broader environmental outcomes or co-benefits, and
- Include additional removal activities





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# Have your say – Your voice matters

6 regional kanohi ki te kanohi hui will be held in July – August. If you are interested in attending, please contact [MaoriClimateEngagement@mfe.govt.nz](mailto:MaoriClimateEngagement@mfe.govt.nz)

We are accepting submissions until **11.59pm, 11 August 2023**

- You can read the full discussion document, or a summary of the consultation in English and te reo Māori, and make a submission via the online portal here <https://consult.environment.govt.nz/climate/nzets-review/>
- You can indicate on your submission if you want it to be considered a joint submission for both the ETS Review and redesign of permanent forest category
- For more information, please contact [MaoriClimateEngagement@mfe.govt.nz](mailto:MaoriClimateEngagement@mfe.govt.nz)



# Redesigning the NZ ETS Permanent Forest Category



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# Permanent forests will help us meet our climate targets

The permanent forest category is a new activity in the NZ ETS for forests that are not intended to be clear-felled for at least 50 years.



## **Permanent exotic forests:**

- Sequester carbon quickest
- Cheaper to establish than indigenous species
- Earn NZUs for longer than production forests

## **Permanent exotic afforestation:**

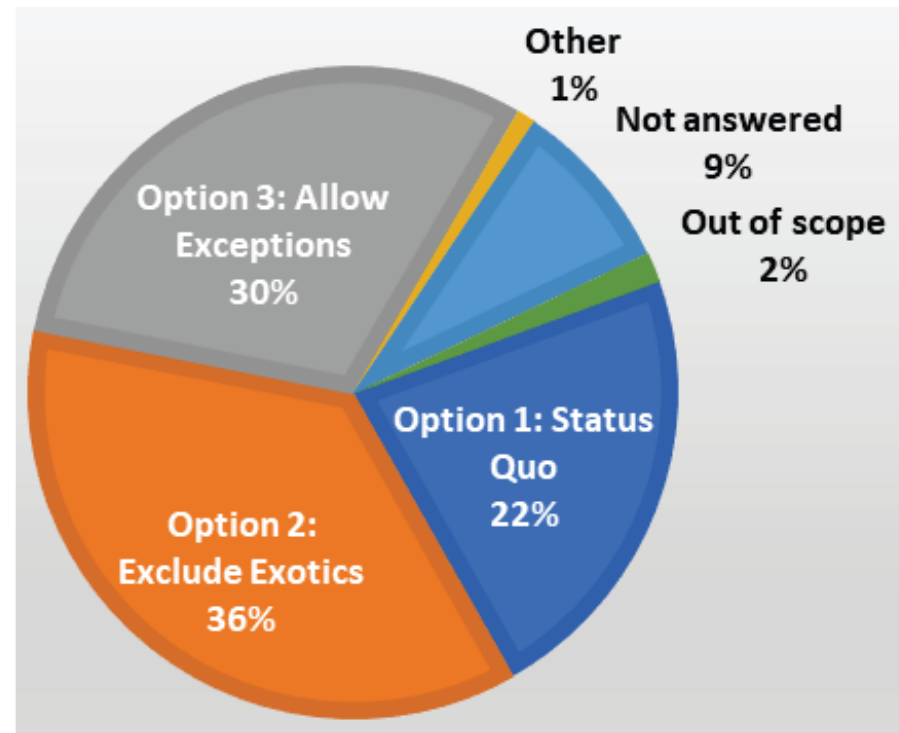
- Helps meet emissions reduction targets
- However, current settings may not deliver the best outcomes for all of New Zealand.



In April  
2022, we  
asked you:

Should exotic forests be allowed in the  
permanent forest category?

### General feedback



### Feedback from Māori

- **71%** of Māori submitters favoured allowing exotic forests into the category (at least on Māori land).
- A further **20%** of Māori submitters only supported changes if there were exceptions.



# What are we trying to achieve by redesigning the permanent forest category?

A **redesigned permanent forest category** could support:

- Climate change mitigation
- Climate change adaptation
- Environmental outcomes (freshwater quality, soil conservation, indigenous biodiversity)
- Māori aspirations for their land
- Rural economies and communities



# A redesigned NZ ETS permanent forest category

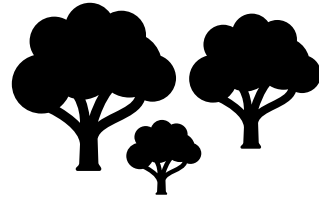
**We want your views on three key questions:**

1. What forests should be allowed in the category?
2. If transition forests are included in the category, what carbon accounting method should they use?
3. What forest management rules and compliance regime will best maximise opportunities, while minimising risks?





# 1. What forests should be allowed in the category?



Option 1.1: only transition forests  
and indigenous forests

Which forests should be allowed in  
the permanent forest category?



Option 1.2: exotic forests under  
limited circumstances

**Note:** we are not consulting on  
the status quo or indigenous  
forests only as these options were  
consulted on in 2022

1.2a: long-lived exotic species

1.2b: Māori-owned land

1.2c: small scale on-farm

*These sub-options not mutually exclusive*

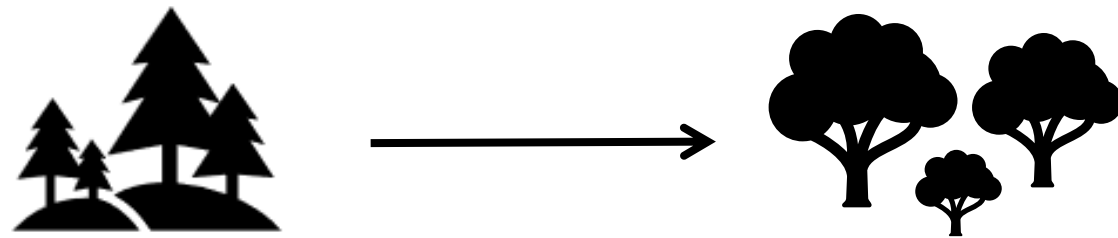


## 2. Transition forests

**Transition forests:** forests managed to transition from predominantly exotics to indigenous species over time.

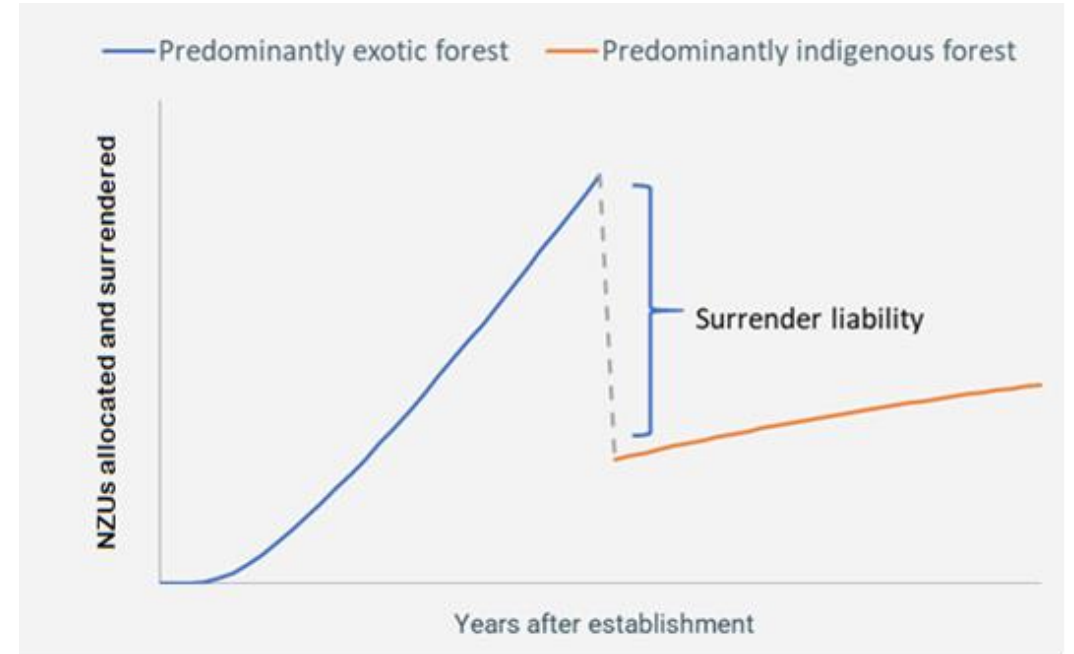
Transition forests could play a role in NZ's climate response - by helping establish cost-effective indigenous carbon sinks.

A redesigned permanent forest category could support transition forests.

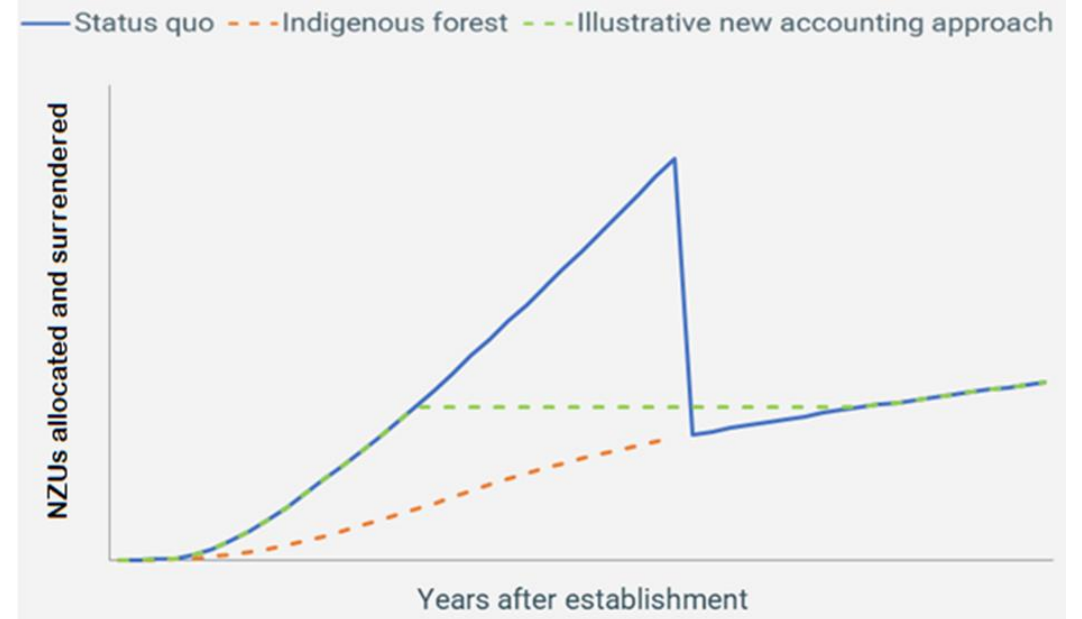


## 2. Do transition forests need a new carbon accounting method?

### 2.1: Status Quo (Stock change accounting)



### 2.2: New accounting method (illustrative example)



### 3. What forest management and compliance is needed?

We want to ensure permanent forests are managed appropriately.

- Managing forest health, wildfire, and pests = better protection of forest carbon sinks
- Support successful transition forests
- Provide ongoing employment opportunities.

Three sub-questions:

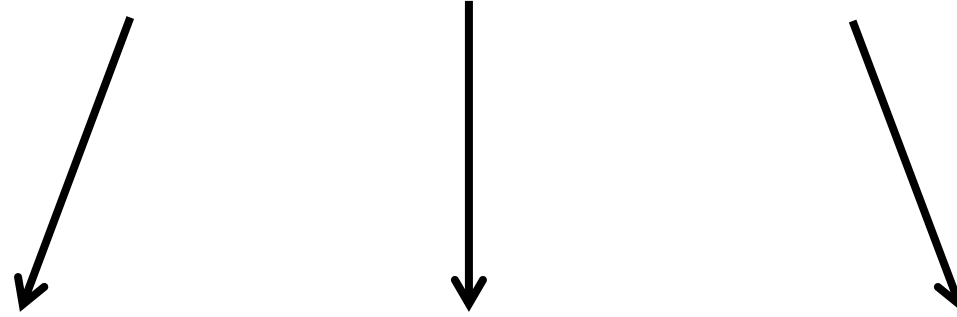
- a. what should the new rules be, and which forest types should they apply to?
- b. how flexible or prescriptive should the new rules be?
- c. what should the compliance (monitoring and enforcement) regime look like?





### 3a. What new rules are needed for different forest types?

What new rules do we need, and which forest types should they apply to?



Option 3.1:  
Status quo

No additional  
forest  
management rules

Option 3.2:  
New minimum  
forest  
management  
requirements

- for permanent  
forest category

Option 3.3:  
New minimum  
forest  
management  
requirements

- for transition  
forests

*Options 3.2 and 3.3 are not mutually  
exclusive*



# 3b. How flexible or prescriptive should forest management requirements be?



## Prescriptive

- Provide regulatory certainty.
- Ensure that forests are managed consistently.

## Flexible

- Can adapt to new pressures, practices & science.
- Tailored to specific circumstances (e.g., locations, species or forest types).

One idea: forest management plans could be a flexible option

Forest management plans could:

- Identify risk mitigations
- Stipulate best practice forest management
- Outline timeframes for management interventions

We would like your feedback on forest management plans, including:

- Their design
- Verification and monitoring
- Added costs

### 3c. What should the monitoring and enforcement regime look like?

We need to ensure the rules of the redesigned category can be effectively implemented, monitored, and enforced.

We would like feedback on compliance design features, including:

- Escalation and flexibility.
- Compliance tools already available in the NZ ETS.
- New compliance options that may be better suited to permanent forestry.
- Ongoing compliance with forest management plans.



# How to have your say

6 regional kanohi ki te kanohi hui will be held in July – August. If you are interested in attending, please contact [MaoriClimateEngagement@mfe.govt.nz](mailto:MaoriClimateEngagement@mfe.govt.nz)

- You can read the full discussion document or other analysis and make a submission via the online portal here: [A redesigned NZ ETS Permanent Forest Category - Ministry for the Environment - Citizen Space](#)

You can also email your submission to [naturalresourcespol@mpi.govt.nz](mailto:naturalresourcespol@mpi.govt.nz)

You can indicate on your submission if you want it to be considered a joint submission for both the redesign of permanent forest category and ETS Review.

