



18 October 2018

Document Number MPI:

B18-0807

Document Number MfE:

2018-B-05042

Emissions Trading Scheme Consultation: Submissions Analysis and Next Steps

Purpose:

The purpose of this briefing is to provide you with an initial summary of the feedback from submissions at the conclusion of public consultation on proposed changes to the New Zealand Emissions Trading Scheme, and to indicate to Ministers the upcoming early policy decisions before the end of 2018.

Minister	Action Required:	Minister's Deadline
Minister of Forestry Minister for Climate Change	<p>Note the majority of submissions support for most proposals put forward at consultation.</p> <p>Note there is more detailed analysis to be completed for some of the more contentious proposals where feedback was more divided. For example the transition arrangements for 'existing' forests if required to move accounting approaches.</p> <p>Note that a set of proposals on the ETS unit supply framework and technical changes will be put to Cabinet decisions in late November 2018.</p> <p>Note that a set of proposals on the operational changes to the ETS forestry settings and the core decisions for the creation of a new post-1989 permanent forest activity in the ETS will be put to Cabinet decisions in late November 2018.</p>	As soon as possible

Ministry for Primary Industries Contacts

	Name	Position	Work	Mobile
Responsible Manager	Carolyn Holmes	Team Leader, Domestic Climate Change		
Principal Author	Elloise Kidd	Policy Analyst, Domestic Climate Change		

Ministry for the Environment Contacts

	Name	Position	Work	Mobile
Responsible Manager	Scott Gulliver	Acting Manager, Climate Change		022 493 0584

Principal Author	Kate Whitwell	Policy Analyst, Climate Change		
------------------	---------------	--------------------------------	--	--

Key Messages

1. The Ministry for the Environment (MfE), the Ministry for Primary Industries (MPI) and Te Uru Rākau publicly consulted on a package of proposed changes to the New Zealand Emissions Trading Scheme (ETS) in August and September 2018.
2. Following the conclusion of consultation, officials have completed an initial review of the 253 submissions received. Submissions were received from corporates, industry bodies, community organisations (e.g. NGOs), Iwi and Māori organisations, and individuals.
3. This briefing contains a preliminary high level summary of the feedback received from submissions. While there is a trend of overall support (in number of submissions) for the majority of the proposals, it is important to note that more detailed analysis is still required to accurately represent the issues, provisos and sector-suggested alternative proposals raised during consultation. This additional analysis will be presented to Ministers to inform upcoming policy decisions.
4. Submissions were generally very supportive of the aim of the consultation to improve the framework and mechanics of the ETS. There was overall support for MfE's proposals to establish a process for coordinating and managing ETS unit supply decisions, introduce regular auctioning, establish a new price ceiling and make proposed operational and technical improvements.
5. The majority of submitters supported the preferred proposals to improve the ETS settings for forestry through the introduction of averaging accounting and the associated complimentary proposals.
6. Concerns were raised by submitters that if existing forest owners were required to move to averaging it would disrupt their business plans, existing contracts and their financial situation if they have forward sold some units. Feedback was more evenly split for the date for a 'new' forest and some elements for the transition of existing forests to averaging accounting.
7. There was strong support for the introduction of a permanent post-1989 forest activity into the ETS, and generally good support for the proposed detailed design of this policy.
8. While the submissions on the operational improvements for forestry generally showed support, there was some variance across the proposals. This appeared to emerge where there was some misunderstanding amongst submitters of the current ETS settings, further highlighting the need to simplify the operation of the scheme.
9. Submissions from all sector groups consistently stated that regulatory predictability is very important to underpin confidence in the ETS.

10. A summary of the results and main feedback for each individual consultation question is attached in Appendices One, Two, Three and Four.
11. Officials will be providing Ministers with final advice on these proposals in a series of Cabinet papers in late November 2018 and early 2019. A full summary of submissions will be published before a Climate Change Response Act amendment bill is introduced to the house.

Recommendations

12. Officials recommends that you:

a) **Note** the majority of submissions support for most proposals put forward at consultation.

Noted

b) **Note** there is more detailed analysis to be completed for some of the more contentious proposals where feedback was more divided. For example the transition arrangements for 'existing' forests if required to move accounting approaches.

Noted

c) **Note** that a set of proposals on the ETS unit supply framework and technical changes will be put to Cabinet decisions in late November 2018.

Noted

d) **Note** that a set of proposals on the operational changes to the ETS forestry settings and the core decisions for the creation of a new post-1989 permanent forest activity in the ETS will be put to Cabinet decisions in late November 2018.

Noted

Charlotte Denny
Director, Environment and Communities
Policy and Trade
Ministry for Primary Industries

Hon Shane Jones
Minister of Forestry

/ / 2018

Roger Lincoln
Director, Climate Change
Ministry for the Environment

Hon James Shaw
Minister for Climate Change

/ / 2018

Background

The New Zealand Emissions Trading Scheme (ETS) is an important mechanism to support New Zealand reaching our climate change objectives

1. Reducing domestic emissions is becoming increasingly important as New Zealand approaches a series of ambitious climate change targets. New Zealand currently has a target to reduce greenhouse gas emissions by 30 percent below 2005 levels over 2021-2030 under the Paris Agreement. The Government is also currently considering a longer-term 2050 emissions reduction target and domestic emissions budget under the Zero Carbon Bill.
2. The ETS is New Zealand's key climate change policy tool aimed at reducing greenhouse gas emissions. However, since its introduction, the effect of the ETS has been reduced by regulatory uncertainty and a lack of tools to effectively manage supply, as highlighted in a 2015/2016 review. Following this review there is now an opportunity to improve the ETS to enable New Zealand to achieve future emissions targets.
3. It is important that the supply of units into the ETS can be managed over time so the scheme can align to New Zealand's emission targets and effectively signal them in the economy. This will help to ensure changes are predictable and transparent.
4. Improving the ETS will encourage land owners to increase afforestation in order to meet our climate change obligations. Forestry is a key mechanism for achieving these domestic emissions targets as it is currently New Zealand's main carbon sink.¹
5. Incentivising new forests, both permanent and rotational, will also support the government's target to plant one billion trees in the next 10 years. The One Billion Trees Programme aims to also achieve other co-benefits such as regional economic development, and improve erosion control and other land use outcomes.

Consultation was undertaken on improvements to the ETS framework and how the forestry settings will operate within the ETS

6. A six week public consultation ran from 13 August to 21 September 2018. MfE, MPI and Te Uru Rākau publicly consulted on a package of proposed changes to the ETS framework and the forestry settings within the ETS.
7. The proposed changes to the ETS framework included:
 - coordinating unit supply decisions;
 - the introduction of auctioning of New Zealand Units;
 - replacing the fixed price option with a cost containment reserve;

¹ This is consistent with recent reports from the Productivity Commissions and GLOBE New Zealand, as well as modelling undertaken as part of the Zero Carbon Bill.

- the future use of international units;
 - a phase down of industrial allocation;
 - improving market information, compliance and penalties; and
 - a package of technical and operational improvements.
8. The proposed changes to forestry consulted on included:
- a change to the forestry accounting approach in the ETS
 - ways to recognise the emissions mitigation from harvested wood products
 - creating a new permanent forest option in the ETS, and
 - delivering a package of operational improvements for forests.
9. Combined MPI, MfE and Te Uru Rākau public consultation workshops were held in Wellington, Auckland, Christchurch, Dunedin, Gisborne, Rotorua, Napier, New Plymouth, Nelson, and Whangarei, with over 575 attendees recorded. A separate Māori Leaders Workshop was also held in Wellington as part of the consultation.
10. We received 253 submissions in total. 147 of these submissions responded to the forestry proposals and 162 to the MfE proposals.
11. This briefing contains a preliminary high level summary of the feedback received from submissions to give an early indication of stakeholder feedback. This is presented in quantitative data based on the number of submitters who answered each question. The key reasons given for or against support across the majority of submissions have also been provided where appropriate.
12. While there is a trend of overall numerical support for the majority of the proposals, it is important to note that more detailed analysis is still required to accurately represent the issues, provisos and sector-suggested alternative proposals raised during consultation.
13. Officials will undertake further review and analysis of the submission results. This additional analysis will be presented to Ministers to inform upcoming policy decisions.

Consultation results: MfE proposals to improve the ETS framework

Most submitters supported the package of proposed framework changes to the ETS

14. In general, submitters supported the aim of the consultation to make the ETS fit-for-purpose to help New Zealand deliver on its emissions reduction targets.
15. Overall, there was support for most proposals. There was clear majority support for:
- the introduction of auctioning open to all ETS account holders;
 - the introduction of a cost containment reserve (CCR);

- the introduction of strict liability infringement offences for low-level non-compliance; and
 - eight of the nine proposed operational and technical improvements.
16. Two proposals did not attract a high level of support:
- The preferred auction format proposed by the Government of a uniform-price, single-round, sealed bid auction.
 - An operational and technical improvement proposal that asked if large purchasers of coal, natural gas or obligation fuels should have the ability to opt-in for only a portion of their obligations.
17. A consistent message to emerge from submitters across all sector groups was that regulatory predictability is very important to underpin confidence in the ETS. Submitters were also interested in the role of the ETS in relation to the Zero Carbon Bill. This feedback is consistent with the 2015/16 review when lack of regulatory predictability was the most common message received from market participants.
18. A more detailed summary of stakeholder feedback on each proposal put forward for consultation is attached in Appendix One.
19. A high level summary of the response to key proposals is below.

Submitters supported predictability and early signalling as key for unit supply decisions

20. When asked about the issues that should be considered by the decision maker when making unit supply decisions submitters gave the most support to issues related to the proper functioning of the ETS, emissions budgets and recommendations from the Climate Change Commission.
21. A number of submitters thought that changes to unit supply should only be made in special circumstances or a force majeure event. Submitters also often noted that predictability and early signalling were key. Many of these submitters supported one year advance notice of any changes, specifying that changes should apply from the beginning of a compliance year.

Most support the introduction of auctioning, with varying views on its format

22. While there was clear support for the introduction of auctioning there was some disagreement over the preferred auction format. The Government's preferred option of a uniform-price, single-round, sealed bid auction format received the highest level of support (43% of submitters), falling short of majority support. Approximately a third of submitters preferred an ascending clock auction and a minority did not support the introduction of auctioning.

23. The majority of submitters believed that auctions should be open to all NZ Emission Trading Register account holders and held on a regular basis (either monthly or quarterly).
24. Eighty five percent of submitters thought that the proceeds from Government auctioning of New Zealand Units (NZUs) should be hypothecated and there was a wide range of views over where the funds should be directed. Suggested directions for funds included research and development (sector specific or low emissions), domestic abatement, support for those impacted by the economic cost of climate change action, and development of low emissions solutions.

Support for a cost containment reserve to replace the fixed price option

25. There was support for the Government's proposal to replace the \$25 fixed price option (FPO) with a cost containment reserve (CCR) price ceiling implemented through the auctioning mechanism. There was some qualification to this support and submitters were clear that any adjustments made to the price ceiling level must be clearly signalled well in advance and the decision maker must follow clear and transparent processes in order to support market confidence.
26. Overall feedback was mixed regarding whether the level of the \$25 FPO should be increased prior to 2020. The forestry sector, non-government organisations and individuals were more likely to support an increase before 2020. Businesses were evenly split for and against an increased FPO, with some commenting that raising the price before 2020 with little notice would impact commercial arrangements. The energy sector generally did not support this proposal.
27. There was support for incorporation of a price floor mechanism into the ETS from a number of forestry sector submitters. Submitters from the research sector were more concerned with the stability and credibility of the ETS.

Views around the use of international units were more evenly split between submitters

28. Submitters often commented that any use of international units must ensure that those units are credible and will result in verifiable emissions reductions.
29. Submitters were relatively evenly split between those supporting indirect purchase by the Government and those supporting direct purchase by market participants. A large number of submitters supported both methods, starting with Government purchase until international market agreements could be reached or units could be verified, and then moving to allow direct purchase of units under limited conditions.
30. Some submitters supported retaining the ban on international units, stating that New Zealand should focus on domestic emissions reduction.

A mixed response was received for a potential industrial allocation phase-down

31. There was a mixed response to the question of how decisions should be made about a phase-down of industrial allocation and how it should be initiated. Most submitters supported introducing a decision-making process, but significant numbers were also in favour of an up-front decision, introducing a test or a combination of two or more approaches.
32. Industry groups that currently receive industrial free allocation were likely to support introducing a test for the phase-down of allocation, perhaps in combination with a decision-making process. Only one submitter argued that there should be no phase-down of industrial allocation. This is a shift from the previous ETS review when there were a greater number of submissions calling for no phase-down.
33. There was support for a rapid withdrawal of industrial allocation from submitters concerned about meeting emissions targets, while those supporting a slower rate of phase-down emphasised the importance of emission leakage and the risk to investor confidence.

Improved market information, better compliance and appropriate penalties

34. Many submitters supported moves towards improved market information in general, stating that better market information could promote transparency and good practice. Some were concerned that releasing certain types of information could risk exposing commercially sensitive information or causing reputational damage. For example, some submitters would prefer to only see cases of non-compliance published if they progress to prosecution.
35. Submitters generally believed that prosecution was inappropriate for addressing low-level non-compliance and supported the introduction of strict liability infringement offences. Most submitters were comfortable with the proposed level of the fines, and there was some support for a proportional approach to setting penalties.

Majority support was given for most of the technical and operational improvements

36. Submitters pointed to the need to reduce complexities and ease administrative burden in designing a functioning ETS and gave clear support to eight of the nine proposed improvements in this section.
37. One operational and technical improvement proposal asked if large purchasers of coal, natural gas or obligation fuels should have the ability to opt-in for only a portion of their obligations. Approximately half the responses disagreed with this proposal, citing increased complexity and administrative burden.

Consultation Results: MPI and Te Uru Rākau proposals to improve the forestry settings in the ETS

Most submitters supported the package of proposed forestry changes to the ETS

38. In general the majority of submitters supported some or all of the package of proposed changes to forestry in the ETS. In particular there was majority support for the following proposals:
- the introduction of averaging accounting for 'new' forests entering into the ETS;
 - giving existing post-1989 forest owners the choice of moving from carbon stock change accounting to averaging;
 - devolving the international benefit received for harvested wood products (HWP) to forestry participants through increasing the 'average age' of their forest;
 - the introduction of a permanent post-1989 forest activity into the ETS; and
 - the package of operational improvements for forestry, with variance in degree of support dependent on the specific proposal.
39. On some of the proposed changes, feedback was more evenly split. Notable disagreement was on:
- the proposal for forests planted after 1 January 2020 to be considered 'new' forests; and
 - some elements of the proposed transition for existing forests from the current approach to averaging accounting.
40. Some submitters supported the proposals with caveats attached to their answers. Notable conditional support was submitted for the following proposals:
- Some support for averaging for 'new' forests was conditional on existing forest owners who remain on carbon stock change to also account for any new forest they plant under the carbon stock change approach.
 - Some support for three proposals: removal of adverse event liability, offset planting to avoid deforestation liability, and devolving HWP to forest owners, was conditional on these proposals also extending to post-1989 forests who remain on the carbon stock change approach.
 - While the majority of existing Permanent Forest Sink Initiative² foresters want to transition to the new activity, some expressed a desire to see the 'final' policy before making the decision. However, they were happy with the direction discussed in the policy document.

² The Permanent Forest Sink Initiative is the current policy to provide carbon credits to permanent forests. However, uptake has been low (roughly 15,500 hectares) due to high administrative cost and complexity (it is estimated to be up to \$6,000 more to register in the PFSI vs. the ETS).

41. A more detailed summary of stakeholder feedback on each proposal put forward for the forestry accounting changes is attached in Appendix Two.
42. A summary of submission responses for the permanent forestry proposals is attached in Appendix Three, and the operational forestry proposals are attached in Appendix Four.
43. A high level summary of the response to key proposals is below.

“Averaging Accounting” – Changing how rotational forests earn carbon credits in the ETS

44. The consultation document proposed a significant change to the approach in the ETS for calculating and rewarding carbon sequestration for new post-1989 forest planting called averaging accounting.
45. Forestry participants will earn emissions units that reflect a long term view of the carbon stored in their forest. They will not face any liabilities if they harvested a forest or in the event of an adverse event, as the sum of the units in the forest is based on the average amount of carbon the forest holds over multiple growth and harvest cycles.

There was widespread support for introducing averaging accounting for new planting

46. Seventy one percent of submitters who answered this question expressed support for requiring all people who register ‘new’ forests in the ETS to use averaging accounting. These submitters commented on the simplicity of the approach and its increased potential to drive afforestation.
47. Some submitters opposed the introduction of averaging for new forests. This was mainly because they preferred the way in which the current approach provides the optionality between growing their forest for carbon or timber. Some thought that there were better investment drivers under the current approach than under averaging.

There was also a clear preference in the options for introducing averaging accounting for existing forests

48. As the benefits associated with averaging accounting are less clear and participant specific for existing forests, compared with new forests, we consulted on three high level options:
 - Option 1 – Require all participants with existing forests to remain on the current accounting approach
 - Option 2 – Require all participants with existing forests to move to averaging; or
 - Option 3 – Allow participants with existing forests a one-off decision to use averaging, or to retain the current approach.

49. Eighty three percent of submitters who responded would prefer existing forest owners to have a one-off decision to move to averaging (Option 3). Most submitters feel there will be a split between those who will benefit and those who will be worse off from a transition to averaging. Therefore, they believe the fairest option is to give existing participants the choice of which approach suits them best.
50. Many submitters also commented that if existing forest owners were required to move to averaging it would disrupt their business plans, existing contracts and their financial situation as they have forward sold some units. Some mentioned that this would interfere with their property rights, and a few suggested potential legal action.

The mechanics of introducing averaging for new and existing forests are important

51. The consultation also covered a range of technical design issues and transition measures for introducing averaging for new and existing forests. A more detailed summary for each of these design questions is included in Appendix Two.
52. The majority of submitters clearly supported most of the averaging design detail proposals put forward at consultation. There were however two key design questions where there was only a slight majority support.
53. Of the submitters who responded to whether 1 January 2020 would be an appropriate date for the definition of a 'new' forest, just 53% agreed with the proposal. Many believed the date was inappropriate, with 40% of submitters stating it was too late and would cause a delay in planting planned for the 2019 season.
54. There was also a mixed response to how far back a participant could claim NZUs on entry into averaging. 42% of submitters who responded supported the current approach of being able to claim back to the most recent mandatory emissions return period, stating it is fair and simple. However 39% of submitters opposed the approach, with many mentioning how it impacts the transition of existing foresters. These submitters raised the concern that existing forests will never be able to claim the same amount of units compared to a new forest, suggesting they should be able to claim back to 2008.

Introducing a mechanism for recognising emissions mitigation from harvested wood products

55. The Government receives international recognition for the emissions mitigation from carbon stored in harvested wood products (HWP), including timber framing and furniture for example.

56. The consultation document put forward two proposals to recognise this sequestration domestically, neither of which were presented as a 'preferred' option. The two proposals are:
- ETS participants using averaging accounting receive additional NZUs through an increase to the average age of their forest; or
 - Create an HWP "industry good" wood processing sector fund.
57. Of the submitters that indicated a preference for this question, 55% preferred the option to provide the benefit to foresters through additional NZUs. They consider this approach will increase afforestation, will be a simple approach to implement, and is fair as foresters provide the sequestration of carbon that is stored long term.
58. Significantly less submitters, 17.5% of those who answered, preferred the creation of an 'industry good' fund which would provide the benefit to the processing sector. These submitters consider it will increase carbon sequestration and would incentivise the creation of more long-lived wood products.
59. A number of alternative approaches were suggested, such as splitting up the value and devolving the benefit to both the forestry sector and the processing sector, devolving the benefit to those under the carbon stock change approach, and providing benefit to pre-1990 forests as well.

Creating a new permanent forest activity in the ETS was widely supported

60. The consultation document proposed introducing a new permanent post-1989 forest activity into the ETS and discontinuing the Permanent Forest Sink Initiative (PFSI) under the Forest Act 1949. This would give permanent forest owners the option to market their New Zealand Units as 'high quality', and will make registration and administration easier and cheaper for both participants and the Crown.
61. 80 submitters responded to the question asking whether they supported the overall approach of creating a new permanent forest activity. 85% of respondents supported MPI's preferred policy approach (and 11% were unsure).
62. The most common reasons given for supporting the proposal were that it would encourage permanent forestry, would reduce costs and administration associated with the current PFSI, and would offer permanent post-1989 participants a suite of improvements that address long standing issues with growing permanent forests for carbon.³

³ For example, the application adverse events cover to permanent forests in the ETS addresses an ongoing issue where the cost of insurance to cover the units that need to be repaid in the event of an adverse event often exceeds the income from the forest.

There was also general agreement of major details for a permanent post-89 forestry category in the ETS

63. While slightly fewer submitters directly answered the more detailed questions about the design of the permanent forest category, there was still clear support for most of the proposals.
64. Of those who answered, 59 of the 71 (83%) agreed that the existing carbon stock change accounting process should be used for permanent forests as it will recognise the full amount of carbon stored in the forest.
65. There was strong support shown for sharing the majority of the definition of “a forest” as applies in the current ETS, with the exception of the “non-harvest period” which would only apply to permanent forests.
66. There were 46 out of 64 respondents (72%) that agreed that the restrictions on the permanent forest category should be 50 years of no clear fell with at least 30% canopy cover maintained. Some of the submitters who disagreed felt the minimum of 30% canopy cover was too low, particularly for indigenous forests.
67. Similarly, 44 of 64 respondents (69%) supported the proposal for a 50 year non-harvest period. Some of the submitters who agreed would prefer a longer period but recognised the complexities of establishing limits over 50 years on land falling under the Te Ture Whenua Maori Land Act 1993. Most of the submitters who disagreed stated they would prefer a longer period, with some suggesting the inclusion of further categories for a 100 year period or a perpetual permanent forestry.

Generally there was good support for the proposed operational details for permanent post-89 forestry category

68. Of those who responded, 46 of 61 (75%) preferred the proposed permanent forest category to operate without a covenant. Many of the submitters supported their answer by highlighting the additional cost and a high administrative burden covenants can impose on the land owner.
69. Thirty five of 58 respondents (60%) supported the Governments preferred approach for transitioning participants out of the PFSI. The nine submitters who disagreed mostly felt it was unfair on current participants to stop the PFSI.

Improving the way the ETS works for forestry participants through a package of operational changes

Strong support was shown for increasing the practicality and certainty of the ETS for forestry

70. The consultation document proposed a reference map to be created by Te Uru Rākau as the first reference for determining ETS forest land eligibility. 61 of 72 submitters (85%) who answered this question supported the proposal. Many of those in favour stressed the potential value of the map to create more certainty for forestry investment and forestry establishment.
71. Many supporters caveated their support on the ability to challenge the eligibility displayed on the map as outlined in the proposal. 47 of 63 submitters (75%) want the map to be publicly available. Responses differed about the level of detail the map should show, with some preferring eligibility and unit balances, while others were hesitant to allow potentially commercially sensitive information such as unit balances to be released.
72. Forty seven of 57 respondents (82%) were in favour of improving the workability and flexibility of the offsetting process for pre-1990 forests. Some of these submitters indicated that they have found the current process very complicated and impractical.
73. The proposal to improve the tree weed deforestation exemption process was supported by 41 out of 51 respondents, only 1 was against the proposal and 9 were not sure.

There was split support for simplifying the exemptions for pre-1990 multiply owned land

74. Currently, landowners with less than 50 ha of pre-1990 forest land can apply for an exemption from deforestation liabilities. However, due to the way the exemption is constructed it is very difficult to apply to multiply owned land in trusts and Maori freehold land under the Te Ture Whenua Maori Act 1993. The proposal in the consultation document is to allow a subsequently appointed or professional trustee to apply for the exemption (rather than each landowner from 1 September 2007).
75. Seventeen of 40 respondents (43%) agreed with this proposal, while 16 out of 40 were unsure. The majority of those unsure disagreed with the underlying exemption policy and instead wished for that to be re-examined.

Minor and technical changes had high levels of support

76. The remainder of the operational proposals (included in Appendix Four) were mostly answered by well-informed ETS participants and had high levels of support.

Next Steps

77. Following the initial submissions review and further analysis, officials across MfE, Te Uru Rākau and MPI will work towards final policy advice on the above proposals separated into two tranches of work.
78. MfE will be providing Minister Shaw with a draft cabinet paper in early November. This will focus on improvements to the ETS unit supply framework, specifically the 'coordinated decision making process' and aspects that will allow the ETS to align with NZ's climate change targets and effectively place a cap on the ETS. It will also seek policy decisions on technical changes to allow drafting and other preparation to begin.
79. Minister Shaw has already been briefed on the details of these proposals (2018-B-05008 "*Timeframes for Upcoming Cabinet Papers on ETS Improvements*"). Following ministerial consultation, MfE will provide Minister Shaw with a final Cabinet paper to be lodged on 22 November for consideration at ENV on 27 November.
80. Te Uru Rākau will be providing Minister Jones and Minister Shaw with a draft Cabinet paper in early November with final policy advice on the operational changes to the forestry settings in the ETS and core decisions for the creation of a new permanent post-1989 forest activity in the ETS. Following ministerial consultation, Te Uru Rākau will provide Minister Jones and Minister Shaw with a final Cabinet paper to be lodged on 22 November for consideration at ENV on 27 November.
81. The remaining policy decisions will be provided to Ministers in early 2019 to enable sufficient time for further research and analysis to be completed following consultation. These will include:
 - the introduction of averaging accounting;
 - the harvested wood products proposal;
 - design details for a post-1989 permanent forest category;
 - responses to forestry operational issues raised in consultation;
 - remaining decisions on the unit supply framework;
 - industrial allocation phase-down;
 - market information; and
 - market governance.
82. MfE, MPI and Te Uru Rākau will publish a full summary of submissions before a Climate Change Response Act amendment bill is introduced to the house.

Appendix One: Detailed Summary of Submissions for the MfE ETS Framework Proposals

Unit Supply

Question 1: What issues should the decision maker consider when making unit supply decisions?

1. Submitters gave the most support to the following three issues related to unit supply; proper functioning of the ETS, emissions budgets (such as those proposed in the Zero Carbon Bill), and recommendations from the independent Climate Change Commission proposed in the Zero Carbon Bill.
2. All these issues relate to the overall aim of the proposals to make the scheme fit-for-purpose to help New Zealand deliver on its emissions reduction targets. Many submitters commented that all issues listed should be considered, although there was less support overall for inflation rates to be included.

Question 2: What, if any, restrictions should be placed on the ETS decision maker when making unit supply decisions?

3. A number of submitters thought that changes to unit supply should only be made in special circumstances or a force majeure event. Submitters also often noted that predictability and early signalling were key. Many of these submitters supported one year advance notice of any changes, specifying that changes should apply from the beginning of the surrender period (i.e. the beginning of the calendar year).

Question 3: Do you agree with the proposal to implement a single-round, sealed bid auction format with uniform pricing?

4. Slightly more submitters agreed with this proposal (43%) than disagreed (35%) with the remaining submitters unsure. Those who agreed commonly mentioned simplicity, efficiency and low administration costs. Some added a caveat that they were assuming transparency would be supported with a quick release of information after each auction.
5. Those who disagreed or were unsure, including forestry submitters who answered this question, expressed a range of opinions regarding auction format, with some stating they did not agree that auctions were necessary at all. There was support for auctions to be run using a multi-round ascending clock format for transparency and price discovery reasons.

Question 4: Do you think that auctioning frequency should be; weekly, monthly, quarterly, annually.

6. Nearly all submitters said that auctions should be held either monthly or quarterly. Only two submitters were in favour of weekly or annual auctions, without expressing a reason for their choice.

Question 5: Do you agree with the proposal that all NZ ETR account holders should be able to participate at auction? If not, why not?

7. More than 80% of submitters supported the proposal that all NZ ETR account holders should be able to participate at auction. Some of those who did not agree were concerned about the possibility of market speculation or stated that auctioning should be limited to participants with surrender obligations.

Question 6: Do you think that the Government should use the proceeds gained from the auctioning of NZUs for specific purposes? If so, please explain what those purposes would be.

8. This question prompted a relatively large number of comments. The majority of submitters (approximately 85%) did think that the Government should use the proceeds gained from the auctioning of NZUs for specific purposes.
9. Many submitters suggested proceeds could be used to directly fund the transition to a low emissions economy in a variety of ways. Others wanted funding channelled into research and development for emissions reductions generally, or towards research into reducing emissions for particular sectors such as energy or agriculture. Several submitters also suggested using these proceeds to support those individuals or groups who may experience hardship as a result of increasing emissions prices. A smaller group suggested that funds could be used to purchase international units, alongside funding domestic abatement.

Price ceiling

Question 7: Do you agree with the proposal to replace the \$25 fixed priced option with a cost containment reserve price ceiling implemented through the auctioning mechanism? If not, why not?

10. There was majority support for this proposal (nearly 60%). Approximately 15% of submitters, many of whom were businesses, would prefer to keep a version of the fixed price option for reasons of certainty or business stability. A small group of submitters would prefer not to see any form of price ceiling within the ETS and recommended letting the market decide price levels.

Question 8: How do you think the price level and number of units in the cost containment reserve should be managed over time?

11. A range of views were expressed in answer to this question. Submitters who were in favour of a mandated formulae supported this for reasons of transparency and certainty. However it was more common for those supporting a mandated formulae to also support the decision-maker having at least some discretion to determine the settings. In this situation it was often stated that the decision-maker needed to be constrained to consider only certain matters or a set of clear guiding principles.

Question 9: What actions should occur if the price ceiling is struck?

12. A significant proportion of submitters commented that all options should be available to the decision-maker in the situation where the price ceiling is struck and that the most appropriate action should be taken depending on the circumstances. The individual action attracting the most support was for the decision-maker to undertake a fuller system review. The second most supported action was to increase the price ceiling trigger level. Overall, submitters saw the need to allow the decision-maker flexibility but also said it was important to ensure that decisions to take any action were made in a transparent and considered way to maintain credibility and certainty in the market.

Question 10: Do you agree with the proposal to review the price ceiling if another significant event occurs (such as a decision to link the ETS with another carbon market)?

13. Nearly 70% of submitters agreed with this proposal to review the price ceiling if another significant event occurs, often with the proviso that adequate notice be provided of any such review. Those who did not support the proposal included submitters who do not support the idea of a cost containment reserve or who said that the driving consideration should be achieving emission reduction targets.

Question 11: Do you agree that the \$25 FPO may not be appropriate for the short term, and may need to be adjusted before 2020? Please explain

14. This question prompted a wide range of responses and some strongly worded comments both in support and against adjusting the \$25 FPO before 2020. Those in support gave a range of reasons including that the \$25 price level is too low to incentivise emissions reductions or that market forces should prevail. Submitters often included a caveat that any increase should be managed in a gradual and controlled way. Those against making any adjustment expressed concerns about business certainty and making sure that any changes to the market are notified well in advance. A number of submitters stated that they consider a clear signal from the Government that the FPO would remain in place at \$25 would help limit future price increases.
15. Nearly all forestry, individual and NGO submissions on this point agreed that adjustment may be needed before 2020. Businesses were evenly split for and against, with some commenting that raising the price before 2020 with little notice would impact on commercial arrangements. The energy sector generally did not support this proposal.

Limiting the use of international units

Question 12: Which mode of purchase for international units (direct or indirect) would be the best approach for the ETS, acknowledging that there are other significant factors that will influence this decision? Please explain.

16. Submitters were relatively evenly split between those supporting indirect purchase by the government or direct purchase. There was no clear distinction by sector group.
17. A subset of submitters, primarily larger businesses, support both modes. They recommend starting with indirect purchase to establish market linkages and ensure the credibility of international units, then moving to direct purchase once reliable linkages can be formed between markets and international agreements are in place to ensure international units are credible and high quality.
18. There was some support for the ban on the use of international units to remain. Submitters expressed the view that the ETS should focus solely on domestic abatement.

Question 13: If ETS participants are able to purchase and surrender international units directly, do you think that there is justification for varying the percentage of allowable international units by participant type? If not, why not?

19. The majority of submitters did not agree with this proposal or were not sure, for reasons of equity. The small number who did agree that there was justification for varying the percentage by participant type did not always explain why. Some of those who did give an explanation said that participants receiving free allocation should be restricted in their surrender of international units.

A phase-down of industrial allocation

Question 14: How do you think decisions on a phase-down of industrial allocation should be made?

20. Of approximately 90 submitters who expressed a view, the largest number (42%) supported a decision-making process while 38% supported an up-front decision to phase down allocation and 25% supported a test to trigger a phase-down. These options are not exclusive, and a subset of submitters preferred a combination: an up-front decision to phase down allocations at a slow rate, plus a test or process to decide on any more rapid phase-down.
21. Firms that receive allocation (carrying out emissions intensive trade exposed (EITE) activities) were more likely to support a test or a decision-making process. Those that wanted a test also mentioned the 'seventy per cent test' that was part of Australia's policy some years ago, and asked that it be considered for the ETS. Only two EITE firms expressed support for an up-front decision on a phase-down.

22. A significant number of submitters chose 'Other' as one of their options. Just over half of these were industry groups and EITE firms arguing for more stringent conditions to be met before starting any phase-down, while others argued for a rapid and unconditional phase-out.

Question 15: If a decision-making process for industrial allocation is implemented, which of the following factors should the decision-maker taken into account?

23. The two factors for the decision maker to take into account that were most widely supported by submitters were 'New Zealand's emission budgets' and 'the risk of emission leakage'. There was also substantial support for considering the availability of low-emission technologies and New Zealand's international obligations.
24. Some EITE firms and business groups used this question to elaborate on how they think an assessment of the risk of emission leakage can be made, based on emission pricing and allocation in competing jurisdictions, and to argue for the economic benefits of the EITE sector.

Question 16: If a phase-down is initiated in future, which of the following rates for phasing-down industrial allocation should be considered?

25. This question prompted a range of views from those wanting a much more rapid withdrawal of allocation to EITE firms, industry groups, and energy suppliers urging the importance of emission leakage and investor confidence. By contrast, only one industrial submitter argued that there should be no phase-down of their allocation under any circumstances.
26. For submitters who specified a preferred phase-down rate, the majority wanted a phase-down rate of 0.03 or more, with a small group preferring 0.02 and another small group wanting a 0.01 per year phase-down. A larger number did not choose any specific rate, which reflected the wide range of views on this question. There was, however, a clear message that many submitters preferred to support a decision-making process, and thought that any across the board phase-down would be too blunt.

Question 17: What impact would changes to the levels of industrial allocation from 2021 have on your investment or business decisions?

27. Approximately a third of the substantive responses to this question were from EITE businesses who indicated various levels of risk to their competitiveness if allocations were phased down in the absence of similar action affecting offshore competitors. Several industry groups and energy suppliers made similar arguments.
28. Approximately a quarter of responses were from the forestry sector indicating that a phase-down would have a direct and favourable impact on them. Several others suggested that there would be indirect benefits from a phase-down driving innovation and investment in low-emission sectors and technologies.

Market Governance

Question 18: For each of the seven areas that we have identified as being sources of potential risk, what is your assessment of the level of risk that they create, both now and in the future? Please provide examples or evidence if possible.

29. Submitters generally assessed that the risks listed applied more to the future than to the present. There was support to strengthen the market governance framework of the ETS. Very few submitters gave examples or evidence of existing risks.

Market Information

Question 19: Do you think that there would be benefits from publishing individual emissions data reported by ETS participants?

30. Just over half the submitters agreed there would be benefits from publishing individual emissions data. The main reasons cited were to support transparency in the market, improve market information and encourage good practice and accountability. Those who did not support publishing individual emissions data were most often concerned about the release of potentially commercially sensitive information. Emitters with upstream obligations were concerned that figures may be misrepresented as downstream emitters would not be included in reporting.

Question 20: Do you think cases of non-compliance should be published?

31. The majority of submitters thought that cases of non-compliance should be published, both as a deterrent and to encourage transparency for consumers and competitors. However this support for transparency was qualified. Some submitters thought that only cases of deliberate non-compliance should be published and that non-compliance due to error or misunderstanding of requirements should not. Other submitters would like to limit publication to cases that result in criminal prosecution, or at least allow time for the non-compliance to be addressed and resolved prior to publication. Those who did not support publication of non-compliance were concerned about reputational damage that may be a result of administrative error or relatively low-level non-compliance.

Question 21: How would publishing these types of information affect you?

32. While a small group of business submitters were concerned that the publication of low-level non-compliance may lead to potentially unwarranted adverse publicity, other businesses stated that this information would help them improve their knowledge of the behaviour of other companies that they potentially interact with. Several individual submitters said they would use this information to support purchasing decisions.

Compliance and penalties

Question 22: Do you agree with the proposal to introduce strict liability infringement offences for low level non-compliance?

33. In general, submitters felt that prosecution is inappropriate for addressing low level non-compliance. Those that support the proposal cited reasons such as fairness and consistency between participants, incentivising good behaviour/detering non-compliance now and in the future, and protecting the credibility of the ETS. Submitters that did not support the proposal tended to prefer warnings rather than penalties, and suggested only wilful non-compliance should receive a sanction.

Question 23: What are your views on the levels of the proposed fines?

34. The majority of submitters agreed with the fine levels as proposed. A number of submitters considered the fine levels need to be material enough to provide deterrence. Some submitters suggested that these fee and fine levels should escalate over time, either with the number of offences, or in line with each new carbon budget.

Question 24: Has the excess emissions penalty for failing to surrender or repay units by the due date caused issues for you? If so, please explain

35. Few submitters indicated they had been impacted by the excess emissions penalty, of those that had, issues with timing and uncertainty were common themes. This included issues with accessing the market to procure units to surrender. A number of submitters noted that they have not been impacted as they are not participants, or do not have a surrender obligation.

Question 25: Should the excess emissions penalty for failing to surrender or repay units by the due date be changed? If so, please explain.

36. A large number of submissions suggested that the \$30 per unit price is currently effective, but does not future proof the scheme. Many noted that on current prices, non-compliance effectively doubles the liability for participants, this is an effective deterrent to non-compliance. Most submissions supported a proportional approach to penalty setting, with discretion to ensure that the highest penalties apply to intentional misconduct.

Question 26: What option do you see as most appropriate for the excess emissions penalty?

37. Submissions expressed strong support for retention of discretion by the enforcement agencies, to ensure that small and unintentional offending can be treated with lower penalties than wilful misconduct. Publication of guidance on how the discretion will be applied was suggested by many submitters. Some submissions included support for a defined minimum penalty. Submissions that supported a fixed penalty pointed to simplicity and predictability as key factors.

Technical and operational improvements

Question 27: Do you agree with the proposal to use approved units to repay any overdue unit obligation from a previous reporting period, before any remaining balance is transferred to the owner? If not, why not?

38. Submissions supported the proposal to use approved unit allocations first to meet outstanding obligations. Some participants noted that this should not be in lieu of a penalty for previous failures to comply with the scheme. A number of submitters noted the proposal's similarity with the treatment of tax return and tax credit allocation being applied first to outstanding tax debts.

Question 28: Should large purchasers of coal, natural gas or obligation fuels have the ability to opt-in for only a portion of their obligations?

39. Submitters that did not support the proposal generally pointed to increased complexity, and a higher administrative burden for allowing partial opt-in. Submissions supporting partial opt-in were generally coupled with a desire to reduce thresholds for participation in the ETS, to allow for smaller operators to take control of their ETS liabilities, rather than receiving pass-through costs from suppliers. A number of submissions suggested that users and suppliers can, and already do, manage ETS liabilities through competitive contractual arrangements.

Question 29: As a mandatory participant that supplies this controlled fuel, what burden would it create if more of your large purchasers were to opt-in? Please explain.

40. Comments on this proposal noted an increase in complexity if more small participants decided to opt-in to the scheme. In particular, this could increase the verification requirements for reporting significantly. However, it was noted that it could allow suppliers to offer a complete service, selling the fuel and NZUs in tandem.

Question 30: Do you agree with the proposal that all coal sold or used from a stockpile be reported, regardless of whether the participant meets the threshold for coal importing or mining in the year the coal was sold or used? If not, why not?

41. Many submissions drew a distinction between coal intended for combustion and for other purposes. In particular, so that specialty coal for purposes such as water filtration are not captured by the ETS. In general, there was support for requiring reporting of all coal sold or used from the stockpile in the year, regardless of whether the mining or importing threshold was met (option two).

Question 31: Do you agree with the proposal that all coal sold or used from a stockpile be reported, regardless of whether the participant meets the threshold for coal importing or mining in the year the coal was sold or used? If not, why not?

42. Submissions generally supported an ability to amend Unique Emissions Factors to correct errors and ensure accuracy in the scheme. Submissions that did not support the proposal were concerned with the creation of retrospective liability, though some recognised that the ability to improve a UEF would be desirable.

Question 32: Do you agree with the proposal that participants should repay the same type of units, rather than the exact same unit? If not, why not?

43. Submissions generally supported the proposal as all NZUs were perceived to be worth the same value. Participants supported the flexibility the proposal allows. However, some submitters suggested that the repayment should be of any NZU because of the intended fungibility of units and that the market for some unit sub-types is illiquid.

Question 33: Do you agree with the proposal to extend the general 30 day due date for repayments to annual allocation adjustment repayments? If not, why not?

44. Inclusion of a timeframe in statute, aligned with other existing timeframes, was seen as desirable by most submitters. There was fairly even support for use of a 30 or 60 day timeframe, with flexibility and harmonisation with other deadlines being factors.

Question 34: Do you agree with the proposal that the deadline for surrenders and repayments is 60 working days from the date a notice is sent?

45. Submissions supporting the proposal acknowledged that this approach will provide participants with a greater opportunity to meet their obligations. Measuring the time from the application would include an unknown amount of time taken by the regulator, this was noted as unreasonable by submitters.

Question 35: Do you agree with the proposal that industrial allocations can be transferred to a consolidated group account?

46. The majority of submissions supported the proposal as it was considered to reduce administrative complexity, and allow flexibility in meeting ETS obligations. It would also reduce the number of accounts some businesses would be required to hold. Several submissions considered the option should only be available for small groups, as large corporate groups could risk skewing the market.

Question 36: Do you agree with the proposal that account operators continue to operate ETS accounts until a succession plan is in place? If not, why not?

47. The majority of submitters on this proposal supported clarification of the interaction between the CCRA and Companies Act 1993, and that an account can be operated until a succession plan is in place, as without this any residual units would return to the Crown. One submitter suggested the Companies Act process should be followed as an established practice.

Question 37: Do you agree with the proposal that units should vest in the Crown if the account operator chooses to close the account?

48. Many submissions on this proposal highlighted the need to manage the risk to third parties with a legitimate claim to the units if an account is closed. A number of submissions suggested sale of the units, with proceeds returned to creditors in the case of insolvency, or to the account holder.

Appendix Two: Detailed Summary of Submissions for MPI Forestry Accounting Proposals

Averaging Accounting Proposals

Question 1: Should all people who register new forests in the ETS be required to use averaging accounting?

49. Seventy of the 99 submitters (71%) who answered this question expressed support for requiring all people who register 'new' forests in the ETS to use averaging accounting.
50. Those who supported the introduction of averaging commented on its simplicity and increased potential to drive afforestation.
51. Some submitters qualified their support for this proposal by indicating that they would like the option to use the current carbon stock change accounting approach for new forests if they had existing forests that were also using the current approach.
52. A few submitters made their support conditional on having the ability to gain more credits for extending the rotation length of their forest if they chose to do so at a later stage.
53. Only 17 out of 99 who answered did not support the proposal. This was mainly because they instead preferred the optionality between growing their forest for carbon or timber that the current approach provides. Further, some of these submitters thought that there were better investment drivers under the current approach than under averaging accounting.

Question 2: Should people with existing forests be required or be able to use averaging accounting?

54. A clear majority, 58 of the 70 (83%) who answered question 2 would prefer for existing forests to have a one-off decision to move to averaging (option 3). 9 out of 70 submitters voted for a mandatory move to averaging for existing participants (option 2), while only 3 people thought that existing forests should be required to maintain the carbon stock change approach (option 1).
55. A lot of submitters provided long and informed responses to this question. The most common points raised were:
 - people and businesses have already made plans based on the existing approach, and a mandatory change would leave them materially worse off;
 - many feel as though their property rights would be infringed if required to change to averaging, as they signed up to the ETS under the carbon stock change approach;
 - some participants have forward sold their units, and have existing contracts that would be severely disrupted by a transition to averaging accounting; and

- a few participants therefore indicated that they would be willing to take legal action if required to transition to averaging.

56. Some submitters noted that they, or their clients, would in fact be better off under averaging. However, a few of these submitters made their support conditional on the details of the transition arrangement, in particular if they would have the ability to transition after harvest.

Question 3: Do you agree with the proposed transition arrangement enabling participants to surrender NZUs over two mandatory emissions return periods?

57. Of those who answered, 44 out of 60 (73%) supported the proposed approach to transitions. However, out of those who commented on this question there was significantly less support.
58. The most common responses mentioned fairness and equity, stating that the transition approach disadvantaged those who planted earlier, or had not entered into the ETS, as they would not benefit from a transition to averaging.
59. A few submitters proposed that instead they should be given the option to transition at their next harvest, which would enable them to use the income from harvest to cover NZU repayments.

Question 4: Should all forests planted after 1 January 2020 be considered 'new' forests?

60. A slight majority, 38 out of 72 submitters (53%) who answered this question felt that 1 January 2020 would be an appropriate date for the definition of a 'new' forest. 29 submitters (40%) expressed the opinion that it would not be an appropriate date.
61. Most of the submitters, regardless of their overall preference, commented that the 2020 date would result in a delay of the planting planned for 2019 as these plans were made with the expectation that averaging accounting would apply to them.

Question 5: How should the carbon storage of a forest be calculated?

62. Fifty two out of 82 submitters (63%) who answered this question supported retention of the status quo to measuring carbon storage which uses default look up tables for forests under 100 ha, and the field measurement approach (FMA) for forests over 100 ha.
63. Those that supported this option were in favour of the balance it struck between administrative simplicity and low cost for small forests, and the accuracy under the FMA for larger foresters who can afford the associated higher costs.

64. There was a mixture of views expressed in the comments from submitters as to whether the 100 ha split was appropriate. Some submitters wanted the threshold higher as they find the cost of FMA too high, while some want the threshold lower to give smaller forests the benefit of accurate measurement. A few submitters would prefer to be able to choose which approach to use themselves.

Question 6: How should the average carbon storage age be calculated?

65. Out of 59 respondents, 49 (83%) supported calculating the average carbon storage age of a forest by using a default age and a set of rotations bands. The other 10 voted for using only a default age, as they favoured its simplicity.
66. Most submitters mentioned the greater flexibility and added incentive to increase carbon sequestration through longer rotations as factors in choosing the rotation band option.
67. Many key forestry stakeholders, including Ernslaw, Forest Owners Association, Woodnet 2005 Ltd and Forest Management Industries, suggested that five year age bands for *Pinus radiata* would be an appropriate size.

Question 7: How should a change in the average age in regulations be applied to participants above the average?

68. Fifty out of 65 submitters (77%) who expressed an opinion supported the proposed approach to not require repayment of NZUs or enable the earning of more NZUs for participants already above the average age if it were changed in regulations.
69. Submitters were in favour of the certainty and regulatory stability of the proposed option, stating that it would encourage more participants to trade their NZUs within the market.

Question 8: How should a change in the average age in regulations be applied to participants below the average?

70. The proposed option was that a change in the average through regulations would result in a change to the amount of NZUs receivable for existing participants who were still below their average. 38 out of 61 submitters (62%) who answered this question supported that proposal, stating that averaging should reflect accurate carbon stock changes.
71. Most submitters who opposed the proposal did so because they prefer regulatory certainty and feel it will encourage more planting.

Question 9: How far back should a participant be able to claim NZUs for forest growth on entry into averaging?

72. The proposed status quo approach enables participants to claim NZUs back to the most recent mandatory emissions return period upon entry into the ETS. 29 out of 69 submitters (42%) who answered this question supported this approach, and 27 out of 69 (39%) opposed this approach.
73. Those who supported this approach mentioned that maintaining the status quo would be fair and simple.
74. Those who opposed mostly stated that it means existing forests will never be able to claim the same amount of units compared to a new forest. They therefore submitted that this would be unfair and inequitable, as it would affect their land values, particularly if there was a compulsory transition to averaging.
75. Proposed alternatives were participants being able to claim back to when the forest was first planted or being able to claim back to 2008 when the ETS was formed.

Question 10: What ongoing reporting requirements should apply to participants once they reach the average?

76. The preferred proposal requires reporting of a change to the average age, deforestation, and a confirmation of continued management at each mandatory emissions return period (MERP) once the forest has passed its average.
77. Fifty five out of 68 (81%) of those who answered supported this approach, as they were in favour of its simplicity, flexibility and less restrictive reporting requirements as compared to the current status quo.

Question 11 and 12: Complementary proposal – Remove the liability for repayments of NZUs for short-term adverse events.

78. Sixty nine out of 81 respondents (85%) supported the preferred proposal to remove the liability for participants above the average, and pause the earning of NZUs for participants below the average until their forest regrew. Most submitters who gave a reason for supporting the proposal stated that it would mitigate the risk to participants, incentivising forest owners to join the ETS and to plant more trees.
79. Of those who answered whether this proposal will decrease insurance costs and encourage participation in the ETS 44 out of 64 submitters (69%) believed that it would.
80. The majority of submitters who opposed the proposal did so as they feel it will have a minimal impact on insurance costs, for which foresters will still need to have to cover the cost of reestablishment and the loss in timber value. One submitter also stated a preference to repay NZUs so they could have the ongoing cash flow from re-earning those units following the adverse event.

81. Eight submitters caveated their support on the condition that this proposal should also be extended to post-1989 forests who remain on the carbon stock change accounting approach.

Question 13: Complimentary proposal – Enable post-1989 forest owners under averaging to be able to ‘offset’ (replant forests on other sites to avoid deforestation liabilities).

82. Of those who signalled a preference, 61 out of 74 (83%) supported the proposal. The main reasons given for supporting this option were that it would increase land use flexibility, enable land to be used for its best purpose and would help to de-risk entering the ETS.
83. Eleven submitters did express the opinion that they would only support this option if it were offered to all post-1989 forestry participants, not just those who use averaging accounting.

Harvested Wood Products Proposal

Question 14: How should New Zealand recognise storage of carbon in harvested wood products?

84. 44 submitters out of 80 (55%) signalled a preference to provide at least a portion of the benefit to foresters through additional NZUs.
85. The main reasons submitters gave for supporting this option were they feel it will increase afforestation and will be a fair approach as foresters provide the sequestration of carbon that is stored long term.
86. 14 submitters preferred the creation of an ‘industry good’ fund which would provide the benefit to the processing sector.
87. Most submitters who preferred this option did so as they consider it will increase carbon sequestration and would incentivise the creation of more long-lived wood products. They thought this would occur both through incentivising the creation of more long-lived wood products, as well as from increased afforestation (as processors would be able to pay foresters more for logs).
88. A number of submitters in their comments also suggested possible variations to the options for the government to consider. Nine submitters want the HWP value provided to forestry participants using averaging and the carbon stock change approach. 13 submitters supported splitting up the value and devolving the benefit to both the forestry sector and the processing sector. Two submitters suggested that benefit should also be provided to pre-1990 forest owners, as the value from HWP also comes from the use of their forests.

89. Most submitters that supported the alternative option of providing the benefit to both the processing and forestry sector stated thought it was more appropriate as both foresters and processors influence the amount of carbon stored in HWP. Some submitters also thought that this option would encourage both afforestation and the development of long-lived wood products.
90. Many of the submitters who suggested the benefit should be extended to those using carbon stock change thought this approach was more appropriate because they had generated the HWP value for New Zealand over the relevant international accounting period.

Appendix Three: Detailed Summary of Submissions for Permanent Post-1989 Forestry Proposals

Policy approach to incentivising permanent forest			
<i>Question 15: Do you agree with the Government's preferred approach to introduce a new activity into the ETS for permanent post-1989 forests?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
80	85	4	11
(note: in all tables percentages may not add to 100% due to rounding)			
<i>Question 16: Do you agree with the Government's preferred approach to use the existing stock change accounting process for permanent forests?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
71	83	4	13
How should permanent forest be treated in the ETS			
<i>Question 17: Do you agree with the Government's preferred approach that the majority of the operational processes and regulations should be shared between permanent post-1989 and post-1989 forests, with the key difference being the non-clear-fell harvest period?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
57	75	9	16
<i>Question 18: Do you agree with the restrictions proposed for permanent forests?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
64	72	17	11
<i>Question 19: Do you agree that 50 years is an appropriate non-harvest period for ETS registered permanent forests?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
64	69	20	11
<i>Question 20: Do you agree with the Government's preferred option of not offering a covenant for permanent forests registered in the ETS?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
61	75	10	15

<i>Question 21: What assistance could the Government offer to make it easier for indigenous forest to be registered in a covenant from other organisations (e.g. sharing mapping information)?</i>			
Respondents	Generally good support for the government looking to simplify registration with other organizations, and some suggestions we are following up with relevant organization.		
25			
<i>Question 23: Do you agree with the Government's three choices for dealing with permanent forests registered in the ETS when the 50-year permanence clause ends?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
57	74	9	18
<i>Question 24: Do you agree whether there should be an option to sign up for another non-harvest period?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
53	81	6	13
<i>Question 25: Do you agree that a retrospective averaging approach is the best way to allow forests to be harvested after 50 years?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
45	60	16	24
<i>Question 26: Out of the three options presented for participants to exit the ETS permanent forest category prior to the end of the 50-year non-harvest clause, which do you prefer?</i>			
Respondents	Option 1	Option 2	Option 3
33	39	18	42

Transferring existing PFSI forests to the permanent post-1989 forest in the ETS.

<i>Question 22: Do you agree with the Government's preferred option that transfer for current PFSI participants to a permanent post-1989 forest activity in the ETS should be mandatory with a one-off option to exit?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
58	60	16	24

Details of how ETS forests are transferred into the permanent post-1989 forest activity

Question 27: Do you agree with the Government's preferred option for participants who transfer to permanent forests to only earn units from the start of the MERP during which the move to permanent forest is made?

Respondents	Agree (%)	Disagree (%)	Unsure (%)
52	60	15	25

Question 28: Do you agree with the Government's preferred option regarding transitioning rotation post-1989 forests in the ETS over to the permanent forest category once they are past the first rotation?

Respondents	Agree (%)	Disagree (%)	Unsure (%)
40	72	26	3

Question 29: Do you agree with the Government's preferred option that harvesting restrictions are applied from the date of transfer to permanent post-1989 forest?

Respondents	Agree (%)	Disagree (%)	Unsure (%)
36	81	19	0

Appendix Four: Detailed Summary of Submissions for the Operational Improvement for forests in the ETS

Significant operational improvements:

More certainty around land classification.			
<i>Question 30: Do you agree that publicly available maps are the best way to provide more certainty on forest eligibility in the ETS?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
72	85	10	6
(in all tables percentages may not add to 100% due to rounding)			
<i>Question 31: Would you be comfortable with your information on the above maps being publicly available?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
63	75	11	14
<i>Question 32: How would you see the information in these maps interacting with other publicly available maps?</i>			
Respondents	Generally good support to link the 'ETS map' with other publically available information in a user friendly way.		
34			
Improving pre-1990 forest offsetting.			
<i>Question 33: Do you agree with the options for improving the deforestation offsetting process for pre-1990 forest?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
57	82	5	12
<i>Question 34: Have you considered using the current offsetting rules for pre-1990 forest?</i>			
Respondents	Yes (%)	No (%)	Unsure (%)
48	25	63	13

Improving the tree weed deforestation exemption process

Question 35: Do you agree with the proposal to improve the tree weed deforestation exemption process?

Respondents	Agree (%)	Disagree (%)	Unsure (%)
51	80	2	18

Question 36: Have you attempted to control tree weeds on your land and, if so, did you face any barriers?

Respondents	Yes (%)	No (%)	Unsure (%)
39	18	59	21

Exemptions for less than 50 ha of pre-1990 forest

Question 37: Do you agree that a generic threshold for using exemptions for less than 50-hectare blocks of pre-1990 forest land should be 10 owners on 1 September 2007?

Respondents	Agree (%)	Disagree (%)	Unsure (%)
40	43	18	40

Question 38: Do you agree that any subsequently appointed trustee or agent should be able to apply for the above exemption (provided it has met the statutory requirements under Te Ture Whenua Maori Act 1993)?

Respondents	Agree (%)	Disagree (%)	Unsure (%)
41	59	7	34

Simplify section 60 application

Question 39: Do you agree with the proposal for a simpler process for section 60 exemptions?

Respondents	Agree (%)	Disagree (%)	Unsure (%)
44	68	0	32

Proposals linked to averaging:

Redefining the mandatory emissions return period			
<i>Question 40: Do you agree that a mini-MERP is the best way to align participants' ETS obligations with New Zealand's international emissions targets?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
47	74	6	19

Deforestation offsetting applying to post-1989 forest			
<i>Question 41: Are you comfortable with the operational detail for post-1989 offsetting being largely the same as pre-1990 offsetting?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
49	88	12	0

<i>Question 42: Which yield table do you think should be used to define the carbon equivalence of the new forest?</i>			
Respondents	General support for the use of a post-1989 table to be used, however the details of this will need to be determined later.		
31			

<i>Question 43: Should the land the new (offset) forest is planted on be differently recorded from pre-1990 forest offset land?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
35	54	43	3

Section 60 for post-1989 forest			
<i>Question 44: Do you agree with extending section 60 exemptions to post-1989 forest land?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
41	80	2	17

Other Proposals:

Cost recovery			
<i>Question 45: Do you agree with the proposed change to extend the cost recovery framework?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
44	41	30	30

Minor and technical operational improvements.			
<i>Question 46: Do you agree with the proposal to treat executors of wills as if they were the registered participants?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
48	79	0	21

<i>Question 47: Do you agree with the proposed change for the notification of interested parties?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
40	75	8	18

<i>Question 48: Do you agree with the proposal to allow reconfiguration of carbon accounting areas (CAAs) without participant cost?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
48	88	4	8

<i>Question 49: Do you agree with the proposed change regarding timing of deforestation?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
45	84	4	11

<i>Question 50: Do you agree with the proposal to ensure all emissions or removals from all trees in a CAA are included in an emissions return?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
44	82	2	16

<i>Question 51: Do you agree with the proposal to change emissions returns for natural disturbance events that permanently prevent forest re-establishment?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
48	92	0	8
<i>Question 52: Do you agree with the proposed change to remove unnecessary emissions return requirements?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
46	96	0	4
<i>Question 53: Which of the two proposed options to exclude post-1989 forest land with tree weeds do you prefer?</i>			
Respondents	Option 1 (exclude all weeds)	Option 2 (exclude only future registrations)	
15	53	47	
<i>Question 54: Do you currently have any tree weeds registered?</i>			
Respondents	Yes (%)	No (%)	Unsure (%)
36	3	81	17
<i>Question 55: Do you agree with the proposal to allow the EPA to review its decisions?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
46	74	2	24
<i>Question 56: Do you agree with the proposed change for deregistration of forestry participants?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
45	71	7	22
<i>Question 57: Do you agree with the proposed change to rounding rules?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
42	88	0	12
<i>Question 58: Do you agree with the proposal to allow more flexibility in submitting emissions returns?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
43	95	0	5

<i>Question 59: Do you agree with the proposal to standardise timeframes for unit surrenders and payments?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
46	87	4	9
<i>Question 60: Do you agree with the proposal to require all returns to be net returns?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
46	85	9	7
<i>Question 61: Do you agree with the proposed change regarding the transfer of participant when forestry rights are granted?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
42	90	0	10
<i>Question 62: Do you agree with the proposed change to cover cases where cleared land is re-established in forest by both planting and natural regeneration?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
46	93	0	7
<i>Question 63: Do you agree with the proposal that deforested exempt land is considered post-1989 forest land if it becomes forest land again nine years or more after being deforested?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
40	90	5	5
<i>Question 64: As per above, do you agree with the stand-down period of nine years or more?</i>			
Respondents	Agree (%)	Disagree (%)	Unsure (%)
39	54	21	26