

Changes to the Forestry Emissions Trading Scheme

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Abstract

The Forestry Emissions Trading Scheme (ETS) is changing. Amendments to the Climate Change Response Act 2002, introduced in 2020, changed how the scheme is regulated and how participants can interact with it. Te Uru Rākau | New Zealand Forest Service is changing how it engages with Forestry ETS participants to provide a better user experience with new systems, education opportunities and communication.

The drivers of change

A range of amendments were introduced to the Climate Change Response Act 2002 in 2020. These changes aimed to drive increases in new forest planting, make the ETS simpler to participate in, and enable more flexible land use options (e.g. through improved offsetting provisions for participants looking to change land use without facing deforestation liabilities).

At the same time, technology support for management systems within Te Uru Rākau was due to expire, and a rapid increase in the price of carbon saw a strong market response in tree planting and applications to register in the ETS, leading to backlogs within the current system.

The full suite of these changes will be felt in the Forestry ETS from 1 January 2023, and Te Uru Rākau will assist participants with education and training to support implementation of the new legislative requirements. Four objectives were identified to achieve this and to improve the integrity of the Forestry ETS:

1. **Improve reliability, transparency and integrity** to improve performance and ensure the security and auditability of the ETS.
2. **Improve administrative productivity** to reduce processing times, meet legislated timeframes and reduce costs to participants.
3. **Improve agility and scalability** to enable the timely and effective implementation of current and likely future legislative change.
4. **Improve customer experience** by making the system easier to navigate, as well as easier to



Figure 1: Planting a future asset

understand and meet obligations, thus lowering barriers to entry and reducing input errors and compliance costs.

Changes to legislation mean changes to regulation

Changes to forestry in the ETS have been taking place since June 2020 and continue through until January 2024. However, most of the new provisions relating to forestry come into effect on 1 January 2023.

The detailed rules and settings for the changes are set out in the amendments to the forestry sector regulations. You can view these documents through the ETS news section of the Ministry for Primary Industries (MPI) website: mpi.govt.nz/news-and-changes-to-the-ets



Figure 2: Planting on a hillside

Key features

The key features to note are:

- **A new carbon accounting approach called averaging accounting**

All new registrations from 1 January 2023 will use averaging accounting unless the forest is registered as a permanent forest. If you register between 1 January 2019 and 31 December 2022, you will be able to switch to averaging accounting in 2023 or you can stay in stock change accounting.

- **New option for permanent forests in the ETS**

Permanent forestry will replace the Permanent Forest Sink Initiative (PFSI). It will be available for post-1989 forest land from 1 January 2023 for forests that will not be clearfelled for at least 50 years.

- **New exemption from carbon liabilities for temporary adverse events**

If all or part of a registered post-1989 forest is cleared by a temporary adverse event, such as a fire, the owner will be able to apply for an exemption from emissions liabilities. Under this exemption, the affected part of the forest will not earn any more units until it reaches the carbon stock it was at before the adverse event.

- **New ability to offset deforestation liabilities**

When a post-1989 forest under averaging accounting is deforested, the owner will be able to establish a forest elsewhere to offset their deforestation liability.

Progress so far

Although these changes will be introduced from 1 January 2023, it is important to be aware of what has already taken place. These changes include:

- Participants now having more time to surrender or repay their New Zealand units – 60 days when joining or leaving the ETS, or adding and removing land
- There is now a requirement to notify ‘interested parties’ and it has become easier to ask for an emissions ruling
- A change to the length of the next emissions return period. Normally, emissions return periods last for five years (the current period runs from January 2018 to December 2022). To align with the requirements of the Paris Agreement, the international climate change agreement to which New Zealand is a signatory, the next emissions return period will be three years from January 2023 to December 2025
- A new penalty regime has been introduced. The new regime covers penalties and processes related to: failure to surrender or repay units on time; errors in emissions returns; failing to submit a return; payment of penalties; and entitlements while an obligation is outstanding.

New regulations for the Forestry ETS were gazetted on 27 September 2022 and will replace the existing 2008 regulations from 1 January 2023. These are available through the MPI website: mpi.govt.nz/news-and-changes-to-the-ets

Diving a little deeper into change

Some more detailed information about the Forestry ETS is given below.

Averaging accounting

This is a new approach for carbon accounting in the ETS. From 2023, all newly registered post-1989 forest must use averaging accounting unless registering as a permanent forest. Previously registered forests may transition to averaging accounting if certain criteria can be met. Averaging accounting can make the ETS more attractive to landowners as they will earn more 'low-risk' units that they can keep at harvest time. Under stock change accounting, forest owners must pay back a substantial portion of their NZUs at harvest time. Under averaging, a forest will earn NZUs up to its average age and will not have to pay any units back at harvest time as long as they replant.

New permanent post-1989 forest

Post-1989 forests that will not be clearfelled for at least 50 years can qualify for this new category. If clearfell harvesting takes place, then penalties will apply. This category will replace the current PFSI and existing PFSI participants will be moved into the ETS – and will have the option to join the post-1989 category or the permanent forest category. Permanent post-1989 category forests will use the stock change carbon accounting method. They will earn units for as long as the forest is in the ground and the carbon stock is increasing.

When the 50-year non-clearfell period expires participants have three options:

- Sign up for another 25 years and continue to earn units on the stock change approach (this choice will occur again every 25 years after that date)
- Transition to averaging accounting from stock change accounting
- Remove the forest from the ETS, surrendering the unit balance for the area removed.

The temporary adverse event exemption

If all or part of a registered post-1989 forest is cleared by a temporary adverse event, such as a fire, the owner will be able to apply for an exemption from emissions liabilities. Under this exemption, the affected part of the forest will not earn any more units until it reaches the carbon stock it was at before the adverse event.

Sub-areas

These are used to divide areas of a forest which share common attributes such as age, forest type or clearance



Figure 3: Native forest plantation



Figure 4: Mature forest planting on a hillside

date, to accurately calculate the carbon stock of forest areas. The new regulations simplify how participants will need to map their land for carbon accounting by treating areas less than 1 ha as if they are part of the surrounding forest which they are most similar to. Participants will only have to report to MPI attributes in their forest over 1 ha in size. This applies to sub-areas in pre-1990 and post-1989 forest land.

Offsetting pre-1990 forest land

The Amendment Act introduced a range of improvements to offsetting. Among a few changes relating to offsetting, the regulations will allow use of 'excess land' (i.e. land from the application that was not needed to meet area or carbon equivalence of the original forest) for up to two years after the offset date of the previous application.

This provides more flexibility to re-use land while still maintaining a close link to the offsetting application. Where there are multiple landowners involved in a single offsetting application, for simplicity there will be a requirement for sub-areas relating

to that land to consist of land owned by the same person. When comparing carbon stock of original and offsetting forest, both carbon stocks will be rounded to the nearest whole tonne prior to comparing them.

Te Uru Rākau responds to change

With a raft of changes underway, and noting that forestry participants now have over 10 years of experience with the ETS, Te Uru Rākau saw an opportunity to update its regulatory approach from being outputs-based towards being a risk-based regulator. For Te Uru Rākau, applying a risk-based regulatory approach looks like:

- Our regulatory approach explains how we will fulfil our statutory functions and how we act as a regulator
- Better understanding our participants will help us fulfil all our regulatory functions: capacity, capability and behavioural drivers of our participants. Understanding participant behaviour will allow us to target communication and education efforts, as well as change our approach over time if necessary

- When we consider risk, it should be related to achieving the purpose and objectives of the ETS. The approach would mean focusing on the delivery of the outcomes sought by the ETS and choosing areas of focus and interventions that best mitigate the risks to the delivery of those outcomes. This includes prioritised and proportionate compliance activity that focuses on the highest priority risks that could undermine the integrity of the ETS.

Looking forward

To support Forestry ETS participants in this transition, Te Uru Rākau is increasing the level of staff and support it provides. All relevant and updated information about changes to the scheme, including the new regulations, can be found on the MPI website: mpi.govt.nz/forestry/forestry-in-the-emissions-trading-scheme/

Te Uru Rākau is developing resources for participants unpacking a range of areas, including the new legislation and regulations.

Training courses for the new online Forestry ETS system will be available in December and January coinciding with the period to submit emissions returns. Full details of all training and education opportunities will be published via the Forestry ETS Alert. You can subscribe to this through the MPI website and look for the News and Changes to the ETS section.

Forestry ETS participants will see an increase in the level of communication they are receiving. Te Uru Rākau encourages all interested parties to engage with the communication channels as they will contain key information Forestry ETS participants need to be aware of.

Te Uru Rākau will also undertake readiness surveys – one in October and one in November. These will assist in assessing how ready participants are feeling as the launch of the new online ETS system (Tupu-ake) approaches. Participant survey feedback is helpful, and it ensures we can adapt our implementation programme if required.

The Emissions Trading Scheme is challenging and there is substantial change underway. By staying informed of the changes, understanding their obligations and keeping abreast of current issues in the ETS area, participants can make the most of the scheme and continue to contribute to supporting New Zealand in its climate change ambitions.

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Figure 5: Tree canopy