

FACTSHEET

The Government's consultations on proposed changes to the Emissions Trading Scheme

Summary and initial analysis by B+LNZ

July 2023

The Government has released two sets of consultation materials on potential changes to the Emissions Trading Scheme (ETS):

1. a broad review of the ETS and the role of forestry within it; and
2. material specific to the potential changes to the permanent category of the ETS.

This factsheet summarises what's proposed and some key considerations to support you in making your own submission.

B+LNZ has heard from many farmers that are concerned about whole farms being sold for exotic forestry as a result of the carbon price, and the flow on effects this is having on our rural communities.

However, many farmers also see an opportunity in carbon returns from integrating trees within their farms. These farmers want to ensure they can continue to receive recognition for their own on-farm planting as part of diversifying their farm systems.

Many farmers also want to receive greater recognition of the sequestration happening on their farms, such as pre-1990 native vegetation.

This is a complicated area with no simple solution. B+LNZ is working to find a balance that works for all our farmers. Our initial view is that none of these options singularly deal with the issues but rather a mix of these options is required.

To help us find that balance, we're asking farmers to **complete a survey** <https://beeflambnz.typeform.com/to/yGxfKFhQ>. **This closes on Friday 21 July.**

If you would like to learn more or submit on the consultation you can [View the consultation materials on Ministry for the Environment's website here.](#)

The consultation closes on 11 August.

If you are completing the MfE online consultation **you do not have to answer all the questions.** You can provide feedback on what is important to you. B+LNZ will provide submission template to make it easier for farmers to have their say, so look out for that.

Summary of options including key considerations and analysis for each

Proposals	Description	Considerations and analysis
Changes to the ETS settings		
General	<p>The Government has put forward four options for changes in the ETS. It has acknowledged that significantly more offsetting is happening than is needed, and if there are no changes the ETS will likely collapse due to an oversupply of forestry credits.</p> <p>Exotic forestry is seen as critical to meet New Zealand's medium term climate targets.</p>	<ul style="list-style-type: none"> • It's good to see concrete options on the table, but we need to consider their implications for farmers. • This is a complex area and we're working hard to find a balance where farmers can register trees in the ETS, but ensure carbon farming doesn't come at the expense of rural communities. • This is the start of what will likely be a long-term process, so we will have time to work through some of these issues over the coming months in more detail. • It is important to note that even though the Government is looking at options to restrict forestry offsetting, it is also clear it sees offsetting as central to New Zealand's climate change strategy. This consultation is about managing the scale, pace and type of planting.
<u>Option 1</u>	Reduce the amount of units the Government 'auctions' directly to emitters.	<ul style="list-style-type: none"> • This option would reduce the supply of units into the market but does not limit the amount of forestry units in the NZ ETS. Emitters can still buy offsets directly from forest owners without needing to go through the Government auction. • This option would limit the income going to the Government from the sale of units, reducing its ability to support emissions reduction programmes outside of the ETS.
<u>Option 2</u>	Increase the demand for emissions units by allowing international buyers into the market and/or having the Government buy forestry units off the market.	<ul style="list-style-type: none"> • This option would not restrict forestry offsets in the scheme. Opening New Zealand's ETS to international players could drive greater levels of forestry offsetting domestically as these international players could simply seek to buy more forestry units. • However, money from international buyers could be used to support emission reductions work in New Zealand.
<u>Option 3</u>	Establish different prices/values for emissions removals (offsetting) and emissions reduction	<ul style="list-style-type: none"> • In this option, emissions reductions would have a higher value than emissions offsetting. This could be achieved in a number of ways, one of which could be by limiting the volume of emissions and emitter can offset (as is the case in California). • This would create a stronger incentive for emitters to reduce, rather than offset their emissions.
<u>Option 4</u>	Redesign the NZ ETS into two schemes: one for forestry offsets and the other for real emission reductions.	<ul style="list-style-type: none"> • In this option, there would be separate markets for emissions units as compared to forestry offset units. Emitters wouldn't be able to use forestry offsets to meet their emissions reduction requirements. • The price for forestry offsets would likely be determined by the Government which would lead to more control over the pace, scale, and type of planting. For example, there could be a greater price paid for offsets coming from native forests than pine forests. • This is how the majority of other Emissions Trading Schemes in the world work. This option was favoured by officials in the consultation document overall as the best way to meet the stated objectives.

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Specific chapter on on-farm sequestration and co-benefits

<p>Recognition of on-farm sequestration</p>	<p>The Government is also seeking feedback on expanding the ETS to recognise a greater range of (mainly) on-farm sequestration such as pre-1990 forests, riparian strips and wetlands.</p> <p>They are also seeking feedback on rewarding landowners for the multiple environmental benefits of this vegetation. This could be done using a biodiversity credits for example.</p>	<ul style="list-style-type: none"> • B +LNZ has been advocating for this recognition. This is good to see and we look forward to getting further detail on how this recognition could occur and what conditions would be placed on it. Note that the recognition could occur in the NZ ETS or via another programme such as a government supported voluntary carbon market. • In most other countries, sequestration programmes place much greater emphasis on incentivising and rewarding native vegetation and the integration of trees within farms, over plantation forestry. • The IPCC also more strongly supports the reward and recognition of native vegetation and integration of trees on farms as outlined in one of their recent reports: AR 6. This article provides a good summary of this: Anne Salmond: IPCC report condemns forestry use planned by NZ - The University of Auckland • It is unclear exactly what the impact would be for farmers based on the information provided and how quickly the Government would be able to expand the ETS. However, it seems there is an appetite to expand the opportunities for farmers to be recognised for the additional carbon stored on their farms.
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Additional consultation on the Permanent Forest Category of the ETS

Proposals	Description	Considerations and analysis
General comment	The Government has put forward three proposed changes to the permanent category of the ETS that would place requirements on participants, especially those with exotic forests. Proposals could also change the way that carbon is earned for 'transition' forests - i.e., going from exotic plantings to native regeneration over time.	<ul style="list-style-type: none"> We welcome the further review of the permanent forestry category. The options outlined above to amend the ETS will likely take a few years, we need policies sooner to curb the level of current whole-farm land-use change (40% of farm sales in the last three years have been to 'carbon only' businesses). Changes to the permanent forest category are a key way to do that. It's likely a combination of the options being consulted on will be required as well as additional changes to the NZ ETS, the Resource Management Act, and the National Environmental Standard for Plantation Forestry.
Design choice 1	<p>Deciding on what type of exotics would qualify for entry into the permanent forest category.</p> <p>Note that all types of currently eligible indigenous forest could still be entered into the scheme. The options only look at restricting exotics.</p>	<ul style="list-style-type: none"> This option would put conditions on what kind of exotic forest can be entered into the permanent forest category. The 'type' of exotic forest is determined by the species (preferably longer-lived), and/or the characteristics of the land where it is planted. Examples of land characteristics that could be considered include whether the land was Māori-owned, or whether the forest would be planted within and alongside a farm system.
Design choice 2	Change how exotic forests that are going to 'transition' to natives have their carbon recognised	<ul style="list-style-type: none"> This option would create a new and specific carbon accounting method for exotic forests intending to transition to native forest. This is because Indigenous forests and exotic forests store carbon at different rates. Under the current settings, transition forests need to return some of the carbon they gain as large exotic trees are replaced by smaller, slower growing indigenous species (since this reduces the total carbon stored in the forest at that time). The proposal won't change the overall number of units that participants end up with in the long-run (after the forest has transitioned to indigenous forest) but it would help reduce the financial risk facing participants. This option would reduce the incentive to plant large-scale farm conversions. It would also make it easier for farmers to manage the carbon accumulation and loss risks of exotics transitioning into natives.
Design choice 3	Require some, or all, forests in the permanent forest category to meet certain standards	<ul style="list-style-type: none"> This option would introduce new rules to ensure on-going management of permanent forests so people can't just 'plant and walk away'. There could be rules for all forests in the permanent category or just those that intend to transition from exotic to indigenous forests. Conditions could include the need for a management plan to ensure that the owner is doing as much as they can to prevent forest decline and carbon loss from pests, fire, or disease. It is unclear how these new rules would dovetail with the proposed changes to the National Environmental Standards for Plantation Forestry which would require carbon forestry face the same rules as plantation forestry. Farmers who are already in the permanent category, or wanting to enter vegetation into the category, will need to complete additional management requirements and show how these are being implemented. This option will increase the burden and cost of participation in the permanent category of the NZ ETS. However, it could ensure that areas of carbon forestry that are currently unmanaged don't cause problems down the track. It could also provide job opportunities as part of pest and plant management.