ETS Forestry Package: Accounting for Existing Forests

We are seeking feedback on three accounting approach options and (if applicable) transition options for participants' existing forests in the ETS.

Choosing between the options requires making trade-offs between short and long term administrative effort, participant risk and burden sharing, and compliance costs.

326,221 ha

is the total area of post-1989 forest land in the ETS at 2017.

Age 18/21

is an example of an average age for a radiata pine forest on a 28 year rotation (excluding HWP/including HWP respectively)

What is an 'existing' forest?

An 'existing' forest will be:

- Post-1989 forest land that has been established prior to the proposed definition for a 'new forest' (i.e. forest that was established before 1 January 2020).
- An 'existing' forest includes both post-1989 forest registered in the ETS, and eligible post-1989 forest not registered in the ETS.
- Even if the forest is registered in the ETS after the date for a 'new' forest, it will still be defined as an 'existing' forest, as the definitions reflect the date of forest establishment rather than date registered.

Three options for accounting:

1. **Require all existing ETS forestry participants to continue to use the saw-tooth ('carbon stock change') approach.**
    - Options that allow owners of existing forests to continue to use the status quo approach to accounting will allow for business continuity.
    - It would result in 'new' and 'existing' forests being treated as different forest classes with different accounting rules.
2. **Require all existing ETS forestry participants to switch to 'averaging'.**
    - Averaging will allow most owners of existing forests to reduce or remove their harvest liability, and reduce the amount of reporting they are required to undertake.
    - If all post-1989 forestry participants used averaging accounting it would greatly simplify the scheme, and closely align the ETS with how we count our forests for the Paris Agreement.
3. **All existing ETS forestry participants will have a one-off, one-way choice to use either 'averaging' or 'carbon stock change' accounting**.
    - An optional approach would allow participants to assess the benefits and risks of each approach before making a decision as to which accounting approach best suits their needs.

We are also seeking your feedback on transition options that will affect how averaging accounting could be introduced for existing forests:

How would a transition to averaging work for existing forests?

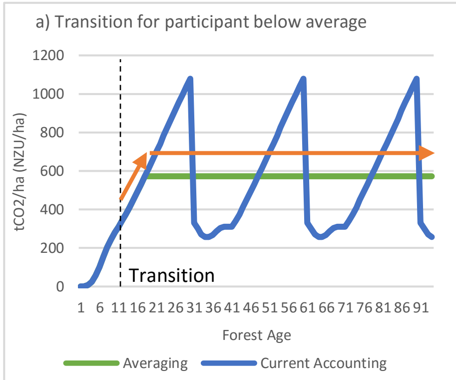
The transition would occur at the end of a Mandatory Emissions Return Period (MERP). When a participant submits their emissions return at the transition, their unit earnings or obligations would be calculated under the new averaging approach.

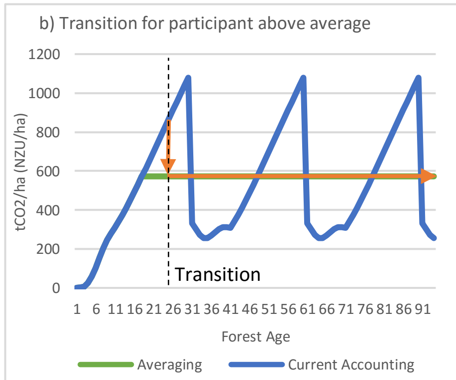
a) For existing post-1989 forestry owners with forests below the average carbon stock (e.g aged below 18-20) on their first rotation, there will be little immediate impact. The participant continues to earn units for growing their forest until it reaches its long term average carbon stock. At this point, like all forests using averaging accounting, it will cease earning units and not be required to pay for harvest liabilities if replanted.

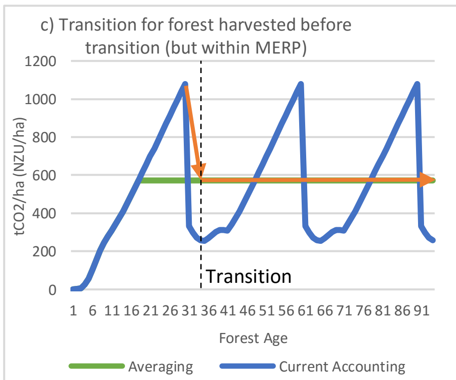
b) At the transition, if the participant has received units for their forests growth above its long term average carbon stock, they will be required to repay units. In most cases, this repayment will be smaller than the liability the participant would face for harvest.

c) Participants on the second rotation will not receive any further units if using averaging. If a participant is transitioning to averaging, and has harvested during the MERP (and hasn't submitted a voluntary return), they will be required to only repay units earned above the average, not the full harvest liability.

Forestry Carbon Storage Graphs







Transition options:

1. Existing participants who have an obligation to repay NZUs at the transition MERP could be given the option to surrender units at the end of the following MERP.
    - This could be considered to ease the burden of an immediate transition. Participants may intend to use income from harvest to repay any harvest liabilities. If the obligation to repay NZUs is brought forward to the harvest, it may increase the burden of transitioning.
2. In addition to repaying units at the end of the following MERP, some special considerations could be made for participants that meet special exemption criteria.