ETS Forestry Package: Accounting for New Forests

- We propose to introduce a **mandatory** change to ETS accounting for new forest planting (the 'averaging' accounting approach).
- This change is intended to simplify the scheme and increase the afforestation incentive for ETS participants.
- It means that everyone who registers new forests in the ETS will be required to use averaging accounting, although joining the ETS will remain voluntary.

102 million

The new accounting approach could incentivise 102 million more trees to be planted over the next 10 years.

10%

May deliver a 10% increase in contribution from forestry mitigation to our 2030 climate change target.

56%

of forestry submitters supported introducing **optional** averaging accounting into the NZ ETS in the 2015 review consultation.

For example

A radiata pine forest grown in New Zealand and harvested at age 28 will usually reach its average carbon storage at age 18-20.

So a forester with radiata pine rotation forests will earn NZUs up to 18-20 years of age in the first growing cycle.

Key facts about the proposal:

- Under averaging accounting, the Crown would allocate NZUs to ETS participants for new forest growth up until their forest reaches its long term average carbon stock, or equivalent amount of carbon stock, on the forests first rotation.
- ETS participants would not be required to repay NZUs for harvesting as long as they do not deforest. They will still have to account for deforestation emissions, and may be required to account for significant changes to management.
- All the emissions units a forest will be eligible to receive will be earned in the first rotation.
- The carbon storage average for forests registered in the scheme would vary depending on factors that affect carbon yield including the region and forest type.

Key benefits of the proposed changes

- Averaging accounting is intended to increase incentives to participate in the ETS and establish new forests.
- The new accounting approach increases the financial return from establishing new forests and reduces the financial risk associated with harvest liabilities.
- The change would reduce ETS forestry complexity as:
    - no harvesting calculations would be required.
    - reporting and monitoring requirements would be less.
- This approach aligns with our international approach to accounting for forest carbon under the Paris Agreement helping ensure the ETS is an effective climate change mitigation tool.

We are also seeking your feedback on the following design questions that will affect the way averaging accounting is implemented:

There are number of detailed design questions that will affect how averaging accounting works for new forests registered in the ETS. These are contained in the discussion document and include:

1. **How to define a new additional forest under averaging.** If averaging is introduced there is a need to clearly define what forests will be classified as "new" under averaging and the date at which the change will apply from.
2. **How to calculate the long term average carbon storage capacity of a forest under averaging accounting.** Providing a carbon storage calculation approach and a way to convert that calculation into an age at which an ETS participant's forest will reach its long term average carbon stock.
3. **How to calculate average crediting age and carbon storage.** Deciding at which age a forest will have stored its long term average carbon stock, and how these averages will be applied nationally across different species, regions and forest types.
4. **How could a change in the average carbon storage crediting age be applied to existing participants?** If an average is changed by government after regulations are introduced, it needs to be decided how this is done and whether it can apply retrospectively to existing participants using averaging accounting.
5. **Options for how many units a participant will be able to claim for growth in carbon storage before a forest is registered into the ETS.** If a participant uses averaging accounting with a forest that has already been established, there is a need to clearly determine how many emissions units they can be allocated for past carbon storage.
6. **Outlining ongoing reporting and monitoring requirements.** Once a participant's forest passes the "average", what ongoing reporting and monitoring requirements will be required?