

Submission to:

Ministry and Agriculture and Forestry

Climate Change (Forestry Sector)
Regulations

Prepared By:

Clayton Wallwork
Greenco Ltd
PO Box 36-568
Christchurch, 8146
03 379 8583
clayton@greenco.co.nz

30th May 2008

Summary

Suggestions in this submission have been made with a view to make the ETS a workable program which has credibility and public acceptance.

Changes are recommend along the following lines:

- 1) Base fees and charges on a per production unit. Low producing sites will incur unfair costs based on returns.
- 2) Standardise the application process and have reasonably high expectations for the quality of application
- 3) Reduce the number of regional advisers, this will reduce the cost all participants will incur.
- 4) Speed up work on carbon aessment methods, to alow in forest measurement and look up tables for reverting native forest types.
- 5) Alter the harvest provisions to allow carbon to be allocated equivalent to half of what is sequestered at maturity without having to pay any back NZU's at the point of harvest.

Greenco welcomes discussion around any of the points made in this submission and look forward to assisting officials to overcome what is seen as impediments to effective and essential landowner engagement in this most important policy framework.

About the submitter

Greenco

Greenco is a forestry consultancy company which specialises in independent carbon forest management solutions. These solutions take account of land owner demands and expectations and create management options to improve economic, environmental and social sustainability of the land and business.

Greenco sees income from carbon farming as an important catalyst to establishing more trees on our productive landscape, therefore sees forestry under the ETS as a critical step to help promote integrated and sustainable land management.

Introduction

The forestry provisions under the ETS has the potential to increase carbon sequestration in forests and hence help New Zealand comply with its Kyoto commitments, improve incomes for rural landowners, and stimulate a flow of related environmental improvements, such as more forest habitat, stabilisation of erodible soil, and provision of higher quality surface waters. However, high costs of participating in the programme, coupled with the uncertainty of the value of credits, could leave only a small group of landowners who can participate. This would be an unfortunate loss of an opportunity for New Zealand to act as a global leader in the issue of forest sinks, as well as a lost opportunity for New Zealand landowners.

There are concerns about some of the provisions of these regulations. In particular, the high, fixed, up-front costs for landowners. In return, they receive credits with a low degree of certainty about their value, which may come some time in the future. The current proposal about these costs reduces the economic benefit for landowners, and the proposed delivery of credits increases their risks. The result is that the appeal for landowners, and hence the uptake of the program, will be reduced far below its potential

The restrictions have lost sight of the land most suitable for forest sinks: marginal, erodible, steep, or low-quality land with little productive value. Such land is unlikely to generate much income from carbon credits, nor is it likely to receive much attention from its owners. In such places, the costs of measuring, monitoring, and certifying carbon credits may easily exceed the value of the credits themselves, giving no incentive for landowners to participate. By removing and reducing these barriers, the government can encourage participation. In exchange, the government receives the benefits of 1) other environmental services which flow from new forests, 2) access to a known and more certain supply of domestic credits, should the government need to purchase credits, and 3) reduced social services costs and increased tax revenue from landowners who previously could not earn sustainable incomes from marginal lands. These benefits may well outweigh the total administrative costs of the program; in any case, the government should make all possible efforts to minimize costs for participants in the program.

Fees and Charges

The proposed fees and charges are too high and do not reflect the real cost to the participant if MAF undertake efficient reviewing and processing of application and an emission returns.

No explanation is given for how the Crown arrived at these figures. This limits the ability to comment constructively. In the absence of real data to examine, the following observations are made.

A *per hectare* charge discourages applications that include low-productivity areas, such as erodible land. This is the very type of land that is best for the program from the point of view of both landowners and New Zealand. If any fee is assessed beyond a fixed application fee, it should be a *per unit* fee, assessed at the time the credits are registered in the NZEUR account. Account maintenance costs borne by the Crown are not linked to the number of hectares, they are linked to the number of applications and the number of credits.

A sliding scale for an application fee based on number of hectares is unnecessary, if all information supplied is consistent. The time taken to review a complete application would take the same amount of time irrespective of land area. It is suggest that a fixed fee is sufficient for all applications. For an idea how this may work please consider the PFSI regulations already in place (\$500 per application, plus an hourly rate of \$115 if applications take more time to process). This ensures two outcomes:

1. It rewards those who submit accurate applications/returns
2. Covers MAF for incomplete or poor applications

The justification provided in the explanatory paper for the sliding scale of fees seems flawed and the costs are excessive. From previous experience in working with certificates of title, forestry rights, etc most of the “work activities” outlined in section 4.3 can be completed by searching and reviewing a certificate of title on Land on line. Each certificate of title costs up to \$6 and takes a skilled operator about 5 minutes to obtain and up to 10 minutes to review and see if it is consistent with the information provided on an ETS application form.

It would be a very straight forward and automated process to notify LINZ and the Maori Land court of the application under the proposed bill.

Again from previous experience, if a larger property has a number of titles, these are simple to obtain and are normally consistent with each other. There may be the occasional difference between titles but this is the exception not the rule. Therefore not every applicant should pay for the exceptional difficult case.

The only real justification for the high fees that can be found in the documentation provided (estimated at \$10.3 million over 5 years) is to cover the cost of the already employed regional advisors, even though actual demand is not known. If current policy exists then uptake of the ETS will be limited to a handful of large forestry companies.

Carbon Assessment Methodology on Native Reversion

Greenco would like to see more effort put into developing a carbon accounting methodology which largely reflects the amount of carbon being sequestered/lost in indigenous reverting land. From reviewing literature and onsite inspections the rate of carbon sequestration can be anywhere from 1 to 15 tonnes of carbon dioxide per hectare per annum.

It is unfair on landowners to set a flat rate of 3 tonnes of carbon dioxide per hectare per year. In many cases throughout NZ net carbon sequestration will be much higher than this, denying landowners of vital income to cover application assessment and opportunity costs.

It is also unfair on landowners who claim credits on poor performing sites as they are likely to have to pay back credits if and when a more robust method is implemented in the future. At the time of payback it is more than likely the price of carbon has increased.

On the page below is an assessment of how the proposed carbon methodology impacts on the returns to the landowner.

With high costs explained in the section above and low sequestration rates the returns to the landowner are low when compared to alternative land uses. Uptake by landowners of these marginal landscapes, which in most cases need protecting, will not participate in the ETS afforestation programs.

Impact of ETS Policy on Native forest reversion

The table below uses the costs and carbon sequestration default rate outlined in the draft regulations. It shows that costs are **too high**, anywhere from 24 to 52% of total costs are as a result of MAF fees. And with a low carbon sequestration rate the **returns are low**. Putting the two together for all forest sizes the likely returns per hectare are low, between \$32 and \$38 per hectare per year. With returns below \$40 per hectare, landowners are not likely to be encouraged to switch land uses from agriculture (minimum of \$150 per hectare per year) to carbon farming on marginal farm land.

Analysis of ETS costing on Native Reversion Forests

Price of carbon	20	\$/CO ₂
Years	5	
Native reversion default rate	3	t/CO ₂ /ha
Average fencing	25	\$/ha
Rates	1	\$/ha
Application prep cost	250	\$/application
Emission return prep cost	500	\$/return

Forest Area (ha)	50	100	200	400	800	1200
Application prep cost	250	250	250	250	250	250
ETS Application Fee	439	2143	2143	2143	5700	5700
No. of Emission Returns	2	2	5	5	5	5
Emission Return prep cost	500	500	500	500	500	500
Emission Return ETS cost	217	1207	1207	1207	5177	5177
Fencing (over 5 years)	1250	2500	5000	10000	20000	30000
Annual Rates	50	100	200	400	800	1200
Total Cost	3623	8807	16928	22928	58335	70335

Carbon sequestration	750	1500	3000	6000	12000	18000
Carbon Insurance 10%	75	150	300	600	1200	1800
Total Carbon	675	1350	2700	5400	10800	16200
Income from Carbon	13500	27000	54000	108000	216000	324000
Brokerage 7.5%	1013	2025	4050	8100	16200	24300
Total Income	12488	24975	49950	99900	199800	299700

Income less Costs	\$8,865	\$16,168	\$33,022	\$76,972	\$141,465	\$229,365
--------------------------	----------------	-----------------	-----------------	-----------------	------------------	------------------

Annual Return	\$1,773	\$3,234	\$6,604	\$15,394	\$28,293	\$45,873
----------------------	----------------	----------------	----------------	-----------------	-----------------	-----------------

Income \$/ha/yr	\$35	\$32	\$33	\$38	\$35	\$38
------------------------	-------------	-------------	-------------	-------------	-------------	-------------

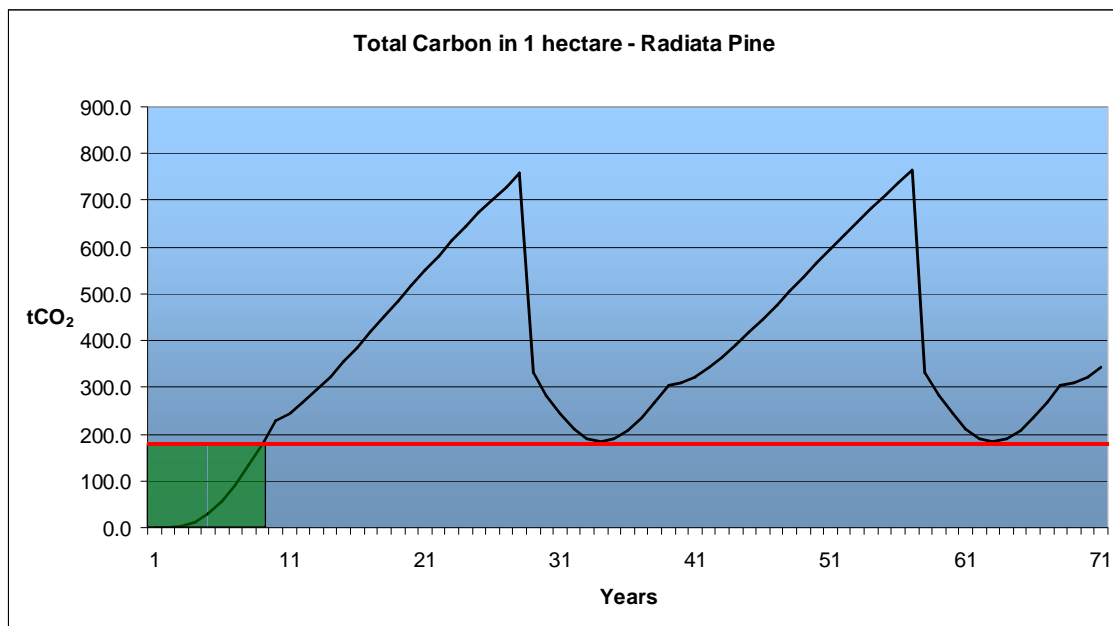
ETS Costs as a % of Total Cost	24%	52%	48%	36%	54%	45%
---------------------------------------	------------	------------	------------	------------	------------	------------

Harvesting provisions under the ETS

The harvesting provisions under the ETS are too restrictive and only provide real returns to large forest owners who can economically manage a mixed aged forest.

The majority of forest owners own forests under 100 hectares, and due to economies of scale plant in single age classes. This places them at a huge disadvantage when considering establishing forests for timber and carbon.

Under the current harvesting provisions a landowner can only claim 183 NZU's over a 9 year period per hectare. In the table below this is represented by the small green square. The total sequestered before harvest is around 740 NZU's.



If this was normalized, i.e. one hectare planted every year for 28 years, the per hectare figure in the green box would rise to around 400 NZU's over 16 years. The landowner would then not need to worry about paying any back as long as they replant the forest. This would be simple to manage and simple to administer.