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Managing Exotic Afforestation Consultation  
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## **WPMA's Submission on Managing exotic afforestation incentives proposals to change the forestry settings in the NZ Emissions Trading Scheme**

The Wood Processors & Manufacturers Association (WPMA) would like to provide the following responses to questions raised within the Discussion Document on the proposals to change forestry settings within the NZ Emissions Trading Scheme (NZ ETS).

WPMA represents the perspectives and interests of its members, including sawmill operators, timber manufacturers, pulp and paper producers, and suppliers to the industry. Our members are companies that have made major investments in adding value to New Zealand's annual forest harvest, which contributes to a bio-circular economy and provides economic growth and employment opportunities across regional and metropolitan areas throughout New Zealand.

WPMA agrees with the Government that there are issues with the new permanent post-1989 forest category within the NZ ETS due to high and rising prices for New Zealand Units (NZUs), which will likely result in large areas of land being planted in permanent forests with no intention to harvest.

WPMA is deeply concerned with the prospect of a diminishing supply of wood fibre resulting from land being locked up for 'carbon farming', and the associated impact this potentially has on the production capacity of the wood processing and manufacturing sector at a time when the Government is seeking greater use of sustainable carbon neutral building materials under its Building for Climate Change programme.

WPMA is also concerned with the economic and social impact on rural communities if increasing levels of productive land is locked up as permanent forest with no intention of harvest, and the negative flow-on effect this will have through fewer employment opportunities and deteriorating economic conditions within the regions.

WPMA's comments to questions raised in the Discussion Document follow.

### **Question 1. Do you agree with our description of the problem? Why/Why not?**

WPMA agrees with the description of the problem as outlined within the Discussion Document. As to the reasons why, this is covered in more detail below.

### **Question 2. Do you have evidence you can share that supports or contradicts this problem definition? Or that demonstrate other problems?**

Our members advise that access to logs and wood fibre is a major concern to them, particularly when there is strong competition for logs from export markets. The escalating price of NZUs will exacerbate this problem if land is locked up to sequester carbon rather than grow trees for production forestry.

The challenges in being able to access a consistent and reliable source of logs has delayed members' decisions to invest in new equipment and technology to expand their production capacity at a time when the current and expected demand for wood products is expected to increase.

### [Other macroeconomic factors associated with the problem defined in the Discussion Document](#)

The problem definition described in the Discussion Document is largely a manifestation of the regulatory settings established under the NZ ETS. The purpose of the NZ ETS was to encourage greenhouse gas emitters to reduce their environmental impact through a price trading system. In theory, emitters would choose how to change their business and/or personal behaviour to reduce their CO<sub>2</sub> emissions through the scheme's price signals to meet the Government's net zero emission goal by 2050.

While not included in the Discussion Document in any depth, there is a question about how successful the NZ ETS has been in encouraging and changing the behaviour of large fossil fuel users in reducing their CO<sub>2</sub> emissions. The ability for large emitters to offset their CO<sub>2</sub> emissions through acquiring relatively low-cost NZUs has arguably delayed their decisions to invest in new technologies and practices to reduce emissions and/or directly pass these emission costs on to their consumers.

As highlighted within the Discussion Document, the demand and price for NZUs has been rising sharply, which has forced up land prices and/or displaced other productive land-uses (such as production forestry and sheep and beef farming) into permanent exotic forests. We doubt the architects of the NZ ETS intended to undermine the growth potential of New Zealand's forestry and red meat sectors, which together generated export revenue of \$16.2 billion in the year ending June 2021.<sup>1</sup> So a question remains about the ability of the NZ ETS to shift the behaviour of large emitters when an alternative and comparatively cheaper offset mechanism is available through access to NZUs.

We are encouraged that the Discussion Document identifies the many issues arising from high NZUs prices, and the risk of more productive land being planted into permanent exotic forests. The opportunity therefore exists for the Government to consider the unintended consequences created by the NZ ETS and how effective the scheme has been (or will be) in directly driving business and/or personal behaviour to reduce CO<sub>2</sub> emissions to meet the net zero emission goal by 2050.

### **Question 3. Do you agree with our criteria for managing permanent exotic afforestation? If not, what would you change and why?**

WPMA generally agrees with the Assessment Criteria. We also recommend adding a further criterion to make it more explicit that decisions will be informed and supported by rigorous peer-reviewed research outputs and/or high-quality macroeconomic analysis. To ensure policy settings are developed on an informed basis, we recommend the following criterion be added to the Assessment Criteria:

#### **9. Supported by robust research and/or economic analysis**

- Decisions on afforestation and other associated regulatory settings are informed and adapted by rigorous research and/or economic analysis.

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<sup>1</sup> MPI's Situation and Outlook for Primary Industries: December 2021.

**Question 4. Should we provide for exceptions allowing exotic species to register in the permanent forest category under certain conditions?**

WPMA does not support the provisions to allow for exceptions for exotic species to be registered in the permanent forest category. Depending on the breadth of ‘certain conditions’, this is likely to add increased levels of administration and compliance cost to the Government.

**Question 5. Are there particular circumstances that you support introducing exceptions for (for example, exceptions for certain species of exotics)? Why?**

Option 3 will add more complexity and compliance cost to the Government in administering the permanent exotic forest exceptions, which would seem to be in direct conflict with point 8 of the Assessment Criteria. If the Government intends to explore what exceptions could be applied, accepting the distinct likelihood of this causing further unintended consequences to production forestry and increased administration and compliance cost, it may wish to consider the following:

- **Remote land areas** – Where land is extremely difficult to access for tree harvest and log removal to transport by road, this could be exempted. How ‘remote land area’ is defined would need to be clear and unambiguous. It is strongly recommended that a risk assessment of physical land resources to sustain permanent exotic forests be undertaken to minimise the risk of severe environmental and ecological damage occurring by leaving land in permanent exotic forest. It also needs to be considered that remote and difficult-to-access land is likely uneconomic in terms of its current land-use setting for reasons including geological instability, limited production capacity and difficulty in being able to actively manage the land (to name a few). We suspect much of the land could already be reverting to protective forest cover now, suggesting that the scope for ecologically and economically worthwhile areas for such permanent exotic forest establishment are limited.
- **Small land parcels** – Where there are limited land-use options available (gullies, steeper land, etc) on-farm, then small land parcels could be exempted. A ‘small land parcel’ would also need to be very clearly defined (e.g. unproductive land of no more than 20% of total land area, etc). Like the above, an assessment of the physical land resources to sustain permanent exotic forests should be undertaken. We note this could be included within a landowner’s Freshwater Farm Plan (under [section 9A](#) of the Freshwater Farm Plans of the Resource Management Act (RMA)), where they will be required to identify and minimise the adverse effects of activities carried out on the farm on freshwater and freshwater ecosystems.
- **Capped NZUs** – For ‘remote land area’ and ‘small land parcel’ described above, average accounting rules should be applied to permanent exotic forest – 16 years for *Pinus radiata*.

The Discussion Document seeks feedback on the likely impacts, risks and costs of allowing exceptions under Option 3. We provide feedback to this request in the following table.

	<b>Impact</b>	<b>Risks</b>	<b>Costs</b>	<b>Additional conditions</b>
<b>Remote land areas</b>	Likely to increase permanent exotic forests in remote areas if exempted.	Assessing the environmental and ecological impact of permanent exotic plantations on highly erodible soils and sub-structures.  Technology makes it economic to harvest (airlift),	Environmental and ecological costs caused from damage of planting trees on land that cannot sustain permanent exotic forests.  Development and implementation	Assessment/definition on what qualifies as being ‘remote land area’ needs to be very clearly defined.  Highly erodible LUC class 8 (and some LUC class 7) unable to sustain permanent exotic plantations.

		<p>therefore no longer meets the definition of remote land area.</p> <p>Existing indigenous vegetation is removed or badly damaged to make way for permanent exotic forests.</p> <p>Presents a high risk if permanent exotic forests are not actively managed for pests, weed control, fires, wilding pine infestation, etc.</p>	<p>management plan for the exotic forest.</p> <p>Liability costs for damage associated with the permanent exotic forest to neighbours/local government/others through fire, pest incursions, spread of wilding pines, erosion and sediment loss from susceptible soils, etc.</p>	<p>If the land is very remote, it's probably not being actively farmed and is potentially at various stages of reverting to indigenous vegetation.</p> <p>Landowners should be required to have a management plan in place for the permanent exotic forest (particularly for absentee landowners) to show how they will fund and manage fire risks (water storage), pest incursions and erosion risks from fallen trees, etc.</p>
<b>Small land parcels</b>	Likely to see an increase in permanent exotic forests in selected areas on-farm.	<p>Could be open to interpretation so needs to be defined.</p> <p>Indigenous vegetation is removed or badly damaged to make way for permanent exotic forests in small land areas on-farm.</p>	Environmental damage of planting trees on land that cannot sustain permanent exotic forests (planting on steep, highly erodible soils).	<p>'Small parcel area' needs to be clearly defined to avoid confusion (defining percentage of land area, on marginal unproductive parts of the farm, etc).</p> <p>Some of this information may be captured within Freshwater Farm Plans under section 9A of the RMA.</p>
<b>Cap NZUs</b>	Landowners reassess planting permanent exotic forests if set at average accounting for new forests.	Higher for the landowner as they will need to determine the long-term profitability of permanent exotic forestry as opposed to other productive land-uses.	Undertaking a cost/benefit analysis of taking land out of productive use for permanent exotic forests.	Placing a cap on carbon for permanent exotic forests would require landowners to deeply consider the financial implications of taking land out of productive forestry/agriculture.

### Question 6. Are there alternative ways we can recognise and encourage these forests, either within, or outside, the NZ ETS?

Accessing NZUs is a primary driver for landowners planting permanent forests. While erosion control is often cited as a reason for planting permanent forests, similar outcomes can also be achieved, albeit more slowly, with indigenous plantings.

WPMA is concerned that differential recognition of alternative classes of forests has the potential to further distort the value of wood fibre available for harvest, as well as other land-use options. There would appear to be no logical reason for artificial distinctions of exempted categories of forests either within or outside the NZ ETS. Not only does this complicate the process (and is likely to artificially increase the cost of wood fibre), it potentially increases the prospect of participants 'gaming the system', particularly if alternate schemes become available within the primary industry (such as those proposed in He Waka Eke Noa's agricultural emissions pricing options paper).<sup>2</sup>

<sup>2</sup> HWEN's agricultural emissions pricing options paper ([link](#)).

**Question 7. Of these options, what is your preferred approach? Why? Are there other options you prefer, that we haven't considered?**

WPMA has a strong preference for **Option 2 – Prevent exotic forestry from registering in the permanent post-1989 category in the NZ ETS**. Option 2 provides a clear and unambiguous requirement that exotic forests will not be able to register for the permanent post-1989 category within the NZ ETS.

The rising and speculative nature of NZUs has created unintended consequences in distorting land prices and has displaced production forestry and sheep and beef farming. We are very concerned that any proposed exceptions considered under Option 3 will continue to see large areas of land being locked into permanent exotic forests with no intention to harvest which seems in direct conflict with points 4 and 8 of the Assessment Criteria (p.16).

**Question 8. Do you agree with our preferred approach (acting before 1 January 2023)? Why/why not? If not, what is your preference?**

WPMA supports the proposed approach to remove permanent exotic forests from the NZ ETS from 1 January 2023.

We would encourage the Government to implement its preferred approach before 1 January 2023. Delaying this decision for too long could see a spike in land prices as participants seek to take advantage of the 'status quo' option, further exacerbating the problem identified in the Discussion Document with more productive land being locked up into permanent exotic forests.

**Question 9. Do you support exceptions by regulations [option 3a] or exceptions after a moratorium [option 3b]? Why?**

WPMA supports Option 2 for the reasons stated above. If the Government wish to explore Options 3a or 3b, exceptions by regulations (Option 3a) would appear to be a pragmatic approach. Regulations allow for a formal and transparent public consultation process to occur in the development of future requirements that are prescriptive and legally enforceable.

Moratoriums can be taken by individuals as a deferred decision that may change over the course of time. The observation contained within the Discussion Document that describes the risks of moratoriums is well made in that they "may not significantly alter the incentives to stop foresters planting permanent exotic forests now – if they expect to be able to register the forests at some point in future once the moratorium has ended." (p. 20)

**Question 10. If we choose to introduce exceptions by regulations, what conditions or criteria should be placed on the Minister in choosing to pursue these?**

If the Government decides to introduce exceptions by regulations, the Minister should consider some of the following criteria:

**An economic impact analysis** on the associated effects of the proposed permanent exotic forest to the economy and employment prospects within the region in the form of the displacement of productive land-uses. This includes the loss of investment in wood processing and manufacturing capacity faced with a diminishing supply of wood fibre in the future. We note that investment in processing follows rather than proceeds the generation of the forest estate.

**Implications in achieving other government priorities.** Consideration of the impact of locking land up for permanent exotic forestry will have on the Government being able to meet other programmes/policy settings. This includes the ability to encourage greater use of wood

products as sustainable carbon neutral building materials to meet the Government's goals under the Building for Climate Change programme. Foreclosing on the opportunity for future generations to access wood resources is difficult to predict in detail, but there are certainty implications, particularly when the global economy decarbonises.

**Decisions based on robust science and research.** Having accurate information to support and guide decisions on exceptions will be important, including an assessment of the physical land capability to sustain permanent exotic forests that have no environmental and ecological impact on surrounding areas over the life of the forest (e.g. erosion risks of planting permanent exotic forests on Land Use Capability (LUC) class 8 land and depending on the erodibility profile some LUC class 7 land as well).

**Requirement for land management plans for permanent exotic forests.** Landowners should have a land management plan in place for permanent exotic forest to demonstrate and record how they will manage identifiable risks (such as fire risks, weed control, animal pest incursions, wilding pine infestation and erosion risks from fallen trees), which could be included within an approved Freshwater Farm Plan. Such plans also need to reflect the risks predicted for New Zealand's climate changes rather than being solely based on historical precedent.

#### **Question 11. If we choose a moratorium (Option 3b) – how long should it be? Why?**

WPMA does not support a moratorium for the reasons stated above. It creates an unnecessary and uncertain environment, placing a significant risk to future investment and innovation involved in the forestry and wood processing sectors. If the Government is considering a moratorium, then this should be for a very short timeframe (less than one year) to allow time to put in place regulations (Option 3a). The Government should look to restrict large areas of land being planted in permanent exotic forest in the intervening period before moving to regulation.

#### **Question 12. Do you think a different type of moratorium (whether it requires a decision to be ended/continued) would have different impacts? Or do you prefer a different approach?**

Significant doubts remain about whether a different type of moratorium will alter landowners' or land purchasers' decision-making processes. We also note that the protracted debate on the reform of the RMA adds further delays, which in itself acts as a form of moratorium on change and investment.

#### **Question 13. Currently the NZ ETS defines forests based on the predominant species in a hectare. However, forests change makeup over time. Do you think this definition of exotic and/or indigenous forests is appropriate for the permanent post-1989 category in the NZ ETS?**

The NZ ETS definition – forests based on the predominant species in a hectare – is not necessarily ideal in the exclusion of permanent exotic forests from the permanent post-1989 category in the NZ ETS.

We support the proposal contained within the Discussion Document whereby MPI or MfE check the forest type at registration to validate an individual's application to register an exotic or indigenous forest within the NZ ETS (p. 21). Sighting and verifying the application at source more clearly outlines the expectations (and requirements) of the landowner in managing the forest in future. The question then needs to be asked about whether the assumed or actual increase in carbon storage justifies the cost of the regulatory application and verification process, a decision presumably best made by the forest owner seeking the benefit of any change in forest type.

**Question 14. What level of exotic species in a forest would be acceptable for the forest to still be classified as an indigenous forest, and registered in the permanent post-1989 category in the NZ ETS?**

Determining what level or area of exotic species would be acceptable for a forest to be classified as an indigenous forest is difficult.

If the presumption underlying this question assumes the land will readily revert to an indigenous forest over time then this should be informed by good science across different regions within New Zealand. As we understand it, the ability for exotic forests to return to indigenous forest is highly dependent on factors such as regional climate conditions, local seed source, soil types, typography, existing indigenous vegetation already growing in the area, and active management of the forest.

Based on the lack of research data, it is difficult to determine what level or areas of exotic species would be acceptable for a forest to be classified as an indigenous forest. Therefore, this should be set at the lowest possible range if the intent is to use a national metric, given the challenges presented in some regions in re-establishing indigenous vegetation.

**Question 15. If forest changes from indigenous to exotic while registered in the permanent category, do you think it should be removed from the category (Option 1), or be treated as indigenous (Option 2)? Why? Are there other options we haven't considered?**

There is a wider question on the physical capability of the land to rapidly establish indigenous forests as the dominant species. If there is a strong prospect of wilding pines taking over the designated land area, then what are the expectations of landowners in registering their indigenous forest under the permanent post-1989 category in the NZ ETS, particularly if this presents a risk of spreading more wilding pines to neighbouring properties?

With a caveat that further examination is warranted, WPMA believes that **Option 2 – Continue to treat the forest as it was originally registered in the NZ ETS, even if areas change to exotic over time** is the most practical option as the financial risks and liability to landowners in establishing indigenous forests are lessened.

Options 1A, 1B or 1C are likely to act as a disincentive to landowners in establishing or allowing the regeneration of indigenous forests to occur, given the risks and potential liability to the landowner for breaching any of these options.

**Question 16. If we choose to remove forests which have become predominantly exotic over time from the category, how do you think we should do this? Why?**

Should the Government consider putting in place enforcement measures to remove forests from the permanent category that have become predominantly exotic over time, it will need to consider some of the following points:

- Clear and stable rules that are easy to understand, apply and are enforceable in the majority of situations;
- Ensure regulations outline the conditions would enable the Government to remove forests from the permanent category;
- Regulations are clear and unambiguous about the threshold level where exotics are seen as the predominant species in a forest categorised as indigenous (referred to under Question 14);
- Clearly outline the process (and costs) in assessing if, or possibly when, the threshold level has been breached (e.g. this may require an independent assessment/audit of the forest on a timebound basis); and
- Identification of agreed actions (if any) to address/remedy the breach.

**Question 17. If exotic forests are removed from the permanent category, what would an appropriate penalty be for clearing the forest before the end of the permanent period? Do you think the current penalty needs updating?**

The primary purpose of a penalty is to punish an offender and to deter future offending, not only by the offender, but in the community at large. Therefore if, say hypothetically, such penalties were to apply to the clear-felling of exempted exotics under a permanent category, they would need to be greater than the return gained from the harvested trees, including the legal costs of taking such action, and act as a future deterrent to others.

What is outlined in the Discussion Document in safeguarding an indigenous forest would seem reasonable, but it will be difficult to determine approximate returns from indigenous forestry as very little occurs in practice (10,000 tonnes of indigenous harvested compared to 32,899,000 tonnes from plantation forestry).<sup>3</sup>

**Question 18. Are you a PFSI covenant holder?**

No.

**Question 19. Do you agree with the proposal to allow exotic forest land in the PFSI to transition into the permanent post-1989 forestry activity, or would another approach be more suitable?**

We suggest the Government seek feedback on various options directly with PFSI covenant holders. In considering such an option, the Government needs to consider the influence that regulatory changes potentially have in offering landowners windfall gains or retrospective losses in undertaking such action.

**Question 20. Should the Government create a long rotation category under averaging accounting for *Pinus radiata* forests which are not profitable to harvest at age 28, recognising the additional carbon which is likely to be stored by these long rotation forests?**

WPMA does not support the proposed long rotation category under averaging accounting for *Pinus radiata* forests, particularly if 'profitability' has been solely determined through the extension of the average accounting age to 21 years.

We would suggest that the Government consider a 'long rotation' category with a high degree of caution. If this category is to be seriously considered, then defining what land classes meet the 'remote and marginal land' should be very clearly defined. We note that large tracks of land within New Zealand are remote and marginal, but LUC class 8 land (including some LUC class 7 land) is also unsuitable for forestry due to the highly erodible profiles of these land classes.

The Government will also need to consider the unintended consequences of setting the average age for a long rotation category to 21 years for *Pinus radiata*, many of which are clearly articulated in both the Discussion Document and this submission, including the potential increase in land prices, restricting log flows and distorting log prices. The risk of stranded investment in wood processing and manufacturing production capacity will have a chilling effect that should not be underestimated, which is covered in more detail below.

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<sup>3</sup> Forest Owners Association Facts & Figures 2020/21.

**Question 21. What do you think the impacts of introducing a long rotation category as proposed would be?**

From a WPMA perspective, extending the harvestable age of logs has the potential to reduce the supply of wood fibre under a proposed 'long rotation' category, particularly if it is advantageous for foresters to extend the harvest timeframes to accumulate more NZUs than the average accounting age of 16 years.

For wood processors who are dependent on log supply from 'remote and marginal land' areas, this could be highly detrimental to the profitability and sustainability of their business operations. It is concerning that the Discussion Document fails to recognise the flow-on impact of a long rotation category to wood processors, particularly if they are unable to secure sufficient access to logs to maintain profitable and sustainable operations until long rotation logs become more readily available. This would also appear to be in direct conflict with point 4 of the Discussion Document's Assessment Criteria to support regional economies and jobs.

Should logs eventually become available under the proposed long rotation category, wood processors will need to ensure their sawmills have the capacity to be able to process larger and heavier 40-year-old logs, which were previously set up to process smaller 28-year-old logs. Wood processors will most likely need to access funding to invest in new sawmilling and on-site transport equipment to process bigger logs, which could be difficult to achieve if they have struggled to remain financially viable until the supply of logs under the long rotation category becomes available.

Should the Government consider a long rotation category to help increase the profitability for landowners, then it must also look at what investment incentives (e.g. accelerated depreciation, interest-free loans, etc) they provide to wood processors to purchase new equipment to be able to process bigger logs.

There is also a question over logging contractors' ability to safely harvest larger logs in remote land areas. We encourage MPI to consult directly with the Forest Industry Contractors Association to develop a better understanding of the implications and associated costs of harvesting and removing larger and heavier logs off-site.

**Question 22. Do you think forests in this category are likely to be harvested? Are measures needed to prevent forests in a long rotation category being left permanently and never harvested, or to mitigate potential adverse effects of these forests being left permanently?**

WPMA is unsure whether forests in a long rotation category are likely to be harvested. We would certainly like to think so, but we appreciate that this will be determined by the landowner based on the market price for logs, rather than being influenced by the price of carbon.

WPMA would strongly support measures to prevent forests within a long rotation category being left as permanent and never harvested. To help minimise this occurring, WPMA recommends that average accounting apply (16 years for *Pinus radiata*) for long rotation forests.

**Question 23. What criteria should be in place to restrict the category to *Pinus radiata* forests which are not profitable to harvest at age 28?**

This question is fraught with difficulties. The presumption that the Government has a role in securing the 'profitability' of a commercial investment is highly problematic in a free market economy. This will most likely distort asset values and investment returns for the farming sector through a selective regulatory regime that favours this sector over and above that of other sectors.

How will 'profitable' be determined at the time *Pinus radiata* forests are harvested at age 28? Is it the Government's intention to independently verify whether a forest is profitable (i.e. revenue from selling logs exceeds the costs of harvesting the logs), or will this be determined by the landowner based on their expected level of investment return - which they can do already through deciding to leave the trees in the ground for longer.

If, however, profitability is being directly associated with accessing more NZUs through the average accounting age to 21 years, we are likely to face further unintended consequences which the forestry objectives contained within the Discussion Document is seeking to redress, and as outlined in more detail above.

**Question 24. Do you think a long rotation category aligns with the proposed changes to the permanent activity and supports the Governments wider forestry objectives?**

It is highly questionable that the proposed long rotation category meets the Government's forestry objectives, particularly as they relate to **Substitution** (through tightening access to logs for processing to be able to supply wood products in the short-to-medium term to support the Government's goals to transition to a low-carbon bioeconomy), and the **Economy and jobs** (the challenges to wood processors to sustain business operations and jobs in waiting for long rotation logs to become available, and then being able to secure funding to invest in new equipment to be able to safely and efficiently process larger and heavier logs).

**For more information**

Should you wish to discuss any aspect of this submission, please call me on 027 226 3331.

Yours sincerely,



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