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Market governance of the New Zealand Emissions Trading Scheme

The Wood Processors & Manufacturers Association of New Zealand (WPMA) would like to provide the following comments on the Discussion Document on the Market governance of the New Zealand Emissions Trading Scheme (the Discussion Document).

WPMA represents the perspectives and interests of its members, including sawmill operators, timber and engineered wood manufacturers, pulp and paper producers, and suppliers that make a significant contribution to New Zealand's domestic economy and primary export sectors. Our members are companies that have made major investments in adding value to New Zealand's annual forest harvest and increasingly have a critical role to play in developing low carbon wood products within a bio-circular economy. WPMA members also provide economic growth and employment opportunities across regional and metropolitan areas throughout New Zealand.

Domestically processed and manufactured wood products are a significant contributor to the New Zealand economy, with exports projected to increase to \$3.09 billion in the year to 30 June 2023,¹ which includes the export of sawn timber, paper and packaging, engineered timber products, manufactured panels, as well as other wood products. The wood processing sector is also a 'high value' employer of workers across New Zealand, with 30,645 workers employed mostly in the regions close to log supply.²

Comments on the Discussion Document

In an efficient and well-functioning financial market where there are willing buyers and sellers, the market price is reflective of all available, relevant information about the actual value of underlying assets. It is questionable whether this description applies to the New Zealand Units (NZUs) market, where the Government sets the number of NZUs supplied into the ETS over time and thus determines both the carbon price to emitters and the extent of emissions they are liable for. To describe the 'NZU market' as some form of efficient financial market misrepresents the situation, recognising that the Government solely determines the underlying value of NZUs through prescribing those parts of the New Zealand economy deemed liable and the number and floor value of units available.

The Discussion Document proposes the appointment of a regulator to address the potential market governance risks associated in trading NZUs under a NZU market. While we support the general aims of ensuring a robust and transparent system (although no actual examples are provided of activities of concern), we question the appropriateness of establishing a new layer of regulatory oversight on a government designed and controlled NZU market.

¹ MPI's Situation and Outlook for Primary Industries December 2022 ([link](#)).

² Forestry and Wood Processing Workforce Action Plan 2020–2024 ([link](#)).

WPMA considers the proposed additional regulatory oversight is at best premature and possibly unnecessary in view of the following:

- The Forests (Regulation of Log Traders and Forestry Advisers) Amendment Act 2020 (the Forest Amendment Act) requires forestry advisers to be identified on a public register by 6 August 2023; and
- Afforestation providing the primary source of greenhouse gas emission 'credits' available to the NZU market.

The intent of the regulatory system for the Forest Amendment Act is to provide landowners and others with greater confidence and assurance that registered forestry advisers meet certain 'forestry practice standards' in the provision of expertise and impartial advice. As the Ministry for Primary Industries (MPI) are responsible for the regulatory system for forestry advisers, there is a logical expectation that such professional client services of registered forestry advisers, as per MPI's Guidelines,³ will include the provision of advice on NZUs and the ETS.

What is proposed in the Discussion Document seems to be an additional regulatory requirement where it is intended that NZUs should be treated as a financial product. This would require any adviser to hold a Financial Advice Provider licence to comply with requirements under the Financial Markets Conduct Act 2013. As proposed in the Discussion Document, this would be an additional requirement for registered forestry advisers, and potentially be a higher threshold than what has been promulgated by MPI to date under the regulatory system for the Forest Amendment Act.

For forest advisers (and quite possibly log traders), the time, cost and potential liability involved in obtaining a Financial Advice Provider licence under the Financial Markets Conduct Act 2013 will likely act as a deterrent for many forest advisers, particularly sole traders. There is a very real risk that forestry advisers' advice to clients on afforestation-backed NZUs could be at odds with the scope of professional forest management advice offered on the basis of MPI's Guidelines, unless the carbon 'market' aspects of forestry are included in prescribed 'forestry practice standards', in which case they represent an unnecessary (and costly) duplication of regulatory control.

WPMA is also concerned that registered financial advisers who already hold a licence may decide to enter the forest advisory market to provide financial advice to landowners without a fundamental understanding of forestry and forest systems deemed necessary when providing professional advice under the Forests Amendment Act. As such, the market governance proposals represent a very real economic and environmental risk to the landowner if the wrong advice is provided.

Overall, it is deeply concerning to WPMA that MfE and MPI do not have a collective or aligned view on the expectations of forest advisers in the provision of advice on NZUs or the ETS to landowners. This creates further uncertainty and unnecessary costs for forest advisers, and the sector as a whole, in having to potentially comply with two regulatory regimes run by MfE and MPI. WPMA is apprehensive that the costs of regulatory duplication will be passed on to wood processors which, perversely, increases the cost of logs at a time the Government is seeking to increase the use of low carbon, sustainable and locally sourced materials such as wood products within a circular economy.

Given the compliance costs and liability risks involved we are most likely to see a contraction in the provision of advice on NZUs should the Discussion Document's proposal be adopted, which ultimately will be an unhelpful outcome for landowners and the wider forestry and wood processing sector.

³ MPI's Guidance: What is a forestry adviser? ([link](#))

Summary

While we understand why MfE in seeking a robust and transparent system, it is deeply concerning that this is being done in isolation of the ongoing development of the Forests (Regulation of Log Traders and Forestry Advisers) Amendment Act 2020 by MPI. On this basis, we are unable to support the objectives of the Discussion Document whereby forest advisers would be required to register under two regulatory regimes with both MfE and MPI.

WPMA is concerned that continuing with the proposals as promulgated in the Discussion Document risks deterring competent forestry advisers from providing advice on forestry and the ETS, given the potential risks and liability of being challenged over advice given. This could deter landowners from investing in afforestation programmes and the extended environmental and economic benefits of undertaking such land use change. The resulting reduction in predictable forest harvest volumes will likely discourage wood processors and manufacturers from investing in expanding wood processing capacity, which will negatively impact on New Zealand's objective in reducing embodied carbon levels in new building developments to meet our net zero greenhouse gas emission targets by 2050.

For more information

Given the size and contribution wood processors and manufacturers make to New Zealand's economy and in providing employment opportunities across the regions, we would be disappointed if our comments to the Discussion Document are not considered in a meaningful way.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S Macaulay', written in a cursive style.

Stephen Macaulay
CEO – Wood Processors & Manufacturers Association