



Cabinet

Minute of Decision

McGuinness Institute title:
[CAB-22-MIN-0390.01] New
Zealand Emissions Trading
Scheme: Next Steps on the
Permanent Forest Category

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New Zealand Emissions Trading Scheme: Next Steps on the Permanent Forest Category

Portfolios Forestry / Climate Change

On 19 September 2022, following reference from the Cabinet Economic Development Committee, Cabinet:

Background

- 1 **noted** that forests are important to achieving New Zealand's climate change objectives;
- 2 **noted** that the New Zealand Emissions Trading Scheme (NZ ETS) provides an incentive for afforestation by providing New Zealand Units (NZUs) to recognise carbon sequestration by forests;
- 3 **noted** that a new NZ ETS permanent forest category (for forests that will not be clear-felled for a period of at least 50 years) was introduced by the Climate Change (Emissions Trading Reform) Amendment Act in 2020, and is scheduled to open for registrations from 1 January 2023;

Problem

- 4 **noted** that current NZ ETS settings and carbon prices, and the expectation of rising carbon prices in future, will potentially lead to increasing levels of permanent exotic afforestation;
- 5 **noted** that poorly managed or unmanaged permanent exotic afforestation has the potential to create a number of risks, including the displacement of productive land uses and environmental risks;
- 6 **noted** that the proposals in the paper under DEV-22-SUB-0211 are one part of a broader package of work to manage these issues;

Consultation

- 7 **noted** that on 17 February 2022, the Cabinet Environment, Energy and Climate Committee agreed to the release of a discussion document on proposals to change forestry settings in the NZ ETS, to mitigate the risk of widespread poorly managed or unmanaged permanent exotic afforestation, including:
 - 7.1 proposals to prevent exotic forests from registering in the permanent forest category;

- 7.2 proposals to create a ‘longer rotation’ averaging forest category to recognise the carbon sequestration of radiata pine grown on remote and difficult to harvest land;

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- 8 **noted** that these proposals have significant impacts on Māori;

Analysis

- 9 **noted** that the carbon price has doubled within a short timeframe, from around \$35 in late-2020 to \$75 in mid-2022, and that the price is expected to increase further over time;
- 10 **noted** that the Minister of Forestry and the Minister of Climate Change (the Ministers) continue to have concerns that the permanent forest category will incentivise the establishment of large-scale poorly managed or unmanaged permanent exotic forests, posing risks to rural communities and the environment;
- 11 **noted** that native afforestation is uneconomic due to slow growth and sequestration rates, and high establishment and management costs;
- 12 **noted** that following the consultation referred to in paragraph 7 above, the Ministers consider that:
- 12.1 while the permanent forest category presents risks, it also presents opportunities to support the government’s forestry and climate change objectives, and Māori aspirations for their land;
- 12.2 further analysis is needed to balance these trade-offs;

Proposal

- 13 **confirmed** that the NZ ETS permanent forestry category will open to all forests on 1 January 2023, as currently legislated;
- 14 **authorised** the Ministers to carry out further work to redesign the permanent forest category under the NZ ETS;
- 15 **noted** that the Ministers intend to amend the permanent forestry category in the future, and that they tentatively consider the redesigned permanent forest category could come into effect from 1 January 2025;
- 16 **noted** that the Ministers envisage a redesigned NZ ETS permanent forest category that will:
- 16.1 support forests to deliver positive long-term outcomes as part of Aotearoa New Zealand’s climate transition;
- 16.2 supports the transition of exotic forests to long-term indigenous carbon sinks;
- 16.3 hold forest owners accountable for delivering effective forest outcomes;
- 16.4 ensure effective financial management of forests over the long-term;
- 16.5 ensure forests meet environmental and other forest management best practice;
- 16.6 manage risks to rural communities from the permanent forest category;
- 16.7 support Māori to realise aspirations for their land;

- 17 **noted** that transition forests, when managed appropriately, could play a role in establishing cost-effective indigenous carbon sinks;
- 18 **noted** that the proposed changes to the permanent forestry category predominantly aim to address the long-term environmental impacts of poorly managed, or unmanaged, permanent exotic forests, as well as the impacts on rural communities;

Proposals to adjust averaging accounting for 'long rotation' radiata pine forests

- 19 **confirmed** that no changes be made to average accounting for 'long rotation' radiata pine forests at this time;

Other proposals

- 20 **noted** that Te Uru Rākau – New Zealand Forest Service is progressing a work programme to update carbon look-up tables for indigenous forests in the NZ ETS;
- 21 **agreed** that work will be extended to include the calculation of carbon in pine forests transitioning to indigenous forests, as part of the work to redesign the category;
- 22 **noted** that further work to redesign the permanent forest category is part of a broader package of forestry proposals aimed at managing the risks created by increased exotic afforestation, including work to amend the National Environmental Standards for Plantation Forestry (NES-PF);
- 23 **invited** the Ministers, together with the Minister for the Environment, the Minister for Rural Communities, and the Associate Minister of Local Government, to produce a joint communication plan which highlights the links between the ongoing work programmes to redesign the permanent forest category and amend the NES-PF;

Next steps

- 24 **noted** that accountability for the work programme discussed in the paper under DEV-22-SUB-0211 will be held jointly between the Minister of Forestry and the Minister of Climate Change;
- 25 **noted** that the Ministers propose to undertake further work by developing a working group, including Māori and other technical forestry and environmental experts, to redesign the permanent forest category;
- 26 **agreed** to announce, at an appropriate time, the government's intent to reduce regulatory uncertainty.

Rachel Hayward
Acting Secretary of the Cabinet

Secretary's Note: This minute replaces DEV-22-MIN-0211. Cabinet agreed to amend paragraph 21.