
REPORT 2
(1251/52/IM)

SUBMISSION TO THE DRAFT FORESTRY ALLOCATION PLAN FOR PRE-1990 FORESTS

1. Purpose of Report

To seek the Committee's agreement on the submission to the Draft Forestry Allocation Plan (attached as Appendix 1) and to authorise the Chief Executive to carry out further steps to apply for the Council's allocation of emission units for pre-1990 forest areas.

2. Executive Summary

The Kyoto Protocol creates a distinction between forests established before and after 1 January 1990. The New Zealand Emissions Trading Scheme ('the ETS') maintains this distinction and therefore includes different rules for pre-1990 and post-1989 forests. See the glossary attached as Appendix 2 for assistance with some of the terminology contained in this report.

Pre-1990 forests are defined as forests that were planted on or before 31 December 1989 where the forest species consists predominantly of exotic forest species (e.g. pine). The Council has approximately 200 ha of pre-1990 forest.

The ETS rules for the forestry sector are still being finalised. As part of this process, the Government released the Draft Forestry Allocation Plan ('the draft Allocation Plan') for pre-1990 forests in October 2008 (the draft Allocation Plan is attached as Appendix 3). The draft Allocation Plan determines how many emission units ('NZUs') will be allocated for different types of pre-1990 forests (depending on when the forest owner acquired the forest) and the conditions on how these NZUs can be surrendered or converted (depending on the age of the forest). It also establishes the liabilities for forest owners for any emissions that result from deforesting (i.e. harvesting and then changing the land-use to something other than forestry) and the eligibility criteria to apply for an exception to this scheme.

Submissions on the draft Allocation Plan close on 30 April. Once the draft Allocation Plan is finalised, forest owners will be required to apply for their allocation of NZUs (by the end of July) or apply for an exemption (by the end of June). These dates are potentially subject to change.

The Council's draft submission on the draft Allocation Plan is supportive. The draft Allocation Plan is largely beneficial to the Council due to the one-off

allocation of NZUs (estimated to be 12,000 NZUs total). The Council could surrender or convert 79% of these NZUs immediately and the remaining 21% could only be surrendered or converted after 1 January 2013.

Under current management plans, the Council intends to either maintain its pre-1990 forests or replant them with native trees (the land-use will remain as forest). This means the Council will be unlikely to have liabilities relating to these forest areas in the short, medium or long-term. The Council is not eligible for an exemption under the rules of the draft Allocation Plan.

This report recommends that the Committee agree to the submission to the draft Allocation Plan and also authorise the Chief Executive to carry out all further steps required to apply for an allocation of emission units for the Councils pre-1990 forests.

In order to manage decisions on emission units, a Carbon Management Policy will be developed and presented to Committee. This Policy will address (among other things):

- accounting and reporting policies for the Council's emission units
- a strategy for purchasing, converting, trading and surrendering emission units for the Council's ETS obligations.

3. Recommendations

Officers recommend that the Committee:

1. *Receive the information.*
2. *Agree that the submission on the Draft Forestry Allocation Plan, attached as Appendix 1, is forwarded to the Ministry of Agriculture and Forestry by 30 April 2009.*
3. *Authorise the Chief Executive and the Climate Change Portfolio Leader to make any changes to the submission required as a result of the Committee discussion, and to make editorial changes as required.*
4. *Authorise the Chief Executive to carry out all further steps required to apply for an allocation of emission units for the Councils pre-1990 forests.*
5. *Note that under the Draft Forestry Allocation Plan the Council would receive approximately 12,000 emission units for its 200 ha of pre-1990 forests.*

4. Background

The Kyoto Protocol creates a distinction between forests established before and after 1 January 1990. The ETS maintains this distinction and therefore includes different rules for pre-1990 and post-1989 forests. Forestry was the first sector

to enter into the ETS on 1 January 2008. Appendix 2 attached contains a glossary of terms to assist in reading this report.

In April 2008, the Council was briefed on the anticipated one-off allocation of NZUs for the Council's pre-1990 forests. At that time, the Government stated they would be allocating 39 NZUs/ha and the Council expected an allocation of around 7,410 NZUs for the Council's pre-1990 forests.

The ETS rules for the forestry sector are still being finalised. As part of this process, the Government released the draft Forestry Allocation Plan for pre-1990 forests in October 2008 (the Allocation Plan is attached as Appendix 3). The draft Allocation Plan aims to influence the decision-making of forest owners by making it more economical to retain (or replant) pre-1990 forests and less economical to deforest (because of the obligation to repay NZUs back to the Government should there be any land-use changes). The Government is accepting submissions to the draft Allocation Plan and this submission process has been amended to align with the select committee review of the ETS. Submissions close on 30 April 2009.

Table 1 below outlines the proposed time line for implementing the draft Allocation Plan. These dates are subject to change.

Table 1 - Proposed timeline for pre-1990 allocation

October 2008	<i>Draft Forestry Allocation Plan</i> issued
30 April 2009	Submissions on <i>Draft Forestry Allocation Plan</i> close
June 2009 (TBC)	Finalised Forestry Allocation Plan issued Forest owners invited to apply for exemptions / allocations
30 June 2009 (TBC)	Closing date for exemption applications under the "less than 50 ha" threshold
31 July 2009 (TBC)	Closing date for allocation applications
August 2009	Release of Draft Determination (for issue of free NZUs) Deadline for any forest owner who applied for an allocation to notify the Minister where they feel there is an error in the Draft Determination
October 2009	
December 2009 - April 2010	Final Determination published and NZUs transferred

The key points of the draft Allocation Plan are outlined below.

4.1 Eligibility criteria for pre-1990 forests

Pre-1990 forests are forests that were planted on or before 31 December 1989 where the forest species consists predominantly of exotic forest species (e.g. pine).

Indigenous forests established before 1 January 1990 are not included in the ETS and not eligible to receive an allocation of NZUs. This is primarily because there is no expectation that the vast majority of indigenous forests will be harvested or deforested. Thus, the allocation of NZUs is directed towards planted, exotic forests where harvesting and deforestation occurs regularly. This allocation will help these forest owners meet future liabilities.

4.2 Free allocation of NZUs

The Government will allocate NZUs to owners of land covered by pre-1990 forests under the draft Allocation Plan. These forest landowners will be free to convert, surrender or trade the units (though there will be some restrictions on when some units can be surrendered or converted depending on the date the forest was planted). The Government will allocate a total of 55 million NZUs to the following categories of landowners (the allocation is dependent on the date the land was acquired) in the following amounts:

- a) 18 NZUs for each hectare of eligible Crown Forest License Land that was transferred to iwi under a Treaty of Waitangi settlement after 1 Jan 2008
- b) 39 NZUs for each hectare of eligible land that was transferred to an eligible landowner on or after 1 November 2002
- c) All remaining NZUs from the 55 million forestry pool (i.e. those NZUs not allocated to landowners that fit into category a or b) will be distributed equally on a per hectare basis across all eligible landowners. This is expected to be approximately 60 NZUs per hectare.

All of the Council's pre-1990 forest holdings fit into category (c) because the Council had ownership of the forest land before 1 November 2002. The Council should expect to receive approximately 60 NZU/ha for its 200 ha of pre-1990 forests (a total of 12,000 NZUs). See the map attached as Appendix 4 to see the Council's pre-1990 forest assets.

After the Government issues the finalised Forestry Allocation Plan and receives applications for allocations, the Minister will create a *Draft Determination*. The Draft Determination will identify each eligible landowner and the total number of NZUs each landowner will be allocated (there is still a possibility the Council's allocation may change from the 60 NZU/ha to something higher or lower depending on the allocations to categories (a) and (b)). Eligible landowners, and anyone else who applied, will have 20 working days to identify any errors, after which the Minister will publish a Final Determination and arrange for the transfer of the NZUs.

4.3 Timing conditions for surrendering and converting NZUs

The 55 million NZUs will be allocated in three tranches. The tranche for which forest owners receive their NZUs depends on the age of the trees. There are set conditions placed on the landowners (depending on what tranche they are in) as to when they can surrender or convert their NZUs. The rationale for this is that

the majority of landowners who wish to deforest will do so when the trees have reached maturity, so that is when they will need NZUs for surrendering. The tranches are as follows:

- the first tranche (for forests 24 years and older) of 21 million NZUs will immediately be able to be surrendered or converted
- the second tranche (for forests 11-23 years old) of 21 million NZUs will only be able to be surrendered or converted on or after 1 January 2013
- the third tranche (for forests up to 10 years old) of the remaining 13 million NZUs will only be able to be surrendered or converted on or after 1 January 2018.

Around 159 ha (79%) of the Council's pre-1990 forests fit into the first tranche so the NZUs allocated for these forests could be surrendered or converted immediately. Spicer Forest (41 ha or 21% of the pre-1990 forests) is the only area that fits into the second tranche and the emissions allocated in this tranche can only be surrendered or converted after 1 January 2013.

4.4 Liabilities

Unless an exemption is obtained, pre-1990 forest owners are responsible for any emissions that occur as a result of the land-use conversion (i.e. deforestation) of the forested land to non-forest uses, such as grassland. This will require the forest owners to surrender one NZU for every tonne of CO₂-e lost. Pre-1990 forest owners are permitted to deforest 2 hectares or less in the five year period between 2008-2012 without penalty.

There are *no* liabilities for land-owners that harvest their pre-1990 forests and then replant that same land with exotic trees or allow the land to regenerate with native trees. It is important to note the distinction between the terminologies of harvesting/replanting compared with deforestation (see appendix 2).

4.5 Exemption criteria

Forest owners of 50ha or less of pre-1990 forest can claim exemption from this scheme. Landowners that deforest "tree weeds" up to a limit of 0.8 million tonnes between 2008-2012 can also seek an exemption from the scheme.

5. Discussion

Many of the parts of the draft Allocation Plan are fixed in the Climate Change Response Act 2002. The Government is seeking comments on quite specific aspects of the draft Allocation Plan (see the submission form contained within the draft Allocation Plan attached as Appendix 3).

The draft Council submission (attached as Appendix 1) is supportive of the draft Allocation Plan. The draft Allocation Plan is beneficial to the Council in that the

Council stands to gain from the one-off allocation of NZUs. These NZUs could be used in a variety of ways and work is underway to develop a Carbon Management Policy to manage the Council's emission units (see section 5.6).

The financial risk to the Council for future liabilities relating to land-use changes of its pre-1990 forests is expected to be minimal because of the Council's stated intentions to maintain existing pre-1990 forest areas as forests (either maintaining exotic forests or replanting with native trees) in the long-term.

5.1 Town Belt

Around 47% (94 ha) of the Council's pre-1990 forests is located in the Town Belt. The Town Belt Management Plan (1995) states that the Council will:

- actively maintain and protect exotic and indigenous forest areas
- gradually replace most areas of rank grass, exotic scrub and some areas of conifer forest with native vegetation.

5.2 Outer Green Belt

The Outer Green Belt contains around 50%¹ (101 ha) of the Council's pre-1990 forests. The Outer Green Belt Management Plan (2004) states that the Council will develop a continuous native vegetation strip bordering the city. It also has specific rules relating to Spicer Forest to phase out the plantation in favour of native trees. These plans are still being finalised.

5.3 Response from the forestry industry

The Council is in a much different position compared to the wider forestry industry. Pre-1990 forests owners have made vigorous representations to the Government (and via the media) about the impact of the ETS on their property rights and profitability. Forest owners have also made strong submissions to allow them to replant milled forests on another site without penalty and to recognise that not all carbon is released upon harvesting (much of it is locked up in timber products). The Government recognised some of these points and is now lobbying for rule changes in international negotiations on how forestry is treated.

The submission makes general comments that the draft Allocation Plan (and Government emissions trading policy) should incentivise the forestry industry to engage in tree planting activities (i.e. carbon sequestration activities). The 2007 calendar year saw relatively low planting amounts for plantation forests and high rates of deforestation rates compared to previous years. While this rush to deforest might have been anticipated because of impending law changes, it does not help New Zealand achieve a lower-emissions future.

¹ The remaining 3% of the pre-1990 forest is located in reserves in the Eastern Suburbs: Beacon Hill and Centennial Park. There are no plans to deforest these forest areas.

5.4 Decision to apply for an allocation of NZUs for the Council's pre-1990 forests

Pre-1990 forest owners have to determine whether they are eligible and able to:

- apply for an allocation of NZUs free of charge for all pre-1990 forest assets
- apply to have their pre-1990 forests permanently exempt from the ETS (this option is only available to pre-1990 forest owners with 50 ha or less of pre-1990 forests).

Because the Council has more than 50 ha of pre-1990 forest land, the Council is not eligible for an exemption. The Council has plans through the Hazardous Tree Removal Programme to remove dangerous pines but because native trees are replanted in these areas, there is no land-use change. Moreover, there are no plans to defrost any of the Council's pre-1990 forest areas.

The Council has to decide whether to apply for a free allocation of NZUs or not. As stated above, the Council stands to benefit from the one-off NZU allocation with minimal liability anticipated. If the Council harvests any of these pre-1990 forests and replants these areas with exotic or indigenous trees (which is consistent with the relevant management plans), the Council would retain the NZUs. Even if the Council decides in the future to deforest pre-1990 forest areas, it would be prudent to accept the one-off NZU allocation to help in meeting the Council's future liabilities.

Thus, it is recommended that the Committee authorise the Chief Executive to carry out all further steps required to apply for an allocation of NZUs for the Council's pre-1990 forests.

5.5 LTCCP Implications

The 12,000 NZUs anticipated could (if traded) provide a financial return of approximately \$240,000 to \$600,000 depending on the price of carbon. Table 2 below outlines the potential value of these anticipated NZUs at various carbon prices².

Table 2 – Potential value of anticipated allocation of 12,000 NZUs

Price per unit (\$/T-CO₂-e)	Potential return
\$20	\$240,000
\$30	\$360,000
\$40	\$480,000
\$50	\$600,000

² The first trade under the ETS took place recently. The trade involved the sale of forestry credits at \$NZ20 a tonne.

5.6 Carbon Management Policy

In April 2008, the Council agreed to develop a Carbon Management Policy to address issues that will arise from accumulating emission units from the Council's forestry assets and the impending obligations relating to the Council's landfill emissions. This Policy will include the following aspects:

- accounting and reporting policies for the Council's emission units for financial reporting purposes
- a strategy for purchasing, converting, trading and surrendering emission units for the Council's ETS obligations.

5.7 Taxation issues

The Income Tax Act 2007 contains certain exemptions for local authorities around commercial income which includes revenue from the sale of emission units. Therefore any revenue from the sale of emission units will be non-taxable and any purchases of units will not be deductible for tax purposes. Emission units are also zero rated for GST.

6. Conclusion

This report summarises the key points of the Government's draft Allocation Plan for pre-1990 forests, identifies the Council's likely NZU allocation and liabilities and seeks the Committee's agreement to the Council submission to the draft Allocation Plan. The report also seeks the Committee's agreement to authorise the Chief Executive to carry out all further steps required to apply for an allocation of NZUs for the Councils pre-1990 forests.

Contact Officer: *Zach Rissel, Senior Advisor*

Supporting Information

1) Strategic Fit / Strategic Outcome

*The submission and related recommendations to develop the Council's forest sinks is consistent with outcome **4.4 Better Connected**:*

Wellington will have a network of green spaces and corridors linking the coastline, Town Belt and Outer Green Belt.

2) LTCCP/Annual Plan reference and long term financial impact

The Draft Forestry Allocation Plan could provide the Council with emission units with a potential one-off value of between \$240,000 and \$600,000 during the 2009-2019 LTCCP.

3) Treaty of Waitangi considerations

The Council consulted with both the Tenth Trust and Ngati Toa on its pre-1990 forest obligations and its post-1989 forest opportunities and liabilities. Both organisations were supportive of the Council's approach. Pre-1990 forest blocks were included in the draft settlement proposal between the Crown and Ngati Toa.

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

The Council has engaged the Karori Sanctuary previously relating to the issues emission units derived from forestry assets.

b) Consultation with Maori

The Council consulted with both the Tenth Trust and Ngati Toa on its pre-1990 forest obligations and its post-1989 forest opportunities and liabilities. Both organisations were supportive of the Council's approach.

6) Legal Implications

There are no legal implications identified as a result of these recommendations.

7) Consistency with existing policy

The draft submission on the Draft Forestry Allocation Plan is consistent with previous Council submission to the Emissions Trading Scheme as well as the Council's Climate Change Action Plan, which seeks to identify opportunities for forest sinks on Council land.

Appendix 1: Submission from Wellington City Council on the Draft Forestry Allocation Plan

Submission to: **Ministry of Agriculture and Forestry**

Document: **New Zealand Emissions Trading Scheme
Draft Forestry Allocation Plan and
Deforestation Exemption Policies for pre-
1990 Forest Land**

From: **Wellington City Council
PO Box 2199
Wellington 6023**

Date: **14 April 2009**

Contact: **Email contact: zach.rissel@wcc.govt.nz
Phone contact: **04 803 8156****

1. Introduction

Wellington City Council ('the Council') welcomes the opportunity to comment on the Draft Forestry Allocation Plan.

The Council is supportive of the Draft Forestry Allocation Plan in how it relates specifically to the Council's operations. It should be noted that the Council has taken a long-term view to maintain the vast majority of its pre-1990 forest areas as forest "green belts". This means that under current plans, the existing pre-1990 forest land will be retained in forest cover. The Council therefore has different circumstances to most pre-1990 forest owners.

The Council recognises that forestry is the only existing mechanism within the New Zealand economy that actively sequesters carbon from the atmosphere. Therefore, the Council believes the Forestry Allocation Plan and related Government policy should incentivise financially (as much as practicable) forest owners to maintain their forest areas as forests in the long-term.

2. Criteria to determine NZUs for allocation

The eligibility for the higher rate of allocation (60 units per hectare) is clear and logical. The Council supports the concept that forest owners that acquired their forest prior to November 2002 should be allocated a higher proportion of the 55 million emission units to be allocated.

3. Rules for allocation of differently dated units

The rationale for post-dating some NZUs is logical and the Council supports the concept that if the rules for pre-1990 forestry change following the post-Kyoto international framework, then these changes should be reflected in the Government's handling of pre-1990 unit allocation.

4. Data and record keeping requirements

The data requirements for applying for the allocation of NZUs under the Forestry Allocation Plan are consistent with the application process with applying for an emission return for post-1989 forests. These requirements are considered appropriate.

5. Summary

The Council is supportive of the Draft Forestry Allocation Plan, specifically relating to the:

- allocation amounts (dependent on forestry acquisition date)
- post-dating rules (depending on the age of the forest)
- data and record keeping requirements.

On behalf of Wellington City Council

Kerry Prendergast
Mayor of Wellington

Appendix 2

Glossary of Terms for ETS Forestry

Assigned Amount Unit (AAU) – The emission units allocated to Annex 1 parties under the Kyoto Protocol on the basis of their quantified emission reduction target for the first commitment period, 2008-2012. One AAU is equal to one tonne of carbon dioxide equivalent.

Carbon credit – See emission unit.

Carbon price – In the New Zealand context, a shorthand term for the price of greenhouse gas emissions in a carbon market, typically calculated in dollars per tonne of carbon dioxide equivalent (\$X/T- CO₂-e).

Carbon market – A shorthand term for an international or domestic market where emission units are exchanged between buyers and sellers. The terms “carbon market”, “greenhouse gas market” and “emissions market” can be used interchangeably.

Carbon sequestration – The uptake and storage of carbon. Carbon can be sequestered by plants and soil and in underground/deep sea reservoirs.

CO₂-e (Carbon dioxide equivalent) – The quantity of a given greenhouse gas multiplied by its global warming potential, which equates to its global warming impact relative to carbon dioxide (CO₂). This is the standard unit for comparing the degree of warming that can be caused by emissions of different greenhouse gases.

Conversion – Converting a New Zealand Unit (NZU) to an Assigned Amount Unit (AAU). This would be done in order to trade on overseas carbon markets (NZUs are only tradable within New Zealand).

Deforestation – The conversion of forested land to non-forested land (such as grassland or cropland).

Emissions – The release of greenhouse gases into the atmosphere.

New Zealand Emissions Trading Scheme (ETS) – The New Zealand Government’s new market-based approach for achieving its environmental objective of reducing emissions. Emissions trading is often referred to as carbon trading because it involves trading emissions units on a carbon market.

Emission Unit – Also referred to as a “carbon credit”, it is the primary unit of trade in a carbon market. It represents one tonne of carbon dioxide equivalent (CO₂-e) and is the instrument created under law that can be bought and sold and used to meet an entity’s obligation under an emissions trading scheme. In

the New Zealand Emissions Trading Scheme, emission units are referred to as NZUs (New Zealand Units). Entities can also be awarded emission units for actions that remove greenhouse gases from the atmosphere (e.g. forest sinks) or for actions that reduce emissions.

Forest Land – An area of land of at least 1 hectare with forest species that have, or are likely to have at maturity:

- A crown cover of more than 30 percent on each hectare
- A crown cover with an average width of at least 30 m
- Reached 5 m in height.

If the forest does not temporarily meet the forest species and crown cover requirements because of human action or natural events (it may have just been harvested, or trees may have been blown over by strong winds), but is likely to again meet these requirements in the future, it is considered to be forest land.

Forest sink – A forest sink actively removes greenhouse gas from the atmosphere through the process of photosynthesis: the chemical reaction involving carbon dioxide, water and light energy that releases oxygen and creates plant fibre. The activity of a forest sink is often referred to as sequestration.

Forestry Allocation Plan – The document provides information for pre-1990 forest landowners about the allocation policy for NZUs and the forest exemption policy under the ETS. It is designed to help landowners decide whether to apply for either an allocation of NZUs or an exemption.

Greenhouse gas – Greenhouse gases are constituents of the atmosphere, both natural and anthropogenic, which absorb and re-emit infrared radiation. The most predominant greenhouse gas is carbon dioxide (CO₂). There are five other types of greenhouse gases measured besides CO₂ and all of these gases are converted into CO₂ equivalents (CO₂-e).

Kyoto Protocol – A protocol to the United Nations Framework Convention on Climate Change that includes emissions limitation or reduction commitments for ratifying countries. New Zealand is a signatory to the Kyoto Protocol.

Land use change – The conversion of land from one use to another (e.g. forestry to agriculture).

NZU (New Zealand Unit) – An emissions unit specific to the New Zealand ETS. One NZU represents one tonne of carbon dioxide equivalent (CO₂-e). NZUs can only be traded in New Zealand.

Post-1989 Forest Land – Is defined as forest land that:

- was not in forest land on 31 December 1989
- was forest land on 31 December 1989 but was deforested (that is, converted to another land use) between 1 January 1990 and 31 December 2007

Both exotic and indigenous forest species are eligible to participate in the ETS as post-1989 forest land.

Pre-1990 forest Land – Is defined as forest land that:

- was forest land on 31 December 1989, and
- remained as forest land on 31 December 2007, and
- where the forest species on the forest land on 31 December 2007 consisted predominantly of exotic forest species.

Sequestration (Carbon sequestration) – The uptake and storage of carbon. Carbon can be sequestered by plants and soil and in underground/deep sea reservoirs.

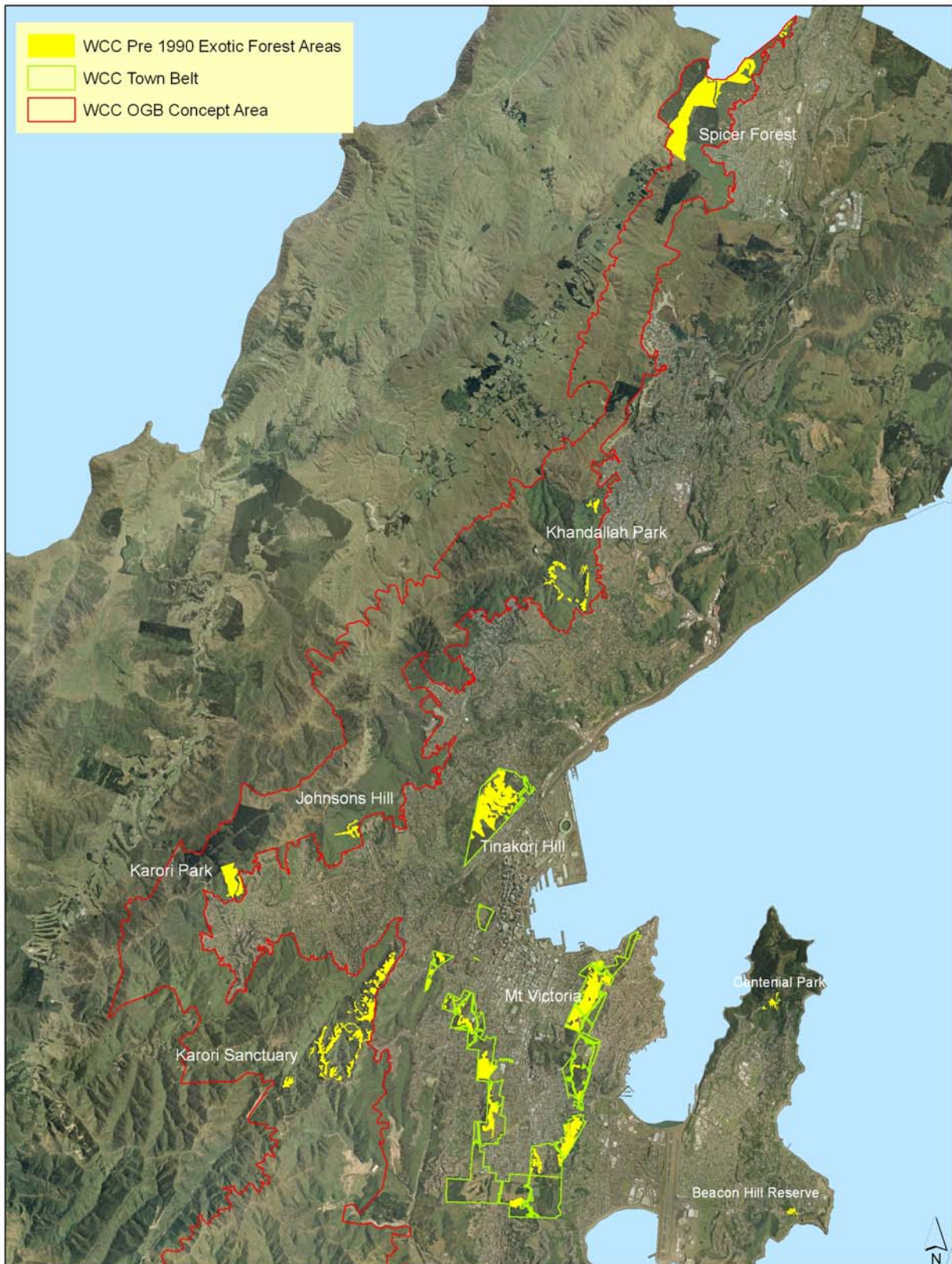
Surrendering – This is a term used to describe the action of providing the Government with the necessary emission units owed as a result of a liability that arose from obligations under the ETS. For example, a forest owner would need to “surrender” emission units to the Government if they decided to deforest pre-1990 forest areas for which they were allocated NZUs.

Tree Weeds - Self-sown exotic forest species that can overtake land. Wilding pines are one class of tree weed of current concern. Most control of tree weeds does not constitute deforestation because it is carried out on scattered trees in grassland that do not meet the definition of a forest.

Tranche – A portion, share or installment.

Appendix 4

Figure 1: Map of Council owned pre-1990 forest areas



DATA STATEMENT
 Property boundaries
 Land Information NZ
 Licence #W06029122
 Crown Copyright reserved
 Accuracy in urban areas: +/- 50m
 Accuracy in rural areas: +/- 50m

Other data has been
 compiled from a
 variety of sources and
 its accuracy may vary

Topographic data
 Wellington City Council
 WCC copyright reserved
 Accuracy +/- 30m

Any contours displayed
 are only approximate
 and must not be used for
 detailed engineering design

Colour Orthorectography 1:500
 80m Mar 2004 owned by
 Wellington City Council

WCC PRE 1990 EXOTIC FORESTS - 200ha

1:53,892

0 850 1,700 3,400 5,100 6,800 Meter

Absolutely
POSITIVELY
 No Heke ki Pōkeke
 Wellington City Council **Wellington**