



Ministry for the Environment
Manatū Mō Te Taiao

Ministry for Primary Industries
Manatū Ahu Matua



MINISTRY OF
FOREIGN AFFAIRS & TRADE
MANATŪ AORERE

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Treatment of CP1 pre-1990 forest harvest in offsetting policy

Purpose:

To brief Ministers on the issues and risks of pre-1990 forest harvested in CP1 being eligible for the offsetting policy to be introduced in the New Zealand Emissions Trading Scheme (ETS). Minister Groser has requested that this proposal is included in the Cabinet paper on final ETS decisions to be considered by EGI on 27 June.

Minister	Action Required:	Minister's Deadline
Minister for Climate Change Issues	Note recommendations and sign briefing	When practicable
Minister for Primary Industries	Note recommendations and sign briefing	When practicable
Associate Minister for Primary Industries	Note recommendations	When practicable
Associate Minister for Climate Change Issues	Note recommendations	When practicable

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Key Messages

1. Cabinet has agreed in principle, subject to consultation, to introduce offsetting in the New Zealand Emissions Trading Scheme (ETS) based on the requirements of the international Flexible Land Use (FLU) rule¹. The recent public consultation indicated that only pre-1990 exotic forests cleared from 2013 would be eligible for offsetting. Landowners have requested that eligibility rules include pre-1990 forest land harvested prior 2013 and currently unstocked (fallow land).
2. Assuming that New Zealand's domestic offsetting policy is consistent with the requirements of the FLU rule:

Withheld under section 36(a) & 39(2)(j)

a) [Withheld under section 36(a) & 39(2)(j)]

b) The fallow land is not classified as deforested before the land is offset (new forest has to be established within 4 years from harvest or land is classified as deforested).

[Withheld under section 36(a) & 39(2)(j)]

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¹ The FLU rule is now referred to in the International negotiations and IPCC as "carbon equivalent forests".

² [Withheld under section 36(a) & 39(2)(j)]

Withheld under section 86(a)
& 89(2)(j)

9(2)(j) 8. [Withheld under section 89(2)(j)]

If the current low carbon prices continue, landowners may consider it more viable and cheaper to convert and pay the ETS liability rather than go through with the process and cost of offsetting.

Situation Analysis

9. In March 2012, Cabinet agreed in principle subject to consultation, to introduce an offsetting policy for pre-1990 forests into the New Zealand Emissions Trading Scheme (ETS) consistent with the international Flexible Land Use (FLU) rule⁴. This would lessen the potential fiscal costs should New Zealand sign up to a second commitment period (CP2) and maximise the acceptability from the perspective of trading partners if New Zealand takes a commitment outside the Kyoto Protocol.
10. In the consultation, offsetting was described as *eligible only for pre-1990 exotic forests harvested from 2013*. This requirement was based on the interpretation of the FLU rule and uncertainty on the future requirements of the international CP2 accounting guidance.
11. Five submitters and attendees at some consultation meetings sought changes to the eligibility for offsetting to include pre-1990 forest land harvested prior to 2013 and currently unstocked (i.e. not yet facing deforestation liabilities).
12. It is estimated there could be about 5,000 to 10,000 hectares of pre-1990 forest land harvested from 2010 where no land use decision to deforest or replant has been made yet (i.e. fallow land). Some of these landowners have expressed some interest in offsetting. This briefing note provides advice on whether the FLU rule could be extended to apply to this land, associated issues, risks and mitigation opportunities that arise.

³ [Withheld under section 86(a) and 89(2)(j)]

⁴ Paragraphs 37 to 39 of decision 2/CMP.7, decided in Durban, which contains the rules for Land Use, Land Use Change and Forestry for CP2. See: <http://unfccc.int/resource/docs/2011/cmp7/eng/10a01.pdf#page=11>

Advice

Interpretation of the international FLU rule

13. The FLU rule was agreed for a Kyoto Protocol CP2 framework and intended for application from 1 January 2013 for countries participating in CP2. New Zealand has not yet decided whether it will sign up to CP2. If New Zealand does sign up to CP2, the existing CP1 accounting framework would be rolled over to CP2, with the addition of the new forestry rules agreed at Durban

withheld under section 59(2)(i) and 59(2)(j)

14. There are no impediments, however, to applying the FLU rule domestically in the ETS. The application of the FLU rule needs to be analysed both from the existing international and domestic accounting settings.
15. Current Land Use, Land Use Change and Forestry (LULUCF) guidance identifies that deforestation starts with the onset of the activity (i.e. harvesting). While the determination of deforestation occurs with conversion, the emissions are calculated from the point of harvest. This means some deforestation emissions which started in CP1 will not be realised until conversion has been determined which could be in CP2. As a consequence, there will be some of these emissions not included at the time of the final UNFCCC review of CP1 accounts. For example, there may be a requirement to carry a debit over to CP2 accounts.
16. As part of the general requirements of LULUCF accounting, Parties⁶ were required to define the time period where the temporary removal of trees is not considered to be deforestation (in the absence of conversion evidence)⁷. New Zealand defined this period as 4 years and this is mirrored in the ETS. Deforestation is therefore confirmed when there is evidence that conversion has occurred (e.g. stumps removed and paddocks established) or if after 4 years the land that has been harvested has not been replanted (fallow land).
17. The FLU rule is to apply to 'harvest and conversion of forest plantations'. The rule requires emissions and removals from lands to be accounted for as part of mandatory Forest Management⁸. The FLU rule is also explicit in that an offset forest must be established and that the year of conversion must be reported

⁵ Accounting for Article 3.4 Forest Management emissions is mandatory in CP2. Forest management accounting includes the FLU rule.

⁶ Countries part of United Nations Framework Convention for Climate Change or the Kyoto Protocol (UNFCCC).

⁷ LULUCF Good Practice Guidance 2003 Section 4.2.6.2.1.

⁸ New Zealand did not elect to account for Forest Management activities in CP1, and would need to do so in CP2 to include FLU.

- 18. [Withheld under section 59(2)(b)]
- [Withheld under section 59(2)(j)]
- 19. [Withheld under section 59(2)(j)]

Opportunity to take up offsetting in the ETS

- 20. Some CP1 fallow land would have been harvested for about 2 or 3 years by 2013. [Withheld under section 59(2)(j)]
- 21. At the current low carbon prices (\$6/t carbon), the cost of the ETS deforestation liabilities (for mature trees) would be about the same as the estimated comparative net benefit of offsetting. Considering the limited time to establish the offset forest for fallow land (about 1-2 years) and low cost of current liabilities, some landowners may consider it more viable to convert and pay the ETS liability rather than offsetting.

National accounting of pre-1990 forest land harvested in CP1 across commitment periods

- 22. In CP1, pre-1990 forest harvesting events have no accounting obligations (liabilities), as New Zealand did not elect to account for emission from Article 3.4 activities under the Kyoto Protocol. All harvesting events however are 'reported' in the National Inventory report. About 55% of the total carbon in a forest is reported as harvest emissions in the year of harvest, with the remainder emissions from the decay of harvest residues reported in the following years.

⁹ [Withheld under section 59(2)(j)]

23. New Zealand has obligations to report emissions under the UNFCCC through the national inventory. It also has accounting obligations under the Kyoto Protocol. Considering the CP1 international guidance for reporting and accounting, there are three possible outcomes for the land harvested in CP1 which remains fallow until the end of CP1:

Outcome from harvest in CP1	Treatment in reporting and accounting
A. <u>Replanted from 2013</u> (within 4 years of harvest)	Land is treated as a harvest event in CP1 and emissions reported in the inventory (as New Zealand has no accounting obligations for harvest emissions in CP1). From 2013, any ongoing emissions and removals from the replanted forest will be reported and accounted for under Article 3.4 Forest management in CP2 [withheld s9(2)(g)(i)]
B. <u>Confirmed as deforestation from 2013</u> (land converted or not replanted in 4 years)	Land is treated as deforestation starting in CP1 and reported as such in CP1. [withheld under section s9(2)(j)] From 2013, any ongoing net emissions will be accounted for under Article 3.3 (deforestation) in CP2 [withheld s9(2)(g)(i)] Note this approach is consistent with the accounting of deforestation that occurred prior to 2008 and excluded from CP1.
C. <u>Offset from 2013</u> (new forest established within 4 years from harvest)	[withheld under section s9(2)(j)] When the land is offset from 2013, any ongoing net emissions will be accounted for under Article 3.4 Forest Management as well as net removals from the new forest (offset planting) in CP2 [withheld under section s9(2)(j)]

Development of CP2 Good Practice Guidance

24. The Intergovernmental Panel on Climate Change (IPCC) has started the process of revising LULUCF methodological and accounting guidance for CP2. [withheld under section s9(2)(j)]
Draft guidance is expected in February 2013, finalised in October 2013 and will be considered for adoption by Kyoto Protocol Parties in November 2013. It is not guaranteed that Parties will agree to adopt the guidance at that time and further negotiations may need to occur.
25. It is in New Zealand's best interests to be involved in the development of the international CP2 guidance that will apply to Forest Management in CP2. As such New Zealand will be nominating two New Zealand scientists as lead and contributing authors. The IPCC will decide by 29 July 2012 on author selection.

26. There will also be two opportunities to review the guidance. An expert review is planned in February 2013 and a Government review in June 2013.

Withheld under section S9(2)(j)

□

27.

Withheld under sections
S9(2)(j) and S6(a)

CP1 true-up review

28. For the expert review of the final National Inventory of CP1 (submitted in April 2014), New Zealand will need to demonstrate an acceptable approach and level of monitoring to verify deforestation. Current guidance states that in the absence of land conversion evidence, harvested lands remain classified as forest.

29.

Withheld under sections

S6(a)

S9(2)(j)

S9(2)(g)(i)

S9(2)(f)(iv)

30.

31.

32.

33.

34.

35.

Withheld under Section 5

S6(a)

S9(2)(j)

S9(2)(k)(i)

S9(2)(k)(iv)

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withheld under section 9(2)(j)

Next steps

- 36. As explained in the advice above, there are ongoing processes to define the implications of including land harvested in CP1 in the offsetting policy in the ETS. These processes clarify the risks and help reassess New Zealand's position through time.
- 37. Ministers may like to consider the following opportunities for future decisions:

Process	Time	Possible outcomes and decisions
ETS legislation enacted including offsetting for land harvested in CP1	December 2012	None
CP2 Good Practice Guidance adopted by Parties	November 2013	Withheld under Sections S6(a) S9(2)(j) S9(2)(f)(iv)
2012 New Zealand's inventory submitted to UNFCCC	April 2014	None
Expert review of 2012 inventory	September 2014	Withheld under Sections S6(a) S9(2)(j) S9(2)(f)(iv)

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Recommendations

38. Officials recommend that you:

- a) [Redacted]
- b) [Redacted]
- c) [Redacted] Withheld under Sections 56(a) and 59(2)(j)
- d) [Redacted]
- e) [Redacted]
- f) [Redacted] Withheld under Section 59(2)(f)(iv)

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