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ETS UPDATE

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Not all ETS forests are equal

Recent commentary has highlighted just how easy it is for misconceptions about the Emissions Trading Scheme (ETS) to spread.

In some cases, a lack of understanding can result in significant financial opportunities being missed. At the opposite end of the spectrum, forest owners who do not fully understand the long-term implications of registering their forest in the ETS can find themselves with legal obligations they neither expected nor budgeted for.

While the ETS has been with us for nearly 18 years, it has undergone several significant updates. It is therefore understandable that many people struggle to keep up with these changes and the impact they have on forest owners across New Zealand.

In particular, there seems to be some confusion around how carbon credits are claimed in the ETS and the long-term obligations that forest owners face as participants in the scheme. These obligations depend largely on which of the three ETS carbon accounting categories a forest is registered under: Stock Change, Averaging or Permanent Forest.

Until the end of 2022, all ETS forests used Stock Change, or the "saw-tooth" model for carbon accounting. In 2023, two additional categories—Averaging and Permanent Forest—were introduced to better reflect the different objectives of rotational forests destined for harvest and continuous-cover permanent forests.

For forests registered under the Stock Change category, carbon credits can be claimed annually but carbon losses due to harvesting must also be accounted for, which can result in a significant quantity of carbon credits needing to be surrendered back to the Crown. If the forests are not harvested, the forest owner will continue to accrue carbon credits across the lifespan of the forest.

Averaging accounting is well suited to forest owners who are planting a forest with the intention of harvesting. Carbon credits are claimed until the long-term average age for the species, typically 16–26 years for exotic forests. Beyond this point no further carbon credits are claimed. For forests harvested after reaching their long-term average age, a full surrender of carbon credits is only required if the land is not replanted within four years, or converted to a non-forestry land use.

The Permanent Forest category is aptly named; forest owners entering their forests into this category should be prepared to keep the trees in the ground in perpetuity. The minimum sign-up period into this category is 50 years and during this time the forest owner is unable to voluntarily withdraw from the scheme or clear-fell their forest. Carbon credits continue to accrue across the lifespan of the forest. Selective tree harvesting can be undertaken, as long as 30% canopy cover is maintained across the entire forest area.

Whilst the benefits and outcomes under Averaging Accounting are easily understood, the waters can be murkier for forests registered under Stock Change or the Permanent Forest category. This often leads to questions such as:

My forest is registered under Stock Change, how many carbon credits can I sell liability-free, and still harvest my forest? The answer to this is that it very much depends; planting year, species, length of time registered in the ETS, harvest age, year of replant and replanted species are all inputs into this equation that can significantly impact the end result. This carbon accounting method is the most complex and advice from a forestry professional is highly recommended.

My forest is registered in the Permanent Forest category, what will happen once the 50-year sign-up period is over? Some forest owners have entered this category thinking that they will claim carbon credits for 50 years, exit the ETS and harvest their forests. While exiting the scheme after 50 years is technically possible, doing so would generally require the surrender of a substantial quantity of carbon credits. Whether that is financially viable will depend largely on the carbon price at that time.

The ETS is a complex beast and it is essential to understand the weave of the specific forest characteristics, registration category, historic and future carbon credit claims and on-going compliance requirements. I cannot stress enough the importance of seeking professional advice before registering your forest in the ETS, purchasing a forest that has been registered in the ETS or selling carbon credits.

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