



Cabinet Environment, Energy and Climate Committee

Minute of Decision

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Improving the Emissions Trading Scheme for Forestry Participants: Final Decisions for Drafting Instructions

Portfolios Forestry / Climate Change

On 27 June 2019, the Cabinet Environment, Energy and Climate Committee:

- 1 **noted** that Cabinet has previously agreed to:
 - 1.1 introduce permanent post-1989 forestry as a new activity into the Emissions Trading Scheme (ETS) [CAB-18-MIN-0606];
 - 1.2 make mandatory the use of averaging accounting for post-1989 forest registered in the ETS after 31 December 2020 [CAB-19-MIN-0127];
 - 1.3 implement a series of operational improvements [CAB-19-MIN-0109].

Decisions on forests registered before 2019

- 2 **noted** that in March 2019, Cabinet agreed to give ETS participants the option to use averaging accounting for post-1989 forests first registered in the ETS after 31 December 2018 and before 1 January 2021 and directed officials to report back on whether existing forests registered before 1 January 2019 should be eligible to use averaging accounting [paragraphs 2 and 3 CBC-19-MIN-0008 and CAB-19-MIN-0127];
- 3 **noted** that the fiscal costs of offering post-1989 forests registered prior to 2019 the opportunity to move to averaging from 2020 would be \$79 million to financial year 2022/23 and an additional \$461 million from 2023 to 2030;
- 4 **agreed** that existing post-1989 forest participants will not be able to use averaging accounting for post-1989 forests first registered in the ETS before 1 January 2019 (these forests will continue to use stock change accounting);
- 5 **noted** that the Cabinet Economic Development Committee (DEV) agreed to establish processes around how post-1989 forests transition from the stock change to the averaging approach [DEV-19-MIN-0113 paragraph 44 to 48], and that this approach was designed to work for any forest regardless of when registered.
- 6 **noted** the decisions in the paper under ENV-19-SUB-0035 to limit averaging to forests registered after 2018 means the government can implement a simpler approach;

- 7 **agreed** that should a participant elect to move a forest first registered in the ETS between 1 January 2019 and 31 December 2020 to averaging, the participant must notify the Environmental Protection Authority (or their delegated authority) when submitting the Mandatory Emissions Return (MER) which covers the Mandatory Emissions Return Period 2018-2022;
- 8 **agreed** that, for those carbon accounting areas the participant elects to move to averaging, referred to in paragraph 7 above, the participant will account for the emissions and removals during the 2018-2022 Mandatory Emissions Return Period using averaging;
- 9 **agreed** that, should a participant not elect to move to a carbon accounting area to averaging, referred to in paragraph 7, that carbon accounting area will continue to account using the status quo (stock change) approach;
- 10 **agreed** that when the MER is submitted which covers the 2018-2022 Mandatory Emissions Return Period, there will be a surrender obligation if units have been earned above the average stock for that area of forest;
- 11 **agreed** that the process in the paper under ENV-19-SUB-0035 replaces the creation of a regulation making power for the Minister for Climate Change to impose an end date on the transition, found in para 45 and 46 in DEV-19-MIN-0113.
- 12 **invited** the Ministers for Climate Change and Forestry to report back to Cabinet in the second half of 2021 on whether the option to move to averaging for post-1989 forest registered in the ETS before 2019 is appropriate;

Ensuring forests are not double-credited by enabling unit surrenders when the transition occurs.

- 13 **noted** that DEV agreed that when participants transition forests between accounting approaches, measures will be put in place to ensure they will not be able to receive units for sequestration already reflected in the unit balance for that forest (i.e. double-crediting) [decision 48 DEV-19-SUB-0113 and CAB-19-MIN-0213];
- 14 **agreed** that measures be put in place to require participants to surrender units for the carbon stock they have already received recognition for at the time of transition if retaining those units would otherwise result in double-crediting;

Simpler movement from the Permanent Forest Sink Initiative (PFSI) to permanent post-1989 forests

- 15 **noted** that the CCRA includes provisions for moving the registration of PFSI forests into the ETS as a post-1989 forest, which now need to be amended to recognise the new possibility to transfer to permanent post-1989 forest;
- 16 **agreed** to amend the CCRA in the following ways:
- 16.1 allow PFSI covenant holders to register their forest as post-1989 forest or permanent post-1989 forests when the covenants are cancelled;

- 16.2 if a person applies to transfer PFSI-covenanted land into post-1989 forest land within 12 months of the covenant being cancelled:
- 16.2.1 the land will be considered to have been registered since the date it entered the covenant; and
 - 16.2.2 the land will constitute one carbon accounting area;
- 16.3 if a person applies to transfer PFSI-covenanted land into permanent post-1989 within 12 months of the covenant being cancelled, one of two cases will apply:
- 16.3.1 if the land has not been clear-felled since exiting the covenant, it will constitute one carbon accounting area with a start date and 50-year clear-fell restriction from the date the land entered the covenant;
 - 16.3.2 if the land has been clear-felled since exiting the covenant, it will constitute one carbon accounting area with a start date and 50-year clear-fell restriction from the date of registration as permanent post-1989 forest;
- 16.4 if post-1989 forest land covered by (ii) above elects to move to permanent post-1989 land the cases in (iii) will apply;
- 16.5 if a person applies to transfer previous PFSI-covenant land into either ETS forest activity in any other way, they will be considered a participant from the date of their ETS registration;

Other recommendations

- 17 **agreed** to the minor and technical operational proposals in Appendix One to the paper under ENV-19-SUB-0035, which was previously included in the March Cabinet paper [DEV-19-SUB-0043], but did not contain an explicit recommendation for Cabinet approval;
- 18 **noted** that DEV agreed to give the Minister of Forestry and Minister for Climate Change delegated authority to finalise policy to close a deforestation loophole [DEV-19-MIN-0113];
- 19 **noted** that the loophole, referred to above, will be closed by creating a rule that ensures that for a forest to be considered first rotation, all new registrations to the averaging approach must have not previously been forest land, for a length of time that will be defined in regulations, prior to the establishment of the current forest;
- 20 **noted** that changes in regulations to the length of time land must not be forest land, in order to then be considered first rotation, will apply retrospectively to land cleared prior to the regulations taking effect to discourage foresters taking advantage of lags between changing markets and regulations coming into force;
- 21 **agreed** that the amended CCRA should confirm that the consultation requirements for making regulations have been satisfied even where that consultation occurred before the commencement of the amended Act, provided all other requirements for regulatory consultation have been met;
- 22 **noted** that the EPA will require sufficient funding to be able to fully operationalise proposals in the suite of papers to improve the ETS;

- 23 **authorised** the Minister for Climate Change, in consultation with the Minister of Forestry as appropriate, to further clarify and develop policy decisions relating to the amendments proposed in this paper, in a way not inconsistent with Cabinet's decisions.

Vivien Meek
Committee Secretary

Present:

Hon Dr Megan Woods
Hon David Parker (Chair)
Hon Shane Jones
Hon James Shaw
Hon Eugenie Sage

Officials present from:

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