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- (viii) The need to accommodate both Voluntary Emissions Returns (hereafter VERs<sup>46</sup>) and Mandatory Emissions Returns (hereafter MERs) and the use of the MER at the end of the MERP to net off the VERs<sup>47</sup>. FMA participants would find it particularly challenging, as they are only obliged to measure forests once a MERP, so there are slight differences between their existing (used for the VER) and updated (used for the MER) yield tables.
- (ix) Would require the 'unit balance' rules in sections 190 and 191 of the Act to be amended. Under these sections, the maximum number of units a participant must surrender is restricted to the difference between NZUs received for that area of forest and those surrendered for emissions (e.g. harvest). As the unit surrender approach does not relate to 'emissions' an amendment is necessary.

c Require grant repayment

- (x) Under this sub-option, grant contracts would require grantees to repay all or part of their grants if they registered their grant-aided forests in the ETS during the term of the contracts. It would be relatively simple to include this provision in future contracts, but existing ones would have to be amended by agreement.
- (xi) Disadvantages of this sub-option are that:
  - a) The risk of non-repayment of the grant, as with sub-option 1b, remains;
  - b) If the grant-aided forest changes hands during the term of the contract, it would be difficult to recover the grant from the former owner if a new owner joins the ETS; and
  - c) It does not cover cases where a forest owner joins the scheme after the grant contract has expired.
- (xii) However, the grant repayment approach could be developed as an interim measure until the preferred option of amending the Act (below) is implemented.

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<sup>45</sup> If the land is registered and then sold, the original owner would undertake a mandatory emissions return and receive NZUs up to that point. The new owner would be required to surrender units for this sequestration.

<sup>46</sup> Post-1989 forest owners can submit an emissions return for some or all of their forest within a MERP. This process is called a Voluntary Emissions Return and provides an option for the ETS participant to receive NZUs (which can be sold for cash flow).

<sup>47</sup> If a forest owner submits VERs and received units, these units are considered when the MER calculation is done (e.g. if a participant receives 1000 NZU after a VER, and their MER concludes they are owed 4000 NZUs they would only receive 3000NZUs following the MER (4000-1000 already received)).



















