

Towards equity in climate change policy

David Rhodes¹

The final chapter in a long saga around domestic climate change policy for forestry is about to unfold. It is discouraging that the outcome has required so much time and energy, and does not even have the potential to influence this year's planting, and probably not even next year's. Furthermore, future international negotiations involve a number of threats and opportunities for forestry and thus a continued focus in this area will still be required for many years.

Nonetheless, there are reasons to be hopeful that in the near term a more equitable and effective approach will appear out of the mist that is the current consultation process. The number of influential voices that have joined the call for forest owners to be given positive encouragement and investment certainty has grown appreciably and includes such organizations as Business New Zealand and the OECD. Amongst the other political parties we have a range of policy positions but all offer approaches that are more positive than options put out in the government public discussion document. Interest and attitudes of the NZ public have also been evolving, particularly since the discussion document was released last year. As a recent survey by the New Zealand Business Council for Sustainable Development shows, most New Zealanders believe climate change is a problem and that all sectors should ultimately be included in emissions limitation efforts. This has allowed the government to revisit the politics of introducing a market-based approach to dealing with this issue.

The forest sector has widely supported a 'broad based' carbon tax rather than the emissions trading scheme announced by the Minister, but having tried and failed once, the government wariness with this option is somewhat understandable. An emission trading regime brings with it the age-old dilemma of how to initially allocate the units to be traded. The Minister has indicated that it will be an economy-wide, across all sectors and gases, regime. This is encouraging, but lingering concerns remain that the setting of timetables and targets will create distortions and inequities. These will be key issues from now through until August during stakeholder discussions on the design.

Although one can argue that an emissions trading system is not as simple or economically efficient as a carbon tax it is nonetheless a useful development for the forest sector due to the respective signals that it can send to both emitters and absorbers of carbon. It creates an environment where the government can reevaluate the approach to forestry consistent with market-based principles in a way that was lacking previously. This is because fundamentally the forestry business and climate change mitigation are compatible. It also means that any policy will need to be politically robust enough for legislation to be passed and endure.

The emissions trading option has been adopted, or is under consideration, in a number of areas overseas. Probably the most well known example is the European scheme. Some question the success of this scheme because

of the volatility, but the plunge in the value of carbon credits from 30 euros per ton to 10 euros per ton over a couple of days this time last year was more a reflection of inaccuracies in estimating the level of credit allowances that would be needed. When in reality emissions were found to be lower than forecast the market responded immediately to the over allocation and could thus be argued to be working quite well. Nonetheless, the consequences of over allocation are clear.

The part of the European system that should not be mirrored here is the exclusion of forestry. Any emissions trading in New Zealand should include forestry because it will help lower the cost of meeting emissions reduction targets particularly given that our emissions abatement options are probably more limited than most other Annex one countries. The New Zealand system should also recognize the other values that forestry will bring to New Zealand and encourage these ahead of international mitigation options which do not have the same net benefit.

There are those who will argue that forests are a temporary fix, and some of those would go further and argue that forestry should not be taken into account at all because it takes the focus off the real problem - increasing emissions. Certainly carbon sequestration by forests is not a substitute for direct action on emissions which must remain a priority but at a time when we can use all the clever ideas we can get, forestry offers a helping hand. As the International Institute for Environment and Development (IIED) notes: *"While 90 percent of cuts in carbon emissions must come from cleaner fossil fuels and greater energy efficiency, halting deforestation and instigating forest expansion are also vital and necessary steps"*.

The atmosphere makes no distinction between a reduction in emissions and an increase in sequestration - it all counts. And if we increase the area in forestry, and increase the use of wood products, we have two avenues to increase the amount of carbon stored outside the atmosphere as well as displacing emissions that would otherwise have occurred.

The Kyoto Protocol doesn't actually recognize all of this contribution - but then the Kyoto Protocol has a number of arbitrary rules which don't match reality and some of those relating to forestry will be the subject of further negotiation. Regardless of this, the protocol does not have to be the determinant of good domestic policy for New Zealand.

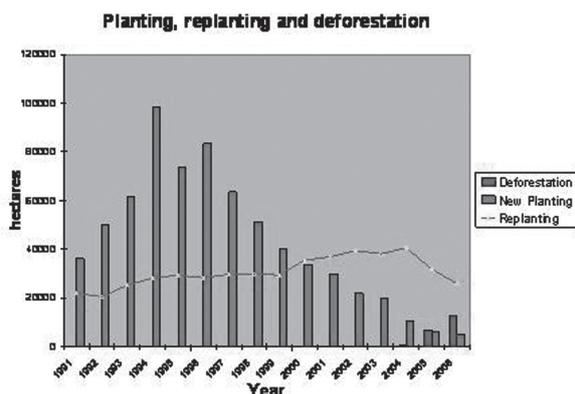
Under the Kyoto Protocol, if forested land is cleared and not replanted, or left to revert, an instantaneous emission of all the absorbed carbon back to the atmosphere is deemed to have occurred. Between 20 and 25% of the world's total annual emissions are estimated to result from deforestation on this basis. The option of providing credit for deforestation avoided "rainforest credits" in developing countries that are in the UNFCCC but not signatories to the Kyoto Protocol has gained considerable traction in international negotiations. In New Zealand the proposed means to deal with deforestation emissions has been to tax it. More recently a tradeable deforestation permit regime has been put forward.

¹ Chief Executive Officer, New Zealand Forest Owners Association

In considering the merits of this it is worth noting the following:

The Climate Change protocol, and its all important line in the sand at 1990, was concluded in Kyoto Japan in 1997 - well after those who own non-Kyoto trees had planted them. Non-Kyoto forests face a liability under the rules if not replanted but the same agreement rules that none of the carbon absorbed by those forests counts, even that sequestered after 1990.

Perhaps as a reflection of this inequity the deforestation cap was originally set well above the historic level of deforestation. There was never an intention that it would be breached and twice it has been increased as a consequence of increased deforestation projections, the last time to 21 million tonnes CO₂ to cover the first commitment period from 2008 to 2012. Since then MAF has commissioned two deforestation intentions surveys with essentially the same results. The projected level, based on these surveys, is now around 50 million tonnes. After 2012 the rate is expected to fall to 31 million tonnes for the second commitment period (2013 to 2017) and then to 15 million tonnes in the third commitment period (2018 to 2020). The net impact on the forest estate in New Zealand is shown in the graph below.



Although elevated, the current level of deforestation is still a small percentage of the total estate (around 4%) and does not reflect forestry that has shifted location. At present Kyoto, and proposed NZ government policy, does not have the flexibility to treat harvesting in one location and replanting an equivalent area in another location as carbon neutral. At a national level, which is what Kyoto accounting is concerned with, this is nonsense, and is a prime example of where New Zealand must develop policy that matches our reality. How much of the forecast deforestation actually takes place will depend on a number of factors including government climate change policies. With reasonable flexibility, and encouragement, the level of deforestation need not be as high as it otherwise will.

New Zealand's competitive advantage has been built on a highly dynamic rural environment able to respond to market signals in a way that few other countries can. At present there are clearly areas in forestry that are not the highest and best land use, and vice versa. Change is inevitable and should be welcomed. Of course it is important that the consideration of best use takes into account all impacts including environmental. The bulk of

the deforestation that is occurring at the moment is taking place where there is a long term land use change from forestry to dairying - an alternative land use that does not currently face the cost of increased emissions. How this is factored into a trading emissions regime, and any variation in the level of allocation between sectors or firms, will be quite critical.

Also critical will be the extent to which Kyoto forest owners participate. Enough has already been said about who should own post 1990 credits. It has been remarked that no other developed country has proposed devolution of credits. It can also be argued that no other country has proposed nationalising them. The simple fact is that no other country in the Kyoto club is as reliant on the contribution of its forests as New Zealand is. Whether it is credits or some other form of value recognition, it is hard to conceive that the forest owners who control the destiny of these forests should not benefit from the service they have delivered. Such policy would not be consistent with government wanting to work in partnership and establishing "an enduring relationship" with the forest sector, and it certainly wouldn't be consistent with existing forest policy such as the Permanent Forest Sink Initiative.

Overseas lifecycle assessment work shows the environmental footprint of the forest industry is benign in comparison to alternatives. As part of a more comprehensive assessment work of the ecological impact of the primary sectors in New Zealand work is underway by Scion, BRANZ and others that should reinforce this. With the right market signals in place forestry has the potential to contribute in areas where there is currently insufficient reward or encouragement to do so. This includes utilisation of a greater proportion of wood residues for biofuel such as wood pellets, greater substitution by wood of more energy intensive materials, and even low heating of biomass to produce char which can be used to improve soil quality as well as significantly increase carbon storage on a long term scale. By way of example, a few weeks ago the Forestry Commission in the UK launched a woodfuel strategy which aims to boost the woodfuel market in the UK by an extra 2 million tonnes by 2020 thereby saving 400,000 tonnes of carbon annually. This has been estimated to be the equivalent of taking 550,000 cars off the road.

The wood processing sector has a vital role to play in delivering renewable, environmentally beneficial, products. The government can assist this by ensuring that decisions to use alternatives such as concrete, plastic and steel must have fully factored in the environmental consequences including carbon emissions. In terms of government's own procurement decisions NZ market research shows overwhelming support for this to be conducted on a whole-of-life cost basis.

The industry is determined to promote the beneficial aspects of forestry and wood products and will look to work with government as an interested partner with compatible objectives. The move towards a market-based approach in New Zealand that mirrors similar developments elsewhere provides an opportunity to set the signals that will encourage forestry and the flow of associated benefits that the industry can deliver. Delivering this into legislation this year will be a significant challenge but forestry is overdue for clear signals that will bring about the transformation needed.