

STAFF REPORT

TO: Chair and Members, Corporate Services Committee

FROM: Manager Property Services

DATE: 29 March 2011

SUBJECT: **Tasman District Council Forests and the Emissions Trading Scheme Report – RFN11-04-07**

Purpose

To consider involvement in the Emissions Trading Scheme for Council's forest estate.

Background

The Council owns 2700 hectares (ha) of exotic forest in seven different locations, the largest being Rabbit Island at 900 ha. The current sustainable cut is around 40,000 tonnes per year rising temporarily to 120,000 tonnes per year in 2025 as forests planted in the 1990s begin to mature. The total land area involved in forest operations is 4,094 ha.

Under the Climate Change Response Act (2008) there is an opportunity for Council to apply for an allocation of New Zealand Units (NZUs) for its pre-1990 forests and to enter its post-1989 forests in the NZUs in the Emissions Trading Scheme (ETS).

Under the ETS forests are classified as either:

- 1 Pre-1990. Forest land that was in forest as at 1 January 1990. The Council owns 1600 ha of pre-1990 forest land.
- 2 Post-1989. Forest that was planted on land that was bare as at 31 December 1989. The Council owns 1100 ha of post-1989 forest.

Pre-1990 Forest Land

Under the ETS owners of pre-1990 forest land are entitled to a free allocation of NZUs or carbon credits as partial compensation for the loss of land value arising from the reduction in flexibility of future use. Deforestation (conversion to another land use) will result in liabilities of around \$14,000 per ha.

Council is eligible for 23 NZUs per ha to be allocated prior to 31 December 2012, and a further 37 units that **may** be allocated by the Government sometime after 2012. The maximum potential value to the Tasman District Council based on

today's carbon price of \$20 per tonne is \$1.9 million. For the initial allocation the value is about \$736,000.

Post-1989 Forest

Entry to the ETS is entirely voluntary for owners of post-1989 forests. Carbon credits are earned for the amount of carbon sequestered since January 2008 in the growth of the forest. Based on the existing MAF Look-Up Tables, the Tasman District Council forests will, on average, sequester 28,000 tonnes per year of CO₂, or a gross value of \$560,000 per year at today's carbon price. However, at time of harvest 60% of credits need to be paid back, which equates to \$310,000. This leaves a net annual value to Council of \$250,000 per year based on a sustainable harvesting and replanting programme.

Note that there are many assumptions in the calculations of the above estimates and this report uses a simplistic methodology.

The only post-1989 forest that is not expected to be replanted is at the Eves Valley landfill site and this forest could be excluded from any application.

Risks

- ETS scheme may be abandoned by successive governments
- No international agreement beyond 2012
- Loss of estate due to fire and natural events (wind, snow, etc) and deforestation liabilities
- Treasury risk-sell/hold?
- Collapse of carbon market
- Sale or an alternative use of post-1989 forests, after credits taken.

Risk assessment

Our pre-1990 forests are already in the ETS and there is no risk in taking up the NZU's for pre-1990 forests. The penalties that apply for deforestation of a pre-1990 forest have no effect on whether or not the NZUs are taken up. Similarly issues with fire or natural events with pre-1990 forests have no effect on whether or not the NZUs are taken up. For example, deforestation of Rabbit Island for a recreational purpose will create liabilities regardless of whether or not the NZUs are taken up.

There are risks in entering the ETS for our post-1989 forests. However, it is unlikely that an event would occur which would affect all of our post-1989 forests at any one time. We can expect damage to the forest estate through fire or natural events from time to time. Historically, damage to our forests from these events has been restricted to parts of forests and over relatively small areas in relation to the size of our post-1989 forest estate. There are no proposals to deforest or sell any of our post-1989 forests.

Abandonment of the scheme by the Government is unlikely, indications are that forests will remain but other carbon activities may be delayed. If there is no international agreement past 2012, one would expect the Government to continue to engage easy carbon producing targets in some form of tax system. A collapse

of the carbon market would only affect Council if it was actually trading in NZUs. Consideration of how our NZUs should be managed would be subject of a further report taking into account treasury requirements, the forest harvesting regime and an allowance for the affected fire or natural disasters.

Application process

PF Olsen have prepared the necessary stand records, maps and other documentation required by MAF for both the pre-1990 Application for NZUs and entering the post-1989 forests in the ETS. The final applications to MAF are on hold pending the approval of the Corporate Services Committee to proceed.

Affected persons

There are no persons identified as being directly affected by a decision to enter the ETS.

Significance

The subject matter of this report is not significant under the Council's policy on significance.

Conclusions

There is no downside risk to applying for the allocation of free credits for the pre-1990 forest. If some of the afforested land is converted permanently to another land use, substantial liabilities will become payable, whether or not an allocation of free credits has been obtained. There is a window of opportunity to take the credits offered and use them to the Council's advantage.

There are substantial potential gains to the Council from entering its post-1989 forests into the ETS. While there are some risks, these can be managed by ensuring the forests are harvested and replanted on a sustainable basis and that a conservative approach is made to selling credits. The relatively narrow spread of planting years (mainly 1992-1997) for which credits are available will mean prudent carbon management and trading strategies will have to be adopted to manage the credits that have to be surrendered as these forests are harvested. However provided the credits are managed sustainably, there is the potential to benefit Council on an ongoing basis through the sale or trading of credits. Holding some credits may also be a good option to offset liabilities from future activities to join the ETS such as landfill and sewerage operations.

Recommendation

- 1 THAT the Tasman District Council Forests and the Emissions Trading Scheme Report – RFN11-04-07 be received by the Corporate Services Committee.**

- 2 THAT the Corporate Services Committee:**
- (a) approves the application for an allocation of New Zealand Units for its pre-1990 forests; and**
 - (b) applies for entry to the Emissions Trading Scheme for its post-1989 forests, with the exception of the Council forest at the Eves Valley landfill site.**
- 3 THAT following the allocation of any New Zealand Units, a report on management and investment options be presented to the Corporate Services Committee.**

Jim Frater
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