



ETS Forestry Package: Harvested Wood Products

Harvested wood products (HWP) are products made from timber such as furniture or the framing for buildings. These products bring benefits to New Zealand by mitigating climate change through carbon storage.

The HWP proposals focus on ways for the Government to recognise and incentivise the carbon stored in these products.

77%

of New Zealand's domestic wood processing results in longer-lived wood products.

8m tonnes

The mitigation we claim for HWP under the Paris Agreement is likely to be equal to around 8.8m t/CO₂ contribution to our 2030 climate change target.

75%

of forestry submitters supported introducing new provisions to recognise deferred emissions from HWP in the NZ ETS review consultation in 2015.

Key facts:

- Around 60 per cent of New Zealand's harvested wood is exported overseas as logs¹ which are converted into short-lived products.
- 77 per cent of New Zealand's domestic wood processing results in longer-lived wood products, the other 23 per cent is converted into short-lived products such as pulp, paper and packaging materials.
- In 2016 wood and paper products manufacturing comprised an estimated 0.8% of national GDP, but was more significant in regions such as Tasman and Bay of Plenty (4.2% and 3% of the regions' GDP respectively).²
- At February 2017 there were around 400 wood processing locations nationwide, with around 80% being sawmills³

HWP carbon storage is not currently recognised domestically

- When New Zealand created a carbon accounting approach for forests under the first commitment period of the Kyoto Protocol, the rules assumed instant oxidisation of the carbon removed from the site when trees were harvested.
- The ETS is set up to reflect the same approach.
- The Government does not currently pass on the benefits of the deferred emissions liabilities stored in HWP to the forestry or wood processing sectors.

HWP carbon storage is recognised internationally under the Paris Agreement

- From 2021, the slow release of emissions from HWP will contribute to New Zealand's international climate change mitigation, including for our 2030 target.
- Retaining the current ETS approach does not pass on the Crown's benefit of the deferred emissions liabilities stored in HWP to the forestry or wood processing sectors.
- New Zealand's international accounting methodology recognises the contribution of HWP as an additional number of NZUs (equivalent to approximately \$16.8m per annum with a carbon price of \$21 per tonne) as part of the long term average NZUs we will claim for our forests.

¹Harvested wood figures sourced from <http://www.mpi.govt.nz/news-and-resources/open-data-and-forecasting/forestry/wood-processing/>

² Regional GDP figures sourced from MBIE: <http://www.mbie.govt.nz/info-services/sectors-industries/regions-cities/research/modelled-territorial-authority-gross-domestic-product>

³ Business count data sourced from <http://nzdotstat.stats.govt.nz> based on the following ANZSIC categories: C1411, C1412, C1493, C1494, C1510 using geographic units



We seek your feedback on the following options:

Option 1 (status quo): Do not reflect the benefits of accounting for HWP to the forestry sector.

Option 2 (new): ETS participants using averaging accounting receive additional NZUs

This would mean increasing the NZUs post-1989 forestry participants using averaging accounting receive in the ETS in line with how New Zealand accounts for HWP when meeting our international climate change targets. The calculation for the average carbon stored in ETS forests would be amended to include extra NZUs to recognise deferred emissions from HWP.

It would increase ETS forestry participants' financial return (can trade more NZUs at low risk), which is expected to significantly increase afforestation.

However, it would not deliver a direct incentive for any particular use for HWP, because it is too difficult to track wood from individual forests through to end use (a national HWP average would be used in the NZU).

Option 3 (new): Create an HWP “industry good” fund

This would mean creating an “industry good” fund targeted at encouraging the forestry sector to develop longer lived HWP.

The Government could set aside a pool of funding that is based on an estimate of the contribution HWP accounting will make to the internationally recognised long term average carbon stock.

While the Government may choose to set aside only a proportion of this contribution for a fund, for the next international commitment period of 10 years, the total amount may be equivalent to around \$168m depending on trends in the carbon price.

The fund could increase the wood processing sector's incentive to develop longer-lived wood products (and in turn store more carbon and accrue more value to the Crown). It could also have flow on impacts for the New Zealand economy and the wood processing sector (i.e. for employment and energy use).

For example, option 2 would mean...

For a participant registering 100ha of pine forest into the ETS these additional NZUs could be equivalent to 12,000 NZUs or \$250,000 (at current carbon prices) in total (earned over time in addition to what they would receive for their forest under averaging accounting).

For example, option 3 would mean...

A research and development fund is established to support the forestry sector to develop long-lived HWP. This may in turn increase the contribution HWP could make to international targets.