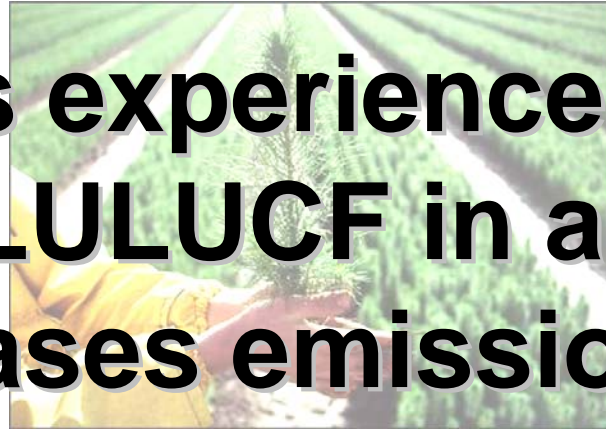


LULUCF Post 2012

**New Zealand's experiences in
incorporating LULUCF in an all
sectors, all gases emissions
trading scheme**

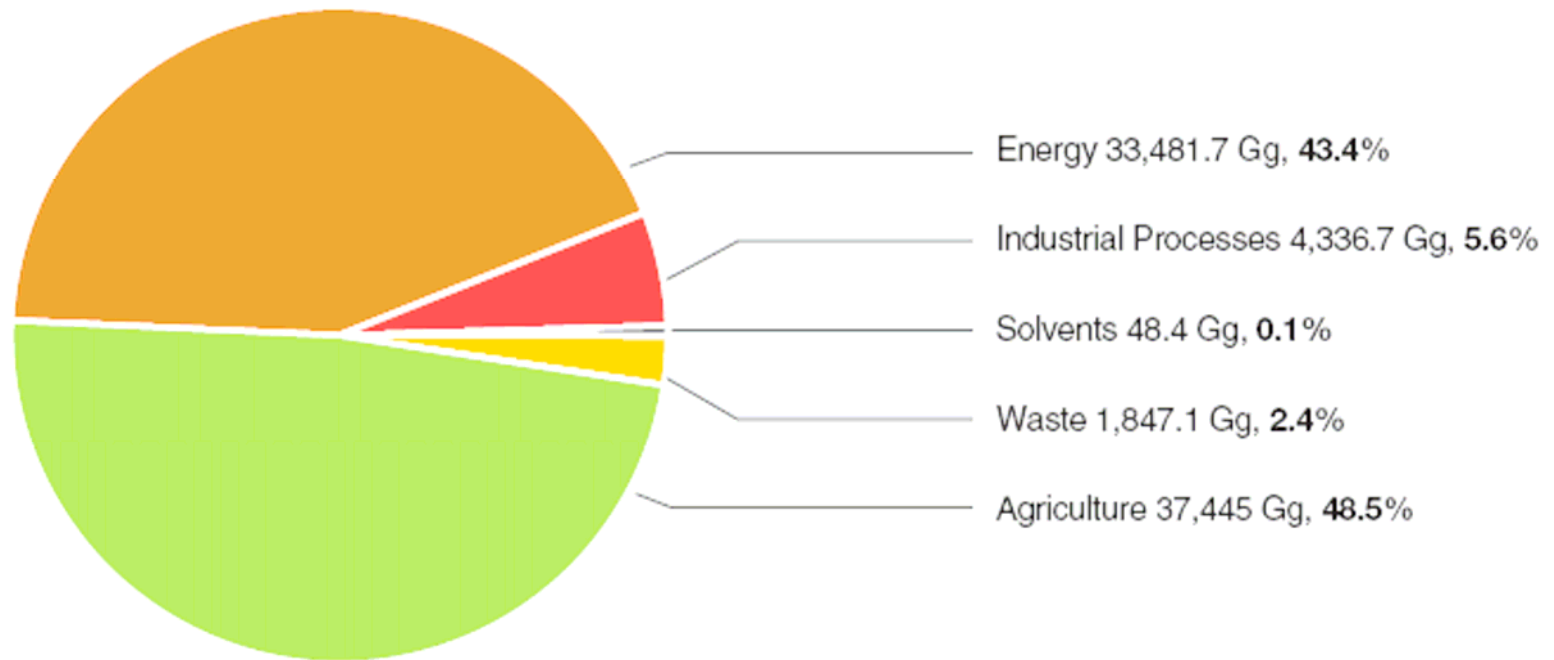


Bangkok, April 2008

Key Messages

- NZ is a land-based economy – so forestry and agriculture are core to our climate change policy
- NZ implementing an all sectors, all gases emissions trading scheme – agriculture and forestry included
- LULUCF mechanisms are very important for sustainable development, mitigation and adaptation in NZ
- Our experience is that, while many of the LULUCF rules are sound and effective, some are:
 - Impractical to implement in a devolved ETS regime
 - hard for private stakeholders to understand
 - unnecessarily restrictive in terms of land use flexibility within planted production lands; impinging on sustainable development and adaptation
- Aspects of LULUCF need to be reviewed; the issues are complex and will need significant negotiating time
- Recognising national circumstances will be important.

NZ is a land-based economy



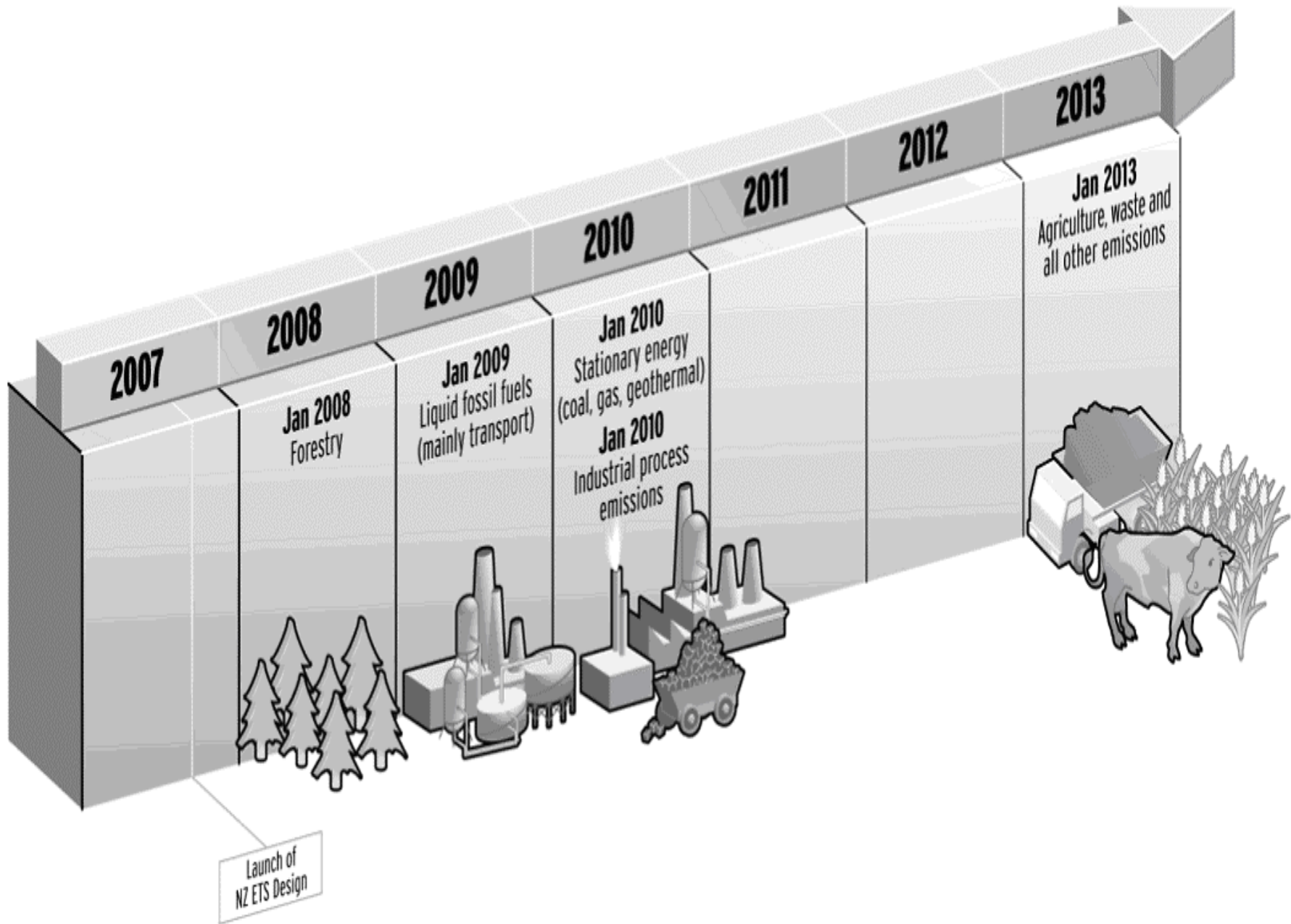
Forests in New Zealand

- Pre-1990 estate
 - natural forests 6.4 million ha (77% public, 23% private)
 - Exotic planted production 1.2 million ha (5% public, 95% private)
 - Forest management not elected
- Post-1989 estate
 - Exotic planted production 0.6 million ha (100% private)
 - Plus around 1 million ha of grazing land with some indigenous woody vegetation - typically cleared but management could change with ETS incentives

Emissions Trading Scheme:

Key in-principle decisions

- Economy-wide ETS covering all sectors and all gases
- Key obligation - participants report their emissions and surrender units equal to those emissions
- Sectors' entry into ETS will be staggered
- Units of trade will be a New Zealand Unit (NZU)
- Kyoto Protocol units can be used to meet ETS obligations
- NZUs will be convertible to Kyoto Protocol units
- Each NZU must be backed by a Kyoto unit
- Legislation now before New Zealand Parliament



Forestry sector in NZETS – January 2008

- Forestry parts of ETS broadly follow Kyoto Protocol rules
- Without this :
 - Government would potentially allocate many units not backed by Kyoto units
 - Landowners would not face the costs NZ faces
- ETS therefore distinguishes between pre-1990 and post-1989 forests

Post-1989 forest owners in NZETS

- Exotic and indigenous forests can participate
- Can elect to receive units for tree growth (from 1 Jan 2008) together with liability for future carbon loss
- Liabilities capped to level of units received
- All units are convertible to Kyoto units and may be sold internationally
- Adds significantly to rate of return

Post-1989 forests in NZETS: environmental co-benefits

- Positive benefits for:
 - adaptation
 - soil and water quality
 - erosion control
 - biodiversity
 - Mitigation – displacing agriculture and offsetting agriculture emissions





Pre-1990 exotic forest owners in NZETS

- BAU forestry faces no obligations or direct costs, but equally receives no credits for carbon stored
- Landowners face significant liabilities for deforestation of exotic production forests
- Will affect values of land in planted production, dynamic land use, and sustainable development
- Deforestation of pre-1990 natural forest: not included in the draft legislation – since controlled by other legislation and initiatives



Looking to Post 2012 (Forests)

- Post-1990 (Art 3.3 Afforestation and Reforestation) generally work well in a devolved ETS system
 - Some refinements would enhance their application (e.g. harvesting emissions, ‘fast-forest-fix’)
 - Need continuity to provide confidence for investors
- Pre-1990 (Art 3.4 Forest management) not practical to implement in ETS:
 - Caps on emissions and removals would somehow have to be allocated to individuals
 - Separating new activity from BAU and natural effects is the key challenge for post-2012
 - Needs significant review if it is to be made practical and effective
- Deforestation regime (Art 3.3) – limits dynamic land use in planted production lands.
 - Tends to lock in land use in planted production lands, with significant impacts on sustainable development and adaptation
 - New Zealand would like to see flexibility in managing carbon stocks under an ‘estate management’ approach for planted production lands, while ensuring environmental integrity
 - Opportunity to generate co-benefits

In summary

- LULUCF mechanisms are very important for sustainable development, mitigation and adaptation in NZ
- Our experience is that, while many of the LULUCF rules are sound and effective, some are:
 - impractical to implement in a devolved ETS regime
 - hard for private stakeholders to understand
 - unnecessarily restrictive in terms land use flexibility within planted production lands; impinging on sustainable development and adaptation
- Aspects of the LULUCF need to be reviewed; the issues are complex and will need significant negotiating time
- Recognising national circumstances will be important.