

## NEW ZEALAND

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### EMERGING ISSUES

#### Climate Change policy

As was noted in the previous report, the domestic climate change policy for forestry remains fluid.

Two significant decisions have been made since the last ICFPA meetings. Firstly, the government has introduced an Emissions Trading Scheme (ETS) as the foundation for meeting its Kyoto obligations. Secondly, it has reversed its previously reported stance and given, under pressure from the sector, owners of forests established post-1990 the option of receiving carbon credits and liabilities.

Although billed as all sectors, all gases, the ETS is not yet that. The only sector at this stage that is in, with rules that apply from 1 January 2008, is the forest sector. Other sectors are proposed to be brought in with varying requirements at later dates. Agriculture will be the last sector with a proposed starting date of 2012.

While the rules now apply to forestry, the legislation has not yet been passed. Understandably this has created investment uncertainty in the sector.

The proposed approach has created numerous schisms amongst forest growers. Post-1990 forest owners are treated very differently to pre-1989 owners. Post-1990 owners of large forests are subject to a heavy deforestation tax while owners of small blocks are exempt. Owners of pre-1990 forests, who also purchased their forests after 2002, may receive less compensation than those who purchased pre-2002.

Adding to the uncertainty and confusion, the rules by which carbon will be measured and can be traded have yet to be developed although they are expected within the next 6 months.

Aside from domestic policy the industry has identified a number of issues within the Land Use, Land Use Change and Forestry Rules of Kyoto that need addressing before New Zealand signs up to the next commitment period. These include recognition of the role of harvested wood products and the inadequacy of the instant oxidation assumption, the length of the next commitment period and the need for flexible land use arrangements for planted forests. At present if a pre-1990 forest is harvested and replanted it gains neither credits nor debits. If the same forest, however, is relocated it still receives no credits but is liable for all the carbon absorbed in the forest. From an atmospheric point of view and the objectives of Kyoto, this is a nonsense that NZ will seek to have addressed.

A significant research programme is also being funded as part of a Plan of Action for Sustainable Land Management and Climate Change (SLMCC). Many of these are detailed further at <http://www.maf.govt.nz/climatechange/poa-investment-sheets> and include:

- Life cycle analysis of sustainable biofuel options;
- Carbon stocks and change in NZ's soils and forests;
- Developing a method for valuing forests and forest land in New Zealand in the presence of carbon pricing;
- Life Cycle Assessment (LCA) for building materials in New Zealand;

- Carbon trading and forestry decision-making; and
- Land-use mapping and LULUCF accounting

Throughout this turbulent time the industry has found significant common ground with the environmental groups, including the political Green Party. This led, last year, to the signing of a Climate Change Accord between the groups. Further detail is available at:

[http://www.nzfoa.org.nz/index.php?/News/Forestry\\_Bulletin/Summer\\_2007-08/Forestry\\_green\\_groups\\_sign\\_climate\\_accord](http://www.nzfoa.org.nz/index.php?/News/Forestry_Bulletin/Summer_2007-08/Forestry_green_groups_sign_climate_accord)

## **Water**

Consistent with its identification as a global issue at the Forest Industry CEO's Roundtable meeting in Shanghai in 2007, quantity and water quality debate is increasing in New Zealand. While in general New Zealand is endowed with plentiful rain, its geographic distribution, and unfettered use, is now presenting significant ownership and allocation issues. For forestry this is manifesting itself in the form of catchment "no-go" zones for forestry on the basis that it reduces the amount of water for downstream users such as dairying and viticulture. This, notwithstanding that many of the catchments were originally covered in native vegetation.

Concurrently water quality issues are also emerging, largely attributable to an intensification of agriculture. The key issue is nitrogen runoff and nitrogen trading is being investigated as a solution. The initial allocation under such a system is a point of contention given forestry's low level of N output which is penalized if grand-parenting of emissions is the allocation mechanism chosen. An alternative of providing only a catchment level average across all land users based on hectares would be an abrupt shock to a number of intensive dairying farming operations that produce nitrogen discharge levels many times this level. The issue is destined to be resolved in the Environment Court.

The government is again attempting to facilitate some change in land use practice through a nationally facilitated Water Programme of Action. All primary sector groups have been encouraged to offer up voluntary targets and clean water targets have been agreed to. Forestry is not one of the land uses of most concern to government and can generally point to considerable action already taken. Nonetheless, the NZFOA has made a further commitment on behalf of its members including compliance with its Code of Practice (see below).

## **Environmental Code of Practice**

Several years work has culminated in the production of a significantly enhanced NZ Environmental Code of Practice for Plantation Forestry. The new Code was completed last year and "delivered" to the industry through a series of workshops throughout the country.

A feature of the new Code, which was developed at the same time as the FAO Code of Practice for Planted Forests, features a new section on industry best environmental practices (BEPs). The BEP section is intended as a tool-kit; describing a range of management options that could be applied to a particular situation.

The Code aims to be a key reference tool to a wide range of parties involved in managing forests including environmental regulators. It is also being used as a framework for training purposes.

The document is available in .pdf format on the NZFOA website at:

[http://www.nzfoa.org.nz/index.php?/File\\_libraries\\_resources/Standards\\_guidelines/Environmental\\_Code\\_of\\_Practice](http://www.nzfoa.org.nz/index.php?/File_libraries_resources/Standards_guidelines/Environmental_Code_of_Practice)

## **Biosecurity Funding and Decision-Making**

As part of the development of a new Biosecurity Surveillance Strategy the Ministry of Agriculture and Forestry is reviewing who should decide whether an exotic organism is contained or eradicated, and who should pay. A public discussion paper has been released seeking feedback on these fundamental questions.

The eradication programme for an incursion of painted apple moth in 2003/04 was more than \$51 million although this is a fraction of the annual economic cost of controlling the moth in forest plantations if it had become established.

The forest industry has welcomed all proposals to more formally involve the primary sectors in preparing for and dealing with incursions. The NZFOA also accepts the principle that there can be circumstances where it would be appropriate for an industry to contribute to an incursion response but significant concerns still exist over how any new costing model might operate.

In particular the industry does not accept that exacerbators of such threats should be ignored because of the challenges of identifying their level of contribution to the problems. It is also expected that the efforts of the industry to prevent or minimise the impact of an incursion through surveillance, research etc, would be taken into account. The forest growing industry is the only primary industry in New Zealand to have a formal surveillance programme for plant pests and diseases, funded by growers themselves. This has recently been subject to an independent review and achieved a glowing report. To date, however, there has been no confirmation that this nationwide contribution to preventing pest and disease establishment will be taken into account.

## **Certification**

Independent third-party certification has continued to grow - over half the plantation forest area in New Zealand is now certified. In New Zealand the only internationally recognised third party certification that has been pursued to date is FSC. The industry is thus highly supportive of FSC.

Fifteen managers of significant plantation holdings in New Zealand already hold Forest Stewardship Council certification and two other major players are in the process of obtaining it. In total this represents around 1 million hectares.

In addition, information supplied from NZFOA FSC certificate holders in New Zealand shows that around 50 percent of the volume produced by forest growing companies is currently captured by an FSC Chain of Custody.

The group of “certified” plantation managers has formed an FSC cluster to co-operate on FSC issues of common interest. It has already funded, and will continue to fund, industry good activities related to certification. The cluster is supported by NZFOA.

This group, in conjunction with NZFOA, has collaborated closely with Australian FSC forest interests, and more recently established links with Canadian and United States certificate holders (the CANZUS group represents over 20 million hectares).

FSC International has recently initiated reviews of two key areas of policy for plantation forest owners. Firstly a review of the policy applying to Plantation Forests and secondly a review of pesticides used in such forests. Both reviews are very important to planted forest growers.

The pesticide review was undertaken by the Pesticide Action Network UK, which is an environmental organisation focused on eliminating pesticide use. Several pesticides commonly used in New Zealand

have been designated highly hazardous and require “derogation” (consent) from FSC to use. Derogation is not guaranteed and a successful derogation lasts for five years with a presumption of non-renewal. Also derogation applications must have the support of environmental and social groups, which is clearly not guaranteed.

Several NZ pesticides are essential for biosecurity, pest control and economically sustainable primary land use. In particular NZ forestry cannot successfully operate completely without the use of some pesticides and is therefore at considerable risk of losing the ability to hold FSC certification. The FSC Pesticide Policy also threatens the ability of NZ to manage and/or respond to existing and new biosecurity threats (i.e. possums, buddleija, painted apple moth, Asian gypsy moth).

New Zealand has just received the response to its application for derogations and will now be working through this. There is already a level of concern, however, that the decisions by FSC reflect a lack of understanding about local conditions, e.g. suggestions for trials that have already been undertaken. Nonetheless the industry is committed to, and has discussed with FSC, a continual improvement process that would quantify progress towards the objectives of the derogations and the goal of minimizing use.

### **NZ Wood**

Towards the end of last year an NZ Wood programme was officially launched by the Minister of Forestry. This marked the first promotional phase of presenting the environmental credentials of forests and wood to the building and design sector.

The programme is a joint initiative between the wood processing and forest industries under the pan-industry WoodCo banner and in partnership with government. The common goals increased wood consumption and greater awareness of the environmental credentials of wood and forests, particularly in the fight against climate change.

Much activity has taken place since the launch with significant positive feedback both from within, and from outside, the industry. The website <http://www.nzwood.co.nz> is under continual development.

The programme involves promotion and advertising, research, website and information channels, a NZ Wood brand, design resources and training initiatives.

The programme has been supported by other government initiatives such as the recent government announcement that government buildings will be required to submit a wood design option.

## **INDUSTRY SITUATION**

### **Forest estate**

The unprecedented levels of deforestation and net forest loss reported in the last country report came to an abrupt halt at the end of 2007. This was in response to the threat of a significant deforestation tax on pre-1990 forests that were not replanted (referred above). Initially government dismissed claims by the industry that this tax would be as much as \$13 000/ha, but the latest estimates indicate that it is more likely to be around \$20 000/ha. At that level a change to any other land use becomes prohibitive.

The level of deforestation tax without the threat of punitive measures is difficult to know. Certainly it would have been higher than historical levels, but against that much of the intended deforestation for the next five years had been brought forward to beat the deadline and significant areas of immature trees were felled.

Dairy farming returns have continued to soar, partly on the back of the biofuel policies being implemented overseas. This coupled with tight market conditions and investment uncertainty generated by the emerging climate change policies means that forest planting remains subdued.

Allowing owners of post-1989 established forests the option of selling Kyoto compliant carbon credits introduces a market opportunity but one that comes with some risks and forest management implications. For some it will provide a viable alternate revenue stream especially those whose forests were planted shortly after post-1989 and who are managing multiple age classes rather than a single, even aged, stand. Prices in the carbon market relative to the wood market could be an important future determinant of whether, and when, harvesting is undertaken. This is likely to have a positive impact on forest planting but, as noted, this will be tempered by the cost of acquiring land (price have doubled in the last 5 years) and the fact that agriculture does not currently face any emissions restrictions. Many will also chose to exercise the option because of the harvesting liability risk and the compliance costs.

Government has set a target of an additional 250 000 ha of forest by 2020 from 2007, or just under 20 000 ha/annum. In addition to the boost anticipated from carbon credits the government has also introduced an Afforestation Grant Scheme (AGS) as an option for those who do not want to enter the world of carbon monitoring and trading. This will involve a 10 year contract arrangement with government providing a grant but retaining the credits and liabilities. The AGS is also likely to encourage some planting despite the constraints above. In the absence of carbon related measures to encourage planting there would be little new afforestation.

### **Economic situation**

The New Zealand economy is set to slow markedly this year, as firms face a squeeze on profitability from rising cost pressures caused by a high New Zealand dollar, extremely high shipping rates, a tight employment market and high interest rates. In the short term employment rates in the industry are dropping, reflecting the challenges currently facing the forestry sector such as unfavourable exporting conditions but also the impact of the industry having to compete for portable skills in an economy with a very low unemployment rate. The fact that a number of other economies are in the same situation only intensifies this challenge.

On a happier note, while small in scale initially, trade benefits are expected from New Zealand's free-trade agreement with China. Initial benefits are expected to show up first in the tourism sector as most favoured nation status impacts perception and service flows far quicker than reductions in tariffs. However, impact on the forest sector is expected to be minimal as tariffs on logs and lumber are not affected, and some processed forest products are exempted.

Market conditions are very challenging across all markets. NZD\$FAWG (free at wharf gate) returns have been severely impacted by a weakening US\$ and shipping rates reaching historic highs. In the medium term, it appears interest rates will remain on a firming bias as the NZ Reserve Bank continues to set policy to address persistent inflation problems.

Freight rates are expected to continue to strengthen with the recent 65 percent increase achieved in the iron ore trade indicating that demand for bulk goods in the developing economies is expected to grow for a few years yet – keeping shipping rates high.

Demand in the first quarter of the year in the key Korean and Chinese markets has been affected by very low consumption levels due to a very cold snap in Eastern Asia – in China the coldest winter in 50 years.

In NZ, Australia and the US, softwood supply has remained stable against a slowing consumption level as the housing markets undergo a substantial correction affecting new starts and additions and alterations. This has lead to an oversupply situation in these markets, creating challenging market conditions.

Although there are regional differences, in general, logging activity in New Zealand is falling away sharply.

### **Socio-economic contribution of the New Zealand Forest Industry**

Forestry and sawmilling employ approximately 20 000 people in New Zealand. There is potential for the current harvest of approximately 18 million cubic metres to increase by at least a third and this would result in expansion in all sectors of the forest industry.

The sector also has an indirect multiplier effect on supplier-industries via its purchases, and consumption-industries via forestry wages/profits being spent.

Forest sector employment has a number of beneficial characteristics associated with it including being spread among settlements small and large, and providing mostly year-round fulltime rather than seasonal and part-time. The sector also attracts and employs a higher proportion of young people (aged 15-39 years). This younger, permanent workforce assists communities retain schools, active sports clubs, etc.

Forest companies generally have a strong community involvement through, for example, provision of firewood, involvement in local community fire-fighting units and enabling access to recreational opportunities in forestry blocks such hiking, orienteering, biking, four-wheel and rally driving, horse riding, hunting and fishing.

Forest management in New Zealand provides an undisturbed environment for maintaining archaeological remains, historical monuments, sacred cultural sites and burial grounds which are identified and protected. It is also utilized for improving the social landscape through visual screening, e.g. of industrial or mining sites, and as a noise barrier.

Plantation forestry in New Zealand has provided particular benefits for Maori who are significant, and increasing, owners of forests.

From the 1960's Maori found themselves owners of large areas of relatively unproductive land that was not suitable for farming. Financial reserves for development of the land were limited and Maori land was not able to be used for security to raise capital for investment. There was also a significant and on-going drain of young Maori from the rural lands to the urban centres.

Leasing arrangements with government who subsequently developed forestry have provided a means of transitioning many Maori groups. Over time, as the forests managed by the Crown are harvested the bare land will be handed back to Maori who are then able to utilize their share of the stumpage income to replant and manage the second rotation crop.

With the cash-flow hurdles overcome, and the lands secured, Maori are able to take on the forest management business. It is a business that is managed with a view to the long-term and according to Maori cultural relationships with the land. It is also a business that provides for their economic well being. The ability to create stable, inter-generational, employment has been one of the strong appeals of forestry which has provided career management paths for many. The numbers employed do at times involve a trade-off with machinery which is dictated by economic efficiency and safety. Funds have been used for establishing educational scholarships, Marae development, and cultural and health initiatives.

As well as improving confidence and optimism, the forests have provided important paid hunting and other recreational opportunities as well as fuelwood supply.