

Carbon Accounting Categories

In June 2020, the New Zealand government passed legislation aimed to improve the ETS. These improvements included changes to the way that carbon is accounted for within the ETS. Previously, there was a single method to calculate the carbon stock changes for the forest – sawtooth carbon accounting. This method was only available until 31 December 2022. There are now two new methods to calculate the carbon stock within a forest – averaging carbon accounting and permanent carbon accounting.

Averaging

Averaging relates to the average volume of carbon that will be stored in a forest over multiple rotations. This model assumes that as a forest grows and is then harvested, total carbon accumulated fluctuates but there will be an ‘average’ volume that the forest stores.

Under this new model, a forest will be allocated carbon up to the ‘average’ level in the first rotation. No carbon will need to be surrendered when the forest is harvested, as long as the forest is replanted. Although NZUs are not surrendered at harvest if you replant, no further carbon is allocated in subsequent rotations if the forest is grown over the same rotation length e.g., a business-as-usual forestry rotation of 28 years. NZUs are only earned and surrendered using this model if the average age of the forest changes, for example by early or late harvesting. Figure 2 shows carbon allocation up to the long-term average line, with no further carbon allocated from this point.

This method can be applied to ETS-eligible land registered between 2019 and 2022, but from 1 January 2023 this method will be compulsory when registering in the ETS as a new forest unless you enter the ‘permanent’ category.

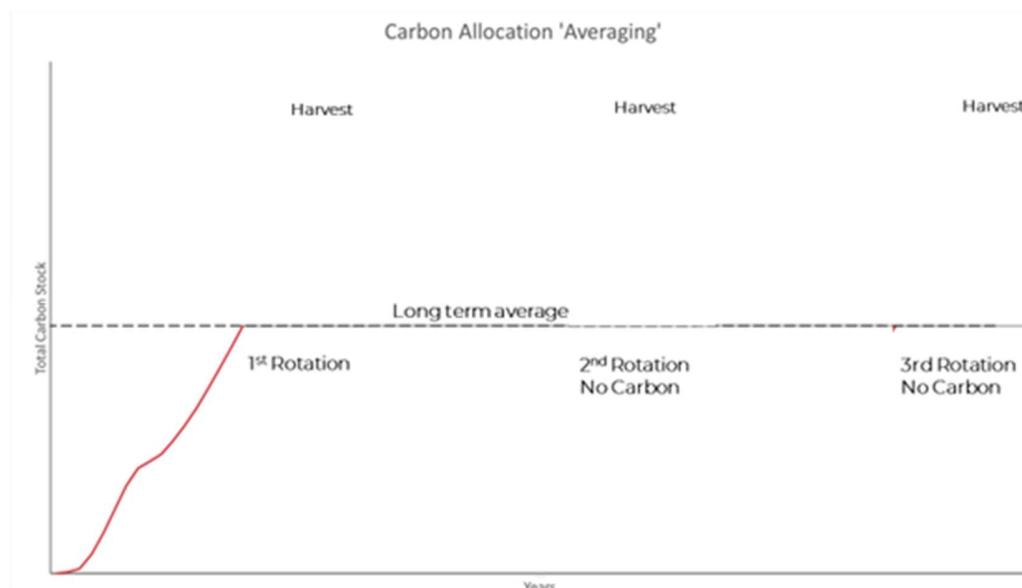


Figure 1: Carbon allocation under the averaging carbon accounting.

Permanent

The new permanent category will replace the Permanent Forest Sink Initiative (PFSI) and will be available from 1 January 2023. This category involves the forest owner committing to growing the forest for a minimum of 50 years. This category allows selective harvesting, provided that canopy cover of 30% is maintained.

Carbon allocation for this category uses the sawtooth/stock change accounting model, receiving the full allocation of NZUs as the forest grows. However, if the forest is affected by an adverse event, no surrender liability exists as long as the forest is replanted.

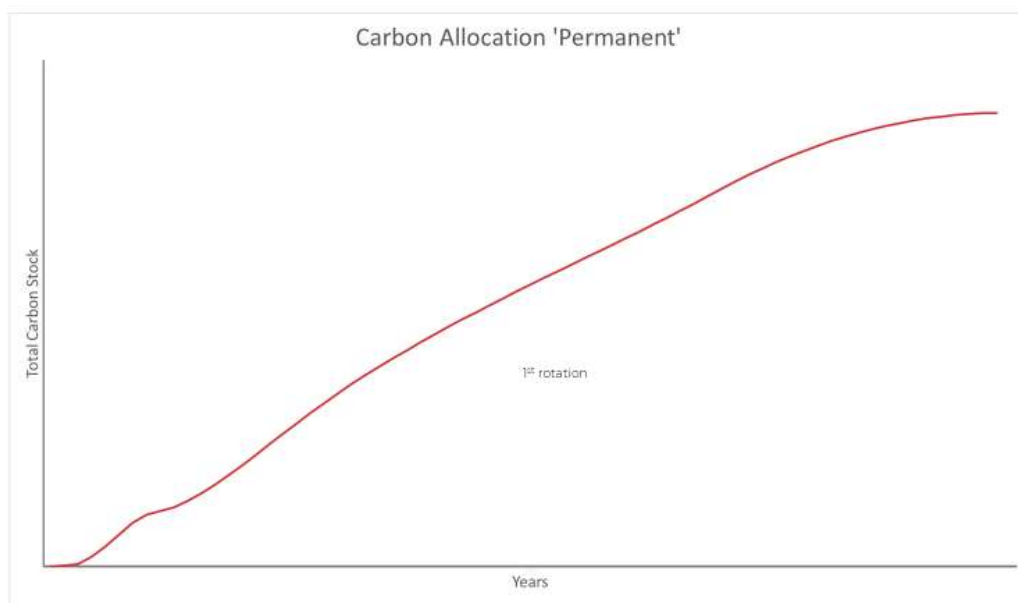


Figure 2: Carbon allocation under the permanent carbon accounting.