

CONTRACTS FOR NATIVE FOREST CARBON: PERSPECTIVES FROM LARGE-SCALE EMITTERS

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AIM: To explore the barriers getting in the way of long-term deals for forest carbon in order to contribute more to New Zealand’s efforts to mitigate climate change.

“When I think about the deals we have done, they have largely been because we care about the relationship [with landowners], but it is more complex.... I think you do need to have people... that want a relationship.”

METHODOLOGY: Face-to-face semi-structured interviews (n=5) with individuals representing four large emitting companies with regulatory requirements to purchase New Zealand Units (NZUs) under the New Zealand Emissions Trading Scheme (NZ ETS).

Key findings of this paper:

- Emission units from native forestry, small land blocks or Māori-owned land had additional value to some buyers but others just wanted to meet their ETS emissions obligations at least-cost.
- The minimum volume of emission units required to justify making a deal varied across participants, but almost all valued the aggregation of land blocks.
- In making long-term deals, some participants would work only through an intermediary; others expressed a preference for developing bilateral relationships with counterparties.
- Emitters shared a willingness to explore multiple contract options and agreed that a more standardised legal contract could improve the contracting process for both parties.
- Predictability of price and policy regulation are necessary to boost engagement with long-term contracts for forest carbon.

Native Forestry

Small Land Blocks

Māori Land

“A unit is a unit really, fundamentally. I actually would probably be reluctant to be get all my units from one specific source. There’s value in diversification: some from pine forestry, some from financial contracts, some from native forestry.”

“I think our largest one is probably 100,000 units per year and the smallest one might be 5 to 10,000 units per year. So quite a range. Size in and of itself isn’t really a problem, it just depends what sort of order you need to fill.”

“It’s certainly a part of our kaupapa... So I wouldn’t say that I would pay extra for it, but I would probably expect [units derived from Māori land] to be included in the offer.”

“There are benefits to wildlife, there are community benefits, soil benefits, biodiversity benefits, so I think there is additional value there... The challenge... is how you can value those co-benefits from natives.”

“There are opportunities for someone being able to act as more of an aggregator, because ... would it be easier for us to do three big deals rather than a dozen small ones? Definitely. There are compliance costs in there and the administration that goes with signing up different contracts.”

“There are at times more complex ownership structures [for Māori land] due to the nature of the collective land ownership. Which does not put us off necessarily, but will be more time consuming to make sure that the people who can do the transactions do have the legal mandate to be able to do that... And so that will be challenging, probably, for those landowners ...”

Some contracts signed by emitting companies for forestry emission units.

Opportunities to improve future contracting for forest carbon

| Contract | Length (years) | Upfront payment | Fixed price | Payment structure | Compliance Market |
|----------|----------------------------------|-----------------|-------------|---|-------------------|
| A | 2 | ✓ | ✓ | NZU volume determined at the end of each year and payment made thereafter | ✗ |
| B | 15 | ✗ | ✓ | Prices fixed within three five-year blocks, each block with a slightly different price (reflecting expected increase in carbon price over time) | ✓ |
| C | 10 | ✗ | ✓ | Fixed price slightly higher than the spot price at time of signing | ✓ |
| D | “multi-year but not decade long” | ✗ | ✗ | Payment regime structured against the published NZU spot price prior to each new quarter, with units delivered at the end of that quarter | ✗ |

1. Standardised legal contracts for long-term carbon deals;
2. Reduced compliance and initial administration costs for landowners;
3. Increased support for and knowledge sharing with landowners, to guide their registration with the NZ ETS and grow their confidence; and,
4. Aggregated parcels of small land blocks with which emitters could make deals for large volumes of NZUs.

“It’s a case-by-case basis. If someone came along and they had a really well thought out structure, thought about the term sheet, and had contracts in place or had a project where they can envisage a portfolio growing over time and they had the capacity with contacts and things to give certainty to that, then that would give us certainty to invest in a longer term.”

“[The intermediary] basically did everything... It would be difficult legally and probably ethically for us... if I was unsure if the person really knew much about the ETS and emission units. ... I wouldn’t want to cut a long-term deal with them if they didn’t have sufficient advice, so having [the intermediary] there ... made things quicker and... we both knew that he knew what he was talking about.”

“the whole ETS since 2010, since we have been involved, has been subject to regulatory intervention that doesn’t give confidence. We would dearly love to enter into long-term contracts and we used to take longer positions, i.e. longer than next year or the current year, but we’ve been burnt in the past as the rules changed.”



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