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Patrick Smellie | Thursday July 05, 2012

"Could there be a bigger insult to an 'actual' farmer than the concept of 'carbon farming'?"

BUSINESSDESK: Changes to the emissions trading scheme will stop investment in one of New Zealand's most important sources of future carbon emissions reduction ? forestry "carbon farming", Carbon Farm chief executive Murray McClintock says.

As a provider of forest management services to the fledgling industry, he says "the net result of these changes will be there is very little incentive to supply New Zealand Units into the New Zealand carbon market".

"We are trapped now in a price-taking situation where the future pricing will be set by the price in Europe," he said.

European carbon prices have already collapsed and appear likely to stay low for at least the next four years while the 27 European Union member states agree on measures to undo a glut of carbon credits.

That fall had already undermined the economics of carbon farming, Mr McClintock said, and the government could have created a buffer to that by requiring a certain proportion of credits to be sourced as domestic NZUs.

Europe and Australia, the only other parts of the world with ETS policies, both have such caps in place.

Business and farm lobbyists argued against such a move, saying a cap on the use of internationally sourced emissions credits would impose new costs on local businesses and households, while interventions to counter temporarily low global carbon prices would violate market principles.

In the end, the government rejected proposals for NZU proportions of between 10% and 50% of annual carbon credit requirements to force purchase of NZUs.

This week's decisions have created pressure on large emitters to dump NZUs, which they had been stockpiling at current low prices, in anticipation of increased carbon offset obligations.

However, Climate Change Minister Tim Groser put those proposed increases on hold this week.

The decisions announced on Monday leave the ETS in a semi-permanent state of transition, with no changes to existing obligations on large emitter industries and no target date for including the agriculture sector in the scheme.

"The government has had a number of options in respect of the changes they could have made," Mr McClintock told BusinessDesk. "In each case where they had a choice, they've favoured emitters."

The latest announcements would discourage further planting, yet the government expected carbon farming to become a substantial source of offsets for future carbon liabilities.

"We could have made some modest changes that gave some encouragement to the supply side," he said.

While the conditions for a carbon market were likely to improve at some future time in New Zealand, the experience among early investors of gearing up for a market that has been postponed would slow its development in the future.

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