

Creating a ‘win-win’ for carbon in forestry through tradeable credits and deforestation permits

Suzi Kerr

Motu Economic and Public Policy Research

PO Box 24390, Manners Street, 6142, Wellington

www.motu.org.nz

Suzi.Kerr@motu.org.nz

Forestry could potentially contribute significantly to mitigation of climate change. If the benefits from carbon sequestration could be internalised by landowners, the net gains to New Zealand could be large. Politically this has proven difficult to achieve, in part because of a conflict over the distribution of (rapidly disappearing) carbon revenues from existing forests, in part because of challenges in monitoring, and in part because a small number of land owners would lose significantly if they were held fully liable for deforestation on their land. This paper shows how a carbon credit programme combined with a deforestation liability regime could reward landowners for increased carbon sequestration on their land and provide incentives for landowners to retain existing forest cover, while minimising the impact on landowners who were planning to clear their forests and convert to other land uses. It presents an innovative revenue-neutral deforestation permit auction that subsidises deforestation up to a limited cap (for political reasons) and efficiently allocates that subsidy across landowners.