



Implications of delaying entry of sectors other than forestry into the NZ ETS until 1 January 2013

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	Description	Relevant dates
Minister for Climate Change issues Hon Dr Nick Smith	Discusses the implications of delaying the entry of all sectors into the NZ ETS until 1 January 2013	Nil

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Executive Summary

1. As requested by you, this briefing note discusses the implications of delaying the entry of all sectors other than forestry into the NZ ETS until 1 January 2013, and not issuing the free allocation of CP1 units to the pre 1990 forestry sector (but leaving the deforestation obligations in place).
2. The effects of this proposal fall into the following categories: economic, fiscal, forestry specific issues, and international and other considerations.

Economic impacts

3. In theory, the economic implications of this proposal are minor, provided there is no significant deforestation and there is an incentive for the post 1989 forestry sector to continue to invest in forestry projects.
4. In reality, the economic implications are likely to be more significant. A delay of sectoral entry until 2013 would signal uncertainty about the future existence and design of the NZ ETS, regardless of how it is communicated. Stakeholders have been dealing with uncertainty for some time and this would be seen as more than a delay. A future carbon price may not be factored into investment decisions which would delay the adjustment of the economy and increase the costs to New Zealand of complying with its international commitments in the long run.

Fiscal impacts

5. The estimated fiscal cost of a delay to 2013 for the Stationary Energy and Industrial Processes (SEIP) and Liquid fossil Fuels (LFF) sectors is approximately \$1.275 billion¹ relative to the status quo (i.e. existing CCRA provisions).
6. The fiscal impact would be partially offset by removing the allocation of NZUs under the Forestry Allocation Plan. It is estimated that the CP1 allocation, after allowing deductions for exemptions, will be approximately 16 million units². Cancelling this would result in savings of approximately \$400 million. The total fiscal cost of this proposal is therefore approximately \$875 million.

Forestry specific issues

7. There would be very strong resistance to this proposal on equity grounds from the pre 1990 forestry sector. This would be the only sector facing liabilities under the NZ ETS from 2008 to 2013 with no compensation for the loss in the value of their assets.
8. An amendment to the CCRA will be required in order to avoid issuing a forestry allocation plan by 30 June 2010³. If there is no allocation plan in place, there is no legal obligation to allocate units, [withheld].

¹ Assumes a carbon price of \$25.

² This is based on approximate estimates of the deforestation that could occur on exempt areas.

³ The CCRA states that applications for the less than 50 ha exemption must be submitted by 30 June 2010. This implies that a final Forestry Allocation Plan is issued by this date.

9. If sectoral entry dates are delayed there will be no domestic demand for units generated from the post 1989 forestry sector. In order to ensure sufficient buyers for these units, the Government could consider setting up guaranteed purchasing arrangements for units generated from forestry. There would also be a strong case for permitting exports of units from the post 1989 forestry sector.
10. In the event forestry is the only sector covered by the ETS until 2013, it would be desirable to make a number of amendments to the forestry aspects of the existing legislation. Technical amendments to improve the workability of the Act include those relating to tree weed exemptions and carbon accounting areas.
11. These amendments are not essential, but are strongly recommended in order to implement a workable scheme that only includes forestry. These have been outlined in detail in briefing note 09-B-02391.

International impacts and other considerations

12. **[withheld]**.

13. If sector entry dates are to be delayed, officials recommend retaining the current reporting schedules in the Act. Mandatory reporting is currently due to commence for the SEIP and LFF sectors on 1 January 2010. For the agriculture sector, voluntary reporting is due to commence on 1 January 2011 followed by mandatory reporting in 2012. Retaining these reporting schedules would assist sectors with managing their emissions and preparing for entry to the NZ ETS in 2013.

Recommended Action

We recommend that you:

(a) Note the contents of this briefing:

Yes/No

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