NZSF
NEW ZEALAND SHIPPING FEDERATION

27 February 2020

etsconsultation@mfe.govt.nz

Submission on Reforming the New Zealand Emissions Trading Scheme: Proposed settings

Thank you for the opportunity to submit on the reform of the NZ emissions trading scheme.

Members of the Federation are:

Coastal Bulk Shipping	*www.coastalbulkshipping.co.nz*	*Anatoki*	Bulk cargo
Coastal Oil Logistics (COLL)	*www.coll.co.nz*		
Holcim	*www.holcim.co.nz*	*Buffalo*	Cement
Interlslander	*www.interislander.co.nz*	*Aratere*	Cook Strait ferry
		Kaiarahi	Cook Strait ferry
		Kaitaki	Cook Strait ferry
NIWA	*www.niwa.co.nz*	*Tangaroa*	Research
		Kaharoa	Research
Swire/Pacifica	*www.pacship.co.nz*	*Aotearoa Chief*	Cement
		Moana Chief	Container cargo
Silver Fern Shipping	*www.sfsl.co.nz*	*Kokako*	Fuel
		Matuku	Fuel
StraitNZ - Bluebridge Cook Strait Ferries	*www.straitnz.co.nz*	*Straitsman*	Cook Strait ferry
		Strait Feronia	Cook Strait ferry

You will be aware that ships are an environmentally attractive way to move people and goods. The Ministry of Transport is about to release an externalities study that we believe demonstrates the significant burdens that are removed from the land transport system by ship transport. We are hoping that they will be modelling the reduction in carbon emissions as well as the financial and social benefits of having trucks off the main trunk roads.

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Fuel is often the largest expense in operating a ship. The cost of the ETS credits can amount to approximately NZ$1million per vessel, depending on a range of operational factors such as distance travelled. Obviously ships such as the Cook Strait ferries, which have shorter stops between voyages, will use more fuel than a ship which berths for longer periods to discharge cargo.

Competition with International ships

We recommend an urgent review of the application of the ETS to ships.

A coastal ship is liable to purchase ETS credits whereas an international ship is not.

The current regime means that similar ships carrying identical cargoes between identical ports, even with the same ultimate owners, have an ETS obligation that varies from ship to ship in a way that has no bearing on incentives or emissions. It means that there is a cost *disadvantage* to coastal ships, in addition to NZ employment terms and conditions, including but not limited to remuneration, and GST. The international ship is also likely to have income tax advantages and may even have subsidies.

Under the current regime, coastal ships pay for full ETS credits in respect of their fuel consumed. International ships operating on the New Zealand coast are outside the scheme. In effect, this gives international ship operators a huge financial bonus and a competitive advantage as compared to the NZ coastal operators.

This advantage given to international operators comes on top of other NZ-government mandated advantages given to international ships in our waters. Taken together, there is a risk that the small number of coastal operators who are directly competing with international ships will cease operation as coastal ships. This might mean that they cease operation or it might mean that they restructure their ownership and operations so that they fall outside the NZ ETS.

We do not understand why there is no exemption from the NZ ETS for coastal ship operators who are directly competing with international ships. A perverse outcome is increasingly likely as the cost of NZ ETS credits rises.

Application of ETS scheme where there are no better alternatives

We understand that the ETS is intended to incentivise the reduction of emissions.

The fuels used by SOLAS vessels are mandated by the International Maritime Organisation.

You may be aware of the requirements of MARPOL Annex VI, which sets the fuel standard for SOx emissions. Annex VI has not yet come into force in New Zealand due to decisions of the New Zealand government.

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The supply chain for fuel to ships is via a limited network of bunkers around New Zealand. If the government has a genuine concern about the emissions from oil-based fuels, it needs to establish a supply chain for a better alternative, possibly LNG or hydrogen. In the absence of government movement on this, all vessels will continue to use the only available fuel, which is oil-based fuel. A change to an alternative is not possible if the fuel is not available. It is a classic chicken-and-egg situation.

In the absence of any government intervention in the fuel supply chain, it makes no sense to use the ETS to impose additional costs onto ship operators. For that reason, we believe that the exemption that is already applied to international sips, should be applied to New Zealand coastal ships.

Again, thank you for the opportunity to comment.

Annabel Young
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