

Topics for NZ ETS Review 2015/2016 consultation

About the consultation

The Government is reviewing the New Zealand Emissions Trading Scheme (NZ ETS) to assess how it should evolve to support New Zealand in meeting future emissions reduction targets and its ongoing transition to a low emissions economy. This follows the announcement by the Government in July this year that New Zealand's post 2020 target is to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030.

The Ministry for the Environment is leading the consultation and welcomes your feedback on how the NZ ETS is working and how it might work better in the future.

The review will focus on:

- some transitional measures introduced to moderate the impacts of the NZ ETS
- what is required for the NZ ETS to evolve with changing circumstances including future targets
- operational and technical improvements.

Discussion document

For more information about the consultation, read our [discussion document](#). It sets out the issues on which the Government is consulting, the objective and drivers for the review. It also contains the terms of reference for the review.

See the following two technical notes for information on specific issues relating to forestry and on operational matters that could be improved. Submissions on these matters close at 5pm on 30 April 2016.

- [Operational matters technical note](#)
- [Forestry technical note](#)

The following three technical notes were made available to support submissions on the NZ ETS review's priority issues. Submissions on priority issues are now closed.

- [The New Zealand Emissions Trading Scheme evaluation report 2016](#)
- [Economic impacts of removing NZ ETS transitional measures](#)
- [Afforestation responses to carbon price changes and market certainties.](#)

Closing dates for submissions

- Submissions on priority issues closed at 5pm on 19 February 2016
- Submissions on other review matters close at 5pm on 30 April 2016.

Publishing and releasing submissions

All or part of any written submission (including names of submitters), may be published on the Ministry for the Environment's website www.mfe.govt.nz. Unless you clearly specify otherwise in your submission, we will consider that you have consented to website posting of both your submission and your name.

Contents of submissions may be released to the public under the Official Information Act 1982 following requests to the Ministry for the Environment (including via email). Please advise if you have any objection to the release of any information contained in a submission and, in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information. We will take into account all such objections when responding to requests for copies of, and information on, submissions to this consultation under the Official Information Act.

The Privacy Act 1993 applies certain principles about the collection, use and disclosure of information about individuals by various agencies, including the Ministry for the Environment. It governs access by individuals to information about themselves held by agencies. Any personal information you supply to the Ministry in the course of making a submission will be used by the Ministry only in relation to the matters covered by this consultation. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that the Ministry may publish.

Contact for queries

Please direct any queries to:

Phone: +64 4 4397400

Email: nzetsreview@mfe.govt.nz

Postal: NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143

Questions to guide your feedback

The questions below are a guide only, and all comments on topics are welcome. To ensure your point of view is clearly understood, please explain your rationale.

Contact information

| | |
|---------------------------------|-----------------------|
| Name | C Patrick Anderson |
| Organisation (if applicable) | |
| Address | ██████████ ██████████ |
| Telephone | ██████████ |
| Email | ████████████████████ |

Submission Form

Discussion Document

Context and drivers for the review

1. Do you agree with the drivers for the review?

Yes

2. What other factors should the Government be considering in this NZ ETS review?

Ecological and Environmental benefits of a robust ETS and the international credibility that will give.

Moving to full surrender obligations – submissions on these priority issues closed on 19 February 2016.

Managing the costs of moving to full surrender obligations– submissions on these priority issues closed on 19 February 2016.

Other issues: business responses to the NZ ETS

9. Do you consider the future cost of emissions in your business planning?

Yes

If yes, how do you do this?

We consider suitable resources available against price, the perceived reliability of the scheme and the marketing advantages.

10. What would improve your ability to take into account the future cost of emissions in your business planning?

Certainty

A rising only floor price and promise of no interference

Other issues: protecting competitiveness through free allocation

11. Under what conditions should free allocation rates start to be reduced after 2020?

Answers to this question should be ignored, they rely on subjectivity and self-interest and do not consider the reasons for an ETS

Immediate full liabilities must apply to everyone if universal climate change mitigation is to be meaningful.

12. What impact would it have on your investment decisions over the next few years if there was a clear pathway or criteria for phasing out of free allocation after 2020?

Better to not have to consider phasing out in the first place.

Again, leads to questions as to integrity now and in the future.

Other issues: managing unit supply - forestry

13. How does the carbon price impact your forestry investment decision-making?

In your answer, we are interested in the:

a) extent to which the NZU price impacts decisions, compared to other factors

The price must be at a level that makes other factors such as certainty that expected long-term alternative production returns are unattractive.

b) impacts of the current price, and of your expectations for future prices.

The current prices resulted in two things,

1/ Minimal investment in forestry and the banking of credits.

2/ The expectation for future investment is for prices well in excess of \$25 (which gives a net return of less than \$300 per Ha pa, in pines ebit) and geared to future land and planting costs and/or international markets.

3/ There should be no ceiling price, the higher the price the higher the participation

4/ IPCC predictions may come close for future prices

14. Are there opportunities for the NZ ETS to increase incentives for forestry investments, outside of NZU price?

Yes

15. What are your reasons for the above answer? If you answered yes, we would be interested in comments on:

a) any barriers to participating in the NZ ETS that could be reduced

The main barrier is the surrender cost at harvest.

And more important, for prospective ETS foresters the justifiable perception that the ETS is just another “load of hot air”

b) other factors.

Government should remember the integrity of governance is like a fire, once kindled it is easy to maintain but once lost it is an arduous task to rekindle.

Apologies to Socrates

Other issues: managing unit supply – international units

16. If international units are eligible for NZ ETS compliance in the 2020s, should any of the following restrictions be placed on their use

a) restrictions on where units can be sourced from (location of and/or types of projects)

Yes

And on the credibility and integrity of the source

b) restrictions on how many units can be surrendered

Yes

Please explain your answer.

Past attempts to circumvent obligations were inexcusable especially in knowledge that other partners in the ETS took action to ban the use of unauthenticated unit sales.

The start date must be 2016 to have any credibility, again in an attempt to regain any integrity.

Other issues: managing unit supply – auctioning

17. Should auctioning be introduced in the NZ ETS?

No/But

Please explain your answer.

With the uncertainty this brings and based on past experience we believe there will be very little uptake by small foresters.

If the averaging was done annually there may be some advantage during steady price gains and adjusted floor pricing.

19. How should auctioned NZUs relate to other sources of unit supply in the NZ ETS, especially NZUs generated through forestry removals and/or international units?

Government purchase only

Other issues: managing price stability

20. What impact has carbon price volatility in the NZ ETS had on your business?

c) Significant.

Please explain your answer.

We immediately ceased afforestation and were thankful we had not committed a greater area. We also banked all credits when the price dropped below \$20. (Now under \$25)

21. Do you think measures should be in place to manage price stability?

Yes

Please explain your answer

All of the above, there must be certainty, adequate and increasing returns and the hope there will trust in any proposal.

22. What do you consider are important factors for managing price stability?

b) **A realistic and fixed floor price not less than \$25**

No ceiling and adjusted in line with international best prices.

23. What should the Government consider when managing price stability?

The confidence of sequesters to increasingly contribute land, time and start- up funding.

The original start- up funding at the then current replant price and land value increases should be removed from any liabilities at harvest and take into account opportunity costs if more profitable land use opportunities arise. ie, honey production crops.

Other issues: operational and technical matters

24. Are you aware of ways the administrative efficiency of the NZ ETS could be improved?

Unsure, but on reading the latest Forestry Technical Note we are sure there will have to be a simplified management model. If professional administration must be used these costs should be removed from harvest liabilities.

Another reason for the smaller potential participants not bothering to get involved.

25. Can you provide further information to support your answer?

We would be interested in comments on:

a) complexities involved in NZ ETS participation

b) penalties for breaching NZ ETS obligations

Losses through local natural incidents should be exempt if regenerating or replanted

c) any technical or operational changes that could be made to the NZ ETS to improve efficiency.

Other issues: addressing barriers to the uptake of low emissions technologies

26. Are there any barriers or market failures that will prevent the efficient uptake of opportunities and technologies for reducing emissions?

YES

27. If so, is there a role for the Government in addressing these barriers or market failures and how should it do this?

They could initiate a commission of enquiry with parameters that best suit their electorate and self interest.

Any other comments related to issues set out in the discussion document

28. Please comment here

The government now has a good reason for promoting the ETS but they should remember 60% of the units will be banked. That value will not be circulated in economy by the prudent.

Or put into afforestation.

[NB: Separate consultation form]

NZ ETS review: Forestry technical note

The following questions relate to information presented in the Forestry technical note.

Existing structural design settings

F1. What do you consider are the strengths and weaknesses of the NZ ETS forestry settings?

Few strengths, for weaknesses see below

F2. Do the NZ ETS forestry settings discourage deforestation? If not, what settings do you think would?

Yes / But

Please explain your answer

Deforestation is a discouragement only to ETS participants, principally because of the surrender commitment.

For those not already in the scheme there is no incentive at present that will discourage deforestation .

ETS participants must consider the downside at harvest:

- 1/ Cost of harvest**
- 2/ Distance from mills or harbours**
- 3/ Surrender units which must be sufficient to cover the liability. These units must be saved and are therefore of no immediate value over the 30 year growing period. Averaged or not.**
- 4/ Will the harvest returns be in excess of the unit surrender value, no guarantee?**
- 5/ Will membership be an advantage at time of sale?**

It becomes perhaps necessary to plant outside the ETS to cover for possible shortfalls.

F3. Do the NZ ETS settings incentivise afforestation and replanting? If not what settings do you think would?

No

Please explain your answer

Basically, see the above, certainty, simplicity, modified liability at harvest.

Under the terms set out here we will not in future partake, except perhaps with no intention to harvest

F4. Does the NZ ETS provide effective incentives for smaller foresters to participate in the scheme? If not, what settings do you think would?

No

Please explain your answer

For smaller farmers the complexity of the management is daunting, as are the overhanging penalties, compliance, and no faith in the promised returns.

The harvest surrender penalties mean less than 40% of returns are actually available for redemption under present rules, less again with up to 30% tax on selling means only a fool will participate, unless there is no harvest, then understandably diminishing returns under a radiata regime.

We have no answer as to what settings will help, only a price that makes the remainder after surrender units harvest sales and tax are covered, meaning a unit value far in excess of the presently proposed floor price.

The PFSI may be the best option

F5. Does the NZ ETS work well alongside other forestry programmes? If not, how do you think these programmes could be better aligned?

NO: for farm foresters

Please explain your answer

There is poor integration with PFSI and not much for the owner in the AGS after surrender obligations.

F6. What changes could be made to NZ ETS forestry sector provisions to improve the scheme?

Many, mainly certainty and integrity

Future forestry accounting in the NZ ETS

F7. What are important factors when considering changes to forestry accounting settings in the NZ ETS?

F8. Do you think a different forestry accounting approach in the NZ ETS would change the scheme's incentives for afforestation?

Yes

Please explain your answer

Averaging

F9. Do you think averaging should be introduced for post-1989 forests? If so, why?

Yes /But

Please explain your answer

Who knows what the future may bring, presently it is seen as very uncertain.

Under averaging the net returns model will probably be a disincentive and can the model be more than just a model?

For small forests it may be attractive but who sets the average and the annual impact will probably be a disincentive to future planting. Particularly if the shock comes at the end of 5 years

Do you think it should it be optional or mandatory?

Optional

F10. Should there be limits on the types of forests that can use an averaging accounting method? For example, new forests only or forests under a size threshold.

Unsure

Please explain your answer

F11. How might averaging impact on your business decisions?

We perceive the returns after tax will remain a disincentive to foresters if under return of \$25/unit

For instance, when surrendering credits they will be discounted probably about 60% then the remainder taxed at between 20 and 30% leaving as little as \$7.50 per unit.

Harvested Wood Products

F12. Do you think deferred liability for emissions from Harvested Wood Products (HWPs) should be recognised domestically? If so, how?

Yes

Please explain your answer

We believe the HWP's should amount to very close to the surrender units.

1/ The saw tooth is an ever ascending graph, not a complete cut-off every 30 years the HWP outlasts the next cycle

2/ We believe with tax added cheaper cuts ie, pallets now sent to waste will be made more valuable and therefor made to last as long as possible. Paper will be incentivised to be recycled.

3/ Building timbers should be given a longer than 50 year use life

F13. How might the options for deferred liability for emissions from HWPs impact on your business decisions?

If believed reliable they will encourage more planting, and remove or reduce the surrender value,

If prices increase they and prices based on harvest time prices perhaps.

Then averaging could be more attractive.

Other

F14. Do you have any other comments or things you think are important?

Yes, we think it might be better to encourage the PFSI model.

There is a lot of land available in locations difficult to harvest.

The rules for limited harvest are in place.

There are many interested in locking up valued or marginal land for future generations ie, QE2.

This initiative is a minimal entry cost option and in fact financially encourages membership and has no future surrender obligations.

Ownership transfer is transparent, income is at present value, there are obligations but not monetary unless rules are broken.

Succession and transfers between joint owners is simplified.

Vastly simplified administration/costs

Longer lived indigenous and /or exotic trees would be an attraction on the more accessible land. It also avoids the economically necessary a monoculture we have now and the vulnerability that goes with it.

This would encourage innovation eg, smaller rotational selective harvesting.

ie, allowing managed 5year cycle options.

Dairy farm riparian strips could comply, again an ecological advantage, aesthetically pleasing, provide shelter and generate hopefully reliable, alternative income.

More attractive to present sceptics and not tainted yet by political self-interest.

But can NZEUs be transferred ?

[NB: Separate consultation form]

NZ ETS review: Operational matters technical note

The following questions relate to information presented in the Operational Matters Technical Note, which can be found [here](#).

Encouraging compliance with NZ ETS requirements

OM1. Do you encounter challenges when completing New Zealand Emissions Trading Scheme (NZ ETS) requirements, such as meeting your emissions reporting or surrender requirements?

Yes

What are these?

What would overcome these challenges?

OM2. What is your opinion of the tools available to regulators to correct errors and address non-compliance?

What would help improve these tools?

OM3. Are there options, not already included here, for improving compliance with emissions reporting and surrenders?

Yes

No

Unsure

What are they?

Disclosure of NZ ETS information

OM4. Does the current level of information available allow you to make informed decisions about your participation in the NZ ETS?

Yes

If not, please give examples of information you think would be useful, and how it would help you.

OM5. Are there any additional forms of information that would assist with your understanding of, or participation in, the market?

Transfer of participation for post-1989 forestry

OM6. Have you undertaken, or expect to undertake in the future, an NZ ETS transfer process?

No

If so, how well do you understand the transfer provisions?

The public's limited access to information about the NZ ETS status of land

OM12. What information on land status under the NZ ETS would be useful for your decision making?

Should be accessible through LIM reports.

OM13. Have you faced any problems in classifying forest land under the NZ ETS or in accessing information on forest land's NZ ETS status?

Please explain your answer?

OM 14. Do you think the Government should provide information on the NZ ETS status of land that is not already subject to the NZ ETS?

NO

If so, how would this help you?

Administration could be costly and anyway would be available on a case by case basis.

When your submission is complete

Email your completed submission to nzetsreview@mfe.govt.nz or post to NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143.

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