

SUBMISSION ON NEW ZEALAND EMISSIONS TRADING SCHEME REVIEW 2015/2016

To: **NZ ETS Review Consultation
Ministry for the Environment**

Name of submitter: **Bathurst Resources Limited**

This is a submission on the *other issues* identified in the Discussion Document and Call for Written Submissions.

Background

Bathurst Resources Ltd

1. Bathurst Resources Limited (**Bathurst**) made a submission on the priority issues. In that submission we provided background on Bathurst. We now wish to make a submission on the other issues set out in the Discussion Document.

Other Issues: Overall Comments

2. It is easy to lose sight of the fact that the purpose of a price signal on carbon is to incentivise a move from a high carbon economy to a low or carbon restrained economy. Such a price signal, be it imposed through a carbon trading market or a direct imposition of a carbon tax, can only incentivise a change in behaviour if the alternatives it seeks to promote exist, are feasible at a commercial scale and cost competitive.
3. If alternative technology does not practically exist then all such a price signal does is increase the cost of production, and at some point the producer will go out of business either as a result of imports that will undercut the cost of its products or because the purchasers of its products can no longer afford them. While both of these would achieve a lower carbon economy in New Zealand, one would simply be a displacement of where the carbon dioxide is emitted and the other the impoverishment of New Zealanders.
4. The other issue that should be borne in mind is the fairness of our response. Our internationally trade exposed industries should be expected to compete without assistance when there is a level international playing field where their trade competitors are subject to the same carbon input costs as they are. Unfortunately the commitments

proposed by our trade competitors under the Paris Agreement would not seem to be going to deliver this result. This leaves our exporters very exposed.

5. Exporting our current production to other countries by pricing our producers out of New Zealand will lead to greater emissions of CO₂ rather than less as some of those competitors are less efficient in their production methods.
6. New Zealand under the Paris Agreement is committing itself to a domestic limit that given current projections of national emissions that can only be met by:
 - Reduction in emissions in New Zealand; and/or
 - Purchase of units; and/or
 - Sequestration of carbon through forestry
7. While there may still be some opportunities for further domestic reduction in emissions (aside from wholesale closure of large emitting industries) without some as yet unknown technological breakthrough it must be acknowledged that these are limited as over the past 20 years all the “low hanging fruit” has been plucked. The bulk of our domestic emissions come from agriculture which is, rightly, exempt from the NZETS. This means though that the remaining sectors will bear a disproportionate cost of reducing emissions if these are to occur domestically.
8. With respect to increased afforestation it is likely that there will be significant deforestation during the term of the Paris Agreement when the peak plantings that took place between 1992-2000 reach maturity. Even if the level of new plantings were increased exponentially from today there will be a lag period until those plantings can sequester enough carbon to offset this deforestation let alone add additional sequestration to our national budget. Careful consideration needs to be given to whether afforestation is capable of delivering the expected levels of additional sequestration anticipated.
9. In our view this then places the focus squarely on New Zealand’s ability to purchase international units that can be used to show compliance with our national commitments.
10. At this stage it is hard to understand quite how any international market or markets will operate or how any units issued by any particular market will be substantiated or

accepted as valid for the purposes of a country meeting its Paris Agreement commitments.

Other Issues: Questions

***9. Do you consider the future cost of emissions in your business planning? Yes/No
If yes, how do you do this?***

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

11. Bathurst as a coal miner is very aware of the costs imposed both now and likely projected future costs. The product we produce is an essential input into the food and dairy processing industries in the South Island. While we can, and do, pursue any cost effective ways of mining coal we will of course continue to mine the coal itself.
12. Our ability to take into account the future cost of emissions would be improved if we knew with certainty what those costs would be. The current system of providing a cap on the cost of units is effective – this allows us to plan using the cap figure while seeking ways to reduce that cost through the purchase of cheaper units in the market.

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

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?

13. There needs to be a genuine level playing field with our international competitors before free allocation to internationally trade exposed industries is removed. If there is not then free allocation should continue. In addition there needs to be access to international markets so that we can purchase units at the most competitive price. However as mentioned above it is not known how any international market is likely to function in reality after 2020 and care needs to be taken that New Zealand does not find itself locked into high price markets or markets where the flow may well be negative i.e. more NZUs are sold offshore than units coming into New Zealand leaving New Zealand short of units. (Given our very small market we will always be at risk, if fully linked to other markets, of being hijacked by their pricing which may well be driven by political and other events over which we have no control).
14. Our investment decisions are driven by our predictions of what tonnages of coal our customers will require in future years. This in turn is driven by our customers'

expectations for the growth, or contraction, of their businesses. It may well be that if free allocation were withdrawn that some of our customers would actively seek to relocate their businesses offshore.

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

14 Are there opportunities for the NZ ETS to increase incentives for forestry investments, outside of NZU price? Yes/No/Unsure

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*
- b) *other factors.*

15. N/A

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)*
- b) *restrictions on how many units can be surrendered*
- c) *others (please explain).*

16. This goes back to the uncertainty of how any international market is going to function under the Paris Agreement. If a unit genuinely equals a reduction in CO_{2eq} emissions that that unit should be acceptable in New Zealand. A reduction in global emissions is the purpose of climate change actions. If this is achieved then any such unit should be acceptable. We can see no reason why there should be a limit on the number of international units that can be surrendered for these reasons. To not allow New Zealand businesses to meet their obligations at the lowest possible cost suggests that there are other drivers at work which are inconsistent with the goal of reducing global emissions.

17. Should auctioning be introduced in the NZ ETS? Yes/No/Unsure

If yes, when?

- a) *in the next two to three years*
- b) *within five years (before 2020)*
- c) *after five years (post 2020).*

18. **What should be the role or purpose of an auctioning function in the NZ ETS, if one were introduced?**
- to align supply in the NZ ETS more closely with our international target**
 - to more actively manage NZU prices**
 - other (please explain).**
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?**
17. One issue to be addressed before answering these questions is where the government is obtaining the units for auctioning. If they are kept back by the government as the result of further reduced allocation etc then our view is that the most effective way of addressing the issues of internationally trade exposed industries is to provide direct allocation rather than relying on auctioning.
18. Further the context of any auctioning would also need careful consideration. Given the shallowness of the New Zealand market protection and certainty needs to be given by having a cap on the price of units, as we do now. Also what is the government proposing to do with the proceeds of any auction?
19. Until an auctioning system is fleshed out in more detail we cannot give a more detailed answer to these questions. For us the overriding consideration is that there must be access to units, both domestically and internationally, at the lowest possible cost for New Zealand businesses. If auctioning were to assist in this, then we would in principle support auctioning.
20. **What impact has carbon price volatility in the NZ ETS had on your business?**
- minor**
 - moderate**
 - significant.**
21. **Do you think measures should be in place to manage price stability? Yes/No/Unsure**
22. **What do you consider are important factors for managing price stability?**
- upper price limits (eg, fixed price option, or a price ceiling implemented through an auctioning mechanism)**
 - lower price limits (eg, price floor)**
 - other (please explain).**
23. **What should the Government consider when managing price stability?**

20. To date price volatility has been manageable. This is in part due to there being a cap on the price of NZUs. As already said above, until such time as there are credible alternative technologies that can be economically adopted by major emitters, the imposition of a carbon cost really amounts to an impost or tax. Thus the price of this impost should be set and maintained, using all available tools, within a reasonable band to ensure that we continue to have viable major industries in New Zealand. There can be no point in exporting our emissions to other countries by incentivising our productive sector to move to countries with less rigorous controls and costs on carbon emissions.

24. Are you aware of ways the administrative efficiency of the NZ ETS could be improved? Yes/No/Unsure

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

21. Most of the day to day issues around the administrative side of the NZETS have been addressed over the past few years. We would ask that no significant changes be made to the administrative system without an adequate lead time for businesses to understand and implement any changes.

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

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

22. We have no specific comments to make here except to note that there has been much effort both in New Zealand and internationally to move economies to carbon constrained or low carbon economies with limited success (and exporting major emitting industries to other countries cannot be seen as a genuine reduction in emissions globally). Accordingly the question has to be asked as to whether the timeframes being put forward for reducing carbon emissions drastically in any developed economy are in reality feasible.



Signature of submitter
(or person authorised to sign
on behalf of submitter)

29 April 2016

Date

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