



Topics for NZ ETS Review 2015/2016 consultation

Contact information

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Submission Form

Context and drivers for the review

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

Yes

No

✓

Unsure

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

Agriculture- participation of agriculture needs to be discussed and reviewed.

Transparency- ETS cost pass through to consumer needs to be reviewed and made transparent. ETS emitters can arbitrage and make \$ from ETS under current settings by charging inflated prices to consumer for ETS costs.

Mechanism- type of mechanism i.e. tax versus ETS, should be reviewed. ETS performance has been failure to date:

- Emissions have increased
- polluters profit from increasing pollution (due to arbitrage and inflated cost pass through to consumer)
- carbon price too low to stimulate change in economy

- market open to 'gaming' such IETE entities trading free allocations, and forestry exiting/re-entering ETS
- Afforestation is down/ deforestation is up
- Millions of dollars exported overseas to buy units
- Millions of fraudulent units imported into NZ from Ukraine/ Russia effectively corrupting the ETS for years to come

Moving to full surrender obligations

3. Should the NZ ETS move to a full surrender obligation for the liquid fossil fuels, industrial processes, stationary energy and waste sectors?

Yes

✓

No

Unsure

3A. Please explain your answer:

- To equalize treatment of forestry and industry
- ETS has been a failure to date, increase demand for NZUs to stimulate carbon price which in turn will increase afforestation, and reduce emissions and help ETS become an effective policy tool
- Increase demand to reduce surplus of banked 140m NZUs
- Was intended as a transitional measure to soften implementation of ETS on economy and because of global financial crises. These factors no longer apply
- Full exposure to carbon pricing will quicken transition to low carbon economy, and help business plan ahead. Delay will add cost.

4. What impact will moving to full surrender obligations have on you or your business?

Please include specific examples or evidence of the impacts on you or your business of:

- a) increased carbon prices, including actions to reduce emissions and future investment decisions. Please comment on effects that may occur at carbon prices ranging from \$5 to \$50, including any evidence of actions taken previously when carbon prices were higher.
- b) any NZ ETS administrative or operational issues, for example the option for participants to apply for a unique emissions factor.

Increase demand forestry related services. I have noticed in recent months increase in interest due to carbon price improvements. To see interest turn into action will require a carbon price of at least \$15. However price alone is not enough. Also need stable and longer term policy to give certainty and confidence in investment (especially forestry). In 2008-2010 I was involved with two international investment groups to establish 200,000 ha of carbon forestry in NZ. When the National government amended the ETS and prolonged transitional measures the investors

walked. To regain investor confidence the NZ ETS will need cross political party support and at least 5 years of stable policy and carbon pricing.

Price on economy is minimal. NZIER reports only a -0.09% decrease in mean household spending at \$25/unit.

5. If full surrender obligations are applied, when should this be implemented?

a) 2016

✓

b) 2017

c) 2018

d) other – please specify

Outline the reasons for your answer, and include any comments on the pros and cons of applying an increased surrender obligation to a partial or a full NZ ETS reporting year.

Need to implement ASAP to stimulate the carbon market, give confidence to participants, and to reduce the NZU surplus of 140m before 2020

Managing the costs of moving to full surrender obligations

6. If the NZ ETS moves to full surrender obligations, should potential price shocks be managed?
Yes

No

✓

Unsure

6A. Please explain your answer:

There will be no 'price shock'.

- For consumers a price of \$20/unit will only cost approximately 5c/litre of fuel.
- For the Economy GDP decreases by -0.1% at \$25/unit
- Surplus NZUs will enter the market as price increases softening any sharp increases. This has been the pattern over last 24 months as the NZU price has increased sharply it then drops back and flattens as new supply hits from sellers.
- There is a \$25/unit price cap to act as safety valve
- The price should be >\$20/unit and most ETS participants factored this price into their forward planning. A return to these pricing would therefore not shock the market (but may remove some of the ETS emitters opportunity to arbitrage and profit).
- There was no price shock management as the NZU price declined sharply so should not be managed for any increase.

7. If potential price shocks associated with moving to full surrender obligations should be managed, how should this be done?

- a) maintain the fixed price option at \$25
- b) lower the fixed price option
- c) gradually move to full surrender obligation
- d) other methods.

7A. Please explain your answer:

No price cap unless a floor price of \$15/unit is also implemented to insulate from 'price shock' decreases and minimise the range of potential volatility. The fixed price should also be reviewed again in 2020. Lowering the fixed price option would seriously undermine the ETS.

8. If the \$25 fixed price surrender option value should change, what should it change to and why?

Either remove or do not change

Other issues: business responses to the NZ ETS

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

Yes

✓

No

If yes, how do you do this?

My business relies 100% on carbon forestry. Without an effective carbon price my business model is difficult.

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

Confidence and certainty. For example ongoing uncertainty about future supply and demand of NZUs based on Government policy on auctioning and use of international units undermines any ability to forward plan for the forest industry.

Other issues: protecting competitiveness through free allocation

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

Free allocations should be phased out immediately and replaced with reduced surrender obligations. I.e a EITE entities should not receive 90% allocation of NZUs. They should instead

only have an obligation to surrender 10% of their emissions. The allocation of units has enabled banking and also arbitrage for emitters that undermines the integrity and effectiveness of the ETS.

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?

Allow for prediction of future demand in ETS.

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

28. Please comment here

The ETS performance has been marred by failure, partly through lack of policy foresight, partly from the inability to quickly address issues when they arise, but mostly from the lack of a clear objective to enable long term planning and confidence for participants.

It was pointed out by myself and others continuously about the issue of international units oversupplying the ETS, the lack of environmental integrity, and the potential damage caused. Nothing was done for years to address these issues. Now the flood of overseas units has left a huge negative legacy and potential fiscal cost that will affect the ETS for many years to come.

This review is playing catch up by finaling acknowledging these issues, and looking to resolve them. While this is positive, the Government needs to ensure that the histories mistakes are not repeated.

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.

Submissions on Priority issues close at 5.00pm on 19 February 2016.

Submissions on Other matters close at 5.00pm on 30 April 2016.