

## 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](http://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](mailto: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	Peter Oliver
Organisation (if applicable)	City Forests Limited
Address	PO Box 210, Dunedin 9054
Telephone	████████████████████
Email	████████████████████

# Submission Form

## Discussion Document

### 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?

**The early inclusion of all sectors in the ETS, including agriculture.**

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**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?

**Yes. A full cycle of sequestration and emissions are modelled on a two forestry-rotation cycle and various NZU price scenarios are considered both in forest valuation and long-term budgeting.**

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No

If no, please explain your answer?

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

**Legislative and participant certainty: the delay of certain sectors' entry (e.g. agriculture) or full entry (e.g. 2 for 1 subsidy recipients) into the ETS, along with the unfettered access to ERUs caused a collapse of the NZU market and the consequent evaporation of new forest investment. In addition the sudden and non-notified halting of forestry participants' access to ERUs while**

allowing other non-forestry participants to continue using these international units to meet their obligations created a massive loss of confidence in both the scheme and the Government's willingness to manage it competently and equitably. In addition, uncertainty about future floor and cap price and continuance has added to this lack of confidence.

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**Other issues: protecting competitiveness through free allocation**

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

**The scheme must be allowed to operate in a reasonably unfettered manner in order to create behaviour change, and new forest investment. Free allocation rates should be reduced as soon as possible.**

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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?

**In so far as phasing out free allocation resulted in a stronger carbon price, City Forests would most likely seek to invest a significant proportion of proceeds from carbon transactions in expanding its forest estate, particularly new forest establishment. A strong carbon price gets us back in the rural land market as a competitive purchaser.**

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

**Answered in questions 10, 11 and 12 above.**

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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.

**The simplest and most effective incentive is by far the NZU price. However introducing Averaging or including Harvested Wood Products could significantly reduce forestry's future liabilities, particularly for larger Plantation owners as opposed to narrow-aged Woodlot owners. This could lead to a greater volume of tradable NZUs, which to some extent may compensate for a lower NZU price.**

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## 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**

b) restrictions on how many units can be surrendered

c) others

Please explain your answer.

**The inclusion of International that lack international credibility (such as ERUs) have been shown to have a profound effect on the NZU price. Only units from genuine and independently audited carbon reduction schemes should therefore be considered for use. There is also a risk that a mismatched scheme may result in the NZ scheme being dominated (and consequently the NZU price and supply being beholden to forces predominantly beyond NZ's borders.**

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## Other issues: managing unit supply – auctioning

17. Should auctioning be introduced in the NZ ETS?

Yes

No

**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?

a) to align supply in the NZ ETS more closely with our international target

b) to more actively manage NZU prices

c) other

Please explain your answer.

**We would prefer to see the scheme operate with a minimum level of political interference. The introduction of Auctioning risks a future Government arbitrarily picking winners amongst sectors, for example to drive down the NZU price and satisfy a favoured, and perhaps voting-rich sector, i.e. for reasons other than emissions reduction.**

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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?

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### Other issues: managing price stability

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

a) minor

b) moderate

c) significant.

**YES**

Please explain your answer.

**City Forests has a major stake in a fully functional ETS with strong NZU prices. Strong NZU prices are a game-changer for our business in terms of forest investment and rural land competitiveness. Volatile NZU prices create major uncertainty for land prices under forest and future forest cash flows.**

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

Yes

**YES**

No

Unsure

Please explain your answer

**Only in so far as the ETS is allowed to operate in a reasonably unfettered and equitable manner without effectively shielding “favoured” industries from the costs of their emissions.**

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

a) upper price limits (eg, fixed price option, or a price ceiling implemented through an auctioning mechanism)

b) lower price limits (eg, price floor)

c) other

Please explain your answer

**Neither. The most important mechanism is legislative certainty with a consistent exposure across all sectors to the true costs of their emissions, and some restrictions on the availability of international units for meeting obligations as earlier described.**

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

**What will the impact be on forest investment, which is the most efficient mechanism for offsetting the country's emissions.**

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### Other issues: operational and technical matters

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

Yes

No

**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.

**The ETS design is about right, but needs to be allowed to operate without interference (e.g. 2 for 1 subsidy, extended and uncertain sector entry dates etc., and access to low quality international units for meeting surrender obligations).**

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### 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?

**The most efficient means of reducing net emissions is to plant more forest. Therefore any changes that increase the incentives for new forest planting would be welcome and effective.**

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

**Removing current protections such as 2 for 1 subsidies and extended ETS entry time-frames.**

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

28. Please comment here

**No other comments to make.**

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**[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?

**The forestry settings are generally about right and the scheme is administered reasonably well. The exception is the current "instant oxidation" provision at harvest. We would favour a move to Averaging or the inclusion of Harvested Wood Products.**

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

Yes

**YES**

No

Unsure

Please explain your answer

**Deforestation liabilities are significant. Furthermore, a strong NZU price is a positive driver for keeping land in forest. This should be supported through the removal of non-forest sector protections and the restriction of access to low quality international units.**

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

Yes

No

Unsure

Please explain your answer

**Partly. The NZ ETS forestry settings are about right with the exception of “instant oxidation” (as discussed above). However the scheme’s primary driver of new afforestation is NZU price.**

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

Yes

No

**NO**

Unsure

Please explain your answer

**NO. Narrow-aged and small plantations are problematic for participation in the scheme as liabilities and the risks associated with NZU volatility outweigh the potential benefits for small block owners.**

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

Yes

No

Unsure

Please explain your answer

**UNSURE.**

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

**Removing “instant oxidation” and replacing with Averaging or inclusion of HWPs.**

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## Future forestry accounting in the NZ ETS

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

**Simply whether changes will result in greater incentives for new afforestation, particularly for the ability of forest investors to compete for rural land.**

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

Yes

No

Unsure

Please explain your answer

**YES. Removing "instant oxidation" and replacing with Averaging or inclusion of HWPs.**

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## Averaging

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

Yes

No

Unsure

Please explain your answer

**UNSURE. While this appears to be a good option, there is uncertainty about how to apply it. For example, owners of forest on poor quality land could be significantly advantaged by this approach, and conversely those with forest on good quality land may end up effectively subsidising the former.**

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Do you think it should be optional or mandatory?

**Optional, for the reasons outlined above.**

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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.

Yes

No

Unsure

Please explain your answer

**UNSURE. A significant question arises about how to deal with units previously allocated for forest above the average level; how to set the average level.**

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F11. How might averaging impact on your business decisions?

**Much will depend on the answers to questions 9 and 11.**

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## Harvested Wood Products

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

Yes

**YES**

No

Unsure

Please explain your answer

**YES, although the design of the scheme is critical. It does create a risk that the incentive to hang onto forest is removed if a significant proportion of future liabilities is simply removed to the HWPs. There are also significant issues around how to equitably calculate HWP storage. Some long-lived HWPs may be unfairly disadvantaged for example if HWPs are averaged.**

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

**May create a stronger incentive to replant to offset future liability from “decaying” HWPs. Will probably create more “tradable” or units from sequestration (increase their liquidity) as the level needing to be reserved to meet future liabilities is likely to reduce.**

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## Other

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

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[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

No

Unsure

What are these?

**Yes. In my view the minimum gap size limits are still too tight for business as usual plantation forestry.**

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What would overcome these challenges?

**Larger gaps allowed - at least 2 hectares, and at least 50 metres.**

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

**Satisfied that they are reasonable.**

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What would help improve these tools?

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

Yes

No

Unsure

What are they?

**NO**

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### 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

No

Unsure

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

**YES**

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

**NO**

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### Transfer of participation for post-1989 forestry

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

Yes

No

**NO**

Unsure

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

**NO**

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OM7. Have you encountered issues with NZ ETS land transfer requirements?

Yes

No

Unsure

If so, what issues did you have?

**NO**

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OM8. Do you think the NZ ETS transfer requirements should be changed or simplified?

Yes

No

Unsure

If so, how?

**UNSURE**

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### **Tree weed exemption provisions under the Climate Change Response Act 2002**

OM9. Have you encountered any problems with the tree weed exemption process?

Yes

No

Unsure

Please explain your answer?

**NO**

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OM 10. Have you encountered issues in complying with the conditions of a tree weed exemption?

Yes

No

Unsure

Please explain your answer?

**NO**

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OM 11. Do you think the tree weed exemption provisions could be improved?

Yes

No

Unsure

If so, how?

**NO**

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### **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?

**See answer to q13 below.**

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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?

Yes

No

Unsure

Please explain your answer?

**Ready access to registered land GIS shape file information would be useful for land purchase appraisals.**

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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?

Yes

No

Unsure

If so, how would this help you?

**UNSURE**

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## When your submission is complete

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

**Submissions on priority issues closed at 5pm on 19 February 2016**

**Submissions on other review matters close at 5pm on 30 April 2016.**