

## 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.

Some transition measures are being given priority and have the first deadline for submissions as they may be candidates for legislative change in 2016 (see closing dates for submissions below). Refer to the discussion document for detail on the priority and other matters under review.

Technical notes on the following specific issues will be available in December or early 2016 to support submissions:

- modelling of the impacts of the priority issues outlined in the discussion document
- forestry sector matters, including accounting methodologies for post-1989 foresters
- operational and other technical matters.

To be notified of when these technical notes are available, please email [nzetsreview@mfe.govt.nz](mailto:nzetsreview@mfe.govt.nz).

### Closing dates for submissions

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

You may make submissions on both priority issues and on the other matters. If you provide feedback on both you can do so in a single submission or separate submissions. Please note submissions on priority issues must be received by 19 February 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

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# Submission Form

## 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?

The ETS has been designed as NZ's primary response to Climate Change. As such it is intended to drive change in how New Zealand moves from business as usual to new low or zero emitting forms of business.

To date the ETS has been handicapped by various changes such as

1. Having Agriculture removed from all biological emissions
2. Having a 2 for 1 surrender obligation
3. Allowing access of highly dubious International units into the scheme effectively giving a carbon cost as low as 2 cents per tonne for periods

These all combined to effectively render the scheme a Claytons drink.

If the Government wants the ETS to really become its main tool to effect change in the economy it needs to provide very clear signals to all parties (both unit supplier's and emitters) that this is so with a clear intent that the scheme will not be changed/parked up/side-lined to give certainty. Until this is clearly spelt out and believable all parties will not treat the ETS as being serious and credible.

From a forestry perspective this is critical as the timeframes to make investments in forests is long term. Based upon the responses from the government to date from the inception of the ETS it will take a very strong signal and show of intent to get parties re engaged into treating forestry for offsetting as a serious investment with normal business risk. We do not expect a zero risk game for forestry but it should not be expected to take more risk as the "Good Guy" and see the polluters rewarded and the forestry sector penalized on a political whim.

Until this core signal of intent is given no changes made to the ETS will be treated with any degree of certainty by the forestry sector, and I believe the emitters, as the track record to date is one of changes being made to suit an agenda which does not really want to take climate change seriously.

The other major issue is the continual exclusion of agriculture from the ETS for its biological emissions.

This is summed up well in the Westpac report - The Paris Agreement : What it means for the New Zealand Economy 4 February 2016.

Instead of going over the detail in this submission the main points it makes are ones that have been continually spelt out by the forestry sector to government.

1. This is a large subsidy to farming - both in not paying for its emissions which the taxpayer then meets
2. Funding research for agriculture again funded by the general taxpayer.

Agriculture is doing itself no favours by being removed as when the time comes it has to face them (The government may not be able to fund them, Voters get sick of paying for them, markets are unhappy with this) it will be a bigger shock than working into them.

It is also a major distortion in how capital will be invested in this country and will lead to serious imbalances and poor investment decisions which will cause serious economic harm. This is already occurring in distorted and over inflated land prices.

Landcorps announcement to plant over 10,000 ha of forestry and offset all its biological emissions shows it can be done as this is also based upon rational economic land use and investment returns.

Overall long term certainty post 2020 is critical and a clear intent to maintain consistency is paramount.

## 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

This should be introduced at the start of 2017. This will give a clear signal that there is real intent to the scheme and the government is serious about meeting its 2030. There is ample supply of units in the registry to meet the demand for a number of years. A 2017 start also allows a period of time for the emitting sectors to prepare for this start date.

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.

As discuss in question 1 the key factor we are looking to is a clear intent to allow the ETS to operate as it is meant to.

From the inception of the ETS our company went from establishing virtually no new forest to financing and planting over 1,000 hectares of new forest for several years based on timber and carbon values. This was based upon a carbon price of @\$18 - \$20 with belief it would over time rise to between \$25 - \$30 per tonne.

For forestry a carbon price of between \$16 to \$20 per tonne is required to drive new investment (the caveat being sound and believable long term government policy on the ETS as well). The catch here is with Agriculture being excluded we see land price being distorted higher and hence it is possible that if agriculture is excluded in the future the carbon price will have to be even higher to compete with a subsidised industry that can drive prices higher as it is not exposed to costs all others are.

One interesting conversation I had with a Taranaki soil conservator was when the carbon price was at \$18 to \$20 he had managed to get more eroding hill country land retired into regenerating native forest or planted in 2 to 3 years than he had managed to get done in the previous 25 years combined!!! This obviously has massive benefits in terms of soil and water, downstream flooding on highly productive land etc.

Price is important but the main key is belief by investors that that government policy shows clear intent to supporting the ETS into the future.

If this is provided we strongly believe we will see increased rates of afforestation occur.

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

2017

We need to start reducing the overhang in the registry and incentivising belief and financing in afforestation. It takes time to start new planting in terms of land, nurseries and labour and if the government wants increased action from 2020 it needs to start now. It should not be forgotten that new planting does not start to produce meaningful amounts of carbon for 2 to 4 years so the need for more offsets in the 2020s needs to be started now.

This gives time for emitters to plan in the sectors involved as they are few in number and can easily manage the transition to higher volume of credits needed.

## 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?

Unsure

If upper price shocks are to be managed by a cap then lower price shocks should also be managed in terms of a floor price.

The key point we see is to remember why we have an ETS - it is to drive behavioural change. Using a market is a means to do this but the ultimate goal is to get the change in place and then have no need for an ETS at all.

In this context a range may be appropriate but this will depend upon what the Governments off shore options are in unit supply post 2020. If international units are below \$20 per tonne this will stop all internal offset or mitigation - this would not be acceptable in the eyes of international partners.

In this case we will need to have a floor price to allow internal offset and changes occur.

As the papers show carbon prices below \$50 virtually have no effect anyway to achieve the stated goals. Barring a major technological breakthrough on reducing emissions cheaply international units will have to be higher to have any credible chance of achieving reductions in the world. Low unit prices now are condemning future unit prices to be even higher.

To put it in perspective a trip to the local supermarket gives you 4 to 8 cents per litre discount coupon on fuel. This is equivalent to a carbon price of \$25 to \$30 per tonne.

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

Other methods.

In the short term with an internal based trading system the \$25 option should be retained in 2017 but raise by \$1 per year to reach \$28 in 2020. A floor price could be instituted but again if there is a clear signal that the ETS will be driven by certainty and a desire to have internal action we believe the market will respond in terms of price. The caveat on this is the policy and allowance of offshore units into the NZ ETS post 2020. If we repeat, or show the intent to allow, the influx of cheap credits into the ETS there will be a low uptake by forestry.

In 2020 the price cap should be lifted to \$30 and allowed to rise by \$1 per year. The cap price then allows emitters to buy units from the Crown if required.

This sets out a clear signal to emitters that costs will increase. At these levels of price afforestation becomes very attractive and as per Bruce Manleys paper a response will be

forthcoming in terms of new planting. This avoids any need for an auctioning system to be set up as the price cap acts as the defacto auction price that units can be bought at by emitters.

In terms of price shocks again this comes back to what is the importance of climate change. As 200 countries have signed up to limiting warming and we have a 2050 target of 50% reduction this pricing level will be required to avoid the massive economic costs of higher emission's - Are we serious or not?

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

The price should not change downwards at all.

This is a major point for forestry as although there is a 2 for 1 in reality forestry gets a set price for its units.

Any signal of a price reduction would be a major sign that again the government is not serious about forestry and further drive away any investment in new planting. As above the maximum price should be lifted every year as a clear signal of the intent to drive change.

**THIS IS A KEY POINT AND ANY REDUCTION IN CAP PRICE WOULD NEGATE ANY OTHER CHANGE MADE IN TERMS OF NEW FOREST INVESTMENT.**

## **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 close at 5.00pm on 19 February 2016.**

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