

From: [REDACTED]
To: [NZETS Review](#)
Cc: [REDACTED]
Subject: 00130 OM ETS submission - closes 30th April.
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To Whom it may concern

Please find detailed below our submission on the ETS review of other issues.

Question:

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

Yes.

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

Nice clear and long-term planning from central and local government on the pathway emissions will take in the next 10 to 50 years, ideally presented as a simple carbon budget that we can use to plan business investments. More information about the likely costs and benefits of climate change policy would be helpful as well as information about case-studies of successful uptake or investment in low-carbon technology.

Other issues: protecting competitiveness through free allocation

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

Under all conditions - free allocations act to shield some businesses from the full cost of their emissions at the expense of taxpayers and other businesses. A clear timeline for phasing these out should be put in place as soon as possible.

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?

We would make sure our investments took into account options for low-emissions transport, renewable energy generation and procurement, waste minimisation and heavy investment in emissions-reduction projects if allocations were reduced.

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.**

Carbon prices are a very important driver for forestry investment. Higher prices will encourage our business to invest more heavily in new forests, replant existing forests and manage forests in

a carbon-positive way long-term, including considering changing harvest regimes and rotation length to maximise forest carbon.

The current price has been very negative for forestry overall. The ongoing costs of compliance and future price risks have remained the same while the value of carbon units received have crashed. Sudden changes to regulations (some enacted overnight) have also undermined confidence in carbon forestry. We expect higher prices looking ahead, provided the transitional measures (1-for-2 obligation, price cap) are removed and that no fresh supply is added to the market in the medium term via auctioning or import of international units.

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**
- b) other factors.**

Forestry investments depend on long-term planning and predictable policy with respect to accounting for carbon benefits and liabilities. The best incentive for forestry, aside from a carbon price that makes carbon forestry profitable, is a clear long-term plan for reducing emissions that makes clear that forestry is and will continue to be a key part of climate mitigation efforts. In addition, equitable treatment of sectors is also important; a lack of consistency between sectors has been to forestry's relative disadvantage since 2008. Making sure all participants have a level playing field that has a predictable set of rules is the best incentive for encouraging forestry.

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. Any units imported for use in the NZ ETS must meet stringent quality and environmental integrity tests. At the very least, these units must be of an equivalent standard in terms of additionality, permanence, transparency and co-benefits to New Zealand-sourced forestry units issued under the ETS.

b) restrictions on how many units can be surrendered

Yes. A quantitative restriction on the use of international units should be set at a level that ensures they are minor relative to domestic mitigation efforts (e.g., 10%). This import restriction should be regularly reviewed (at least annually).

Other issues: managing unit supply – auctioning

17. Should auctioning be introduced in the NZ ETS?

Yes - if required to supplement unit supply. Auctioning has the potential to modify or distort supply and demand conditions in the NZ ETS so it is important that the conditions under which auctioning can take place, management of reserve pricing and auction volumes and other design criteria are clearly identified and consulted on prior to its introduction. The guiding principle of any auction regime should be to ensure that auctioned units are always supplementary to supply from forestry or other private-sector project-based sources.

If yes, when?

After 2020

18. What should be the role or purpose of an auctioning function in the NZ ETS, if one were introduced?

A mix of supply management and, potentially, price management - these goals need to be clearly set out before auctioning is introduced as well as widely consulted on.

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?

Auctioned units should be supplementary to forestry removal units and, probably, international units. Both of those units types have some impact on climate mitigation or adaptation through project-based mechanisms (tree planting = removal of carbon dioxide from the atmosphere, for example) whereas auctioned units may not be tied to any reductions or removals at all.

Other issues: managing price stability

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

Major impact. The collapse in the carbon price has undermined confidence in forestry investment and led to concerns about the viability of future investment. The extreme volatility of carbon pricing has also impacted funding for new projects.

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

No. All markets show rises and falls in value; the fall in the carbon price was not the fault of the ETS not working but reflected poor design and regulation. The price cap in the NZ ETS has never been tested by the market - carbon prices have always remained below the cap. Caps and floors increase complexity and distort market forces, including forward pricing. It is better to regulate the market properly to achieve its objectives (emissions reduction) rather than manipulate the price.

Other issues: operational and technical matters

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

Yes – the compliance cost for forestry is too high, massive expenditure is being incurred to measure carbon every claim period, especially when Carbon prices were low.

Thanks for the opportunity to comment on the review.

Regards

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