

New Zealand Emissions Trading Scheme Review Consultation 2015/2016

Submission by [Murray Inglis, NZIF Registered Forestry Consultant](#)

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

No! Leaving agriculture out of the NZ Emissions Trading Scheme (NZ ETS) is a fatal flaw that has the nation subsidizing farmers', especially dairy farmers' poor management practices that have a significant negative impact on the environment. It also has Government penalising post 1989 forest owners in order to cover the costs to the nation of wholly subsidizing farmer's emissions, and for the 50% subsidy for participants from the liquid fossil fuels, industrial processes, stationary energy and waste sectors via the 1 for 2 subsidy they receive from Government.

I was highly concerned to read point 2.4 within the review document where Government declares the potential need to address those units already held by post 89 forest owners: *"There is a substantial number of banked NZUs owned by market participants, which combine with current ETS settings to weaken the effectiveness of the NZ ETS to assist New Zealand to meet its international obligations. It also presents a fiscal risk that the Government wants to mitigate, as units carried forward by participants into the 2020s will be eligible for use in the NZ ETS, but will not count towards meeting New Zealand's 2030 target. This presents a fiscal risk as the Government and taxpayers may have to bear the cost of purchasing international units to meet the target, rather than emitters."*

There have been significant and costly past breaches of trust by the Government with regard to post 1989 forest owners, especially the shabby Climate Change Response (Unit Restriction) Act that denied post 1989 forest owners the previously stated right to use their ERU's to meet their carbon obligations. The above statement in the Review document is a major cause for concern re further Government interference in running of a sound market based ETS, and will likely act as a prompt for post 1989 forest owners to exit the NZ ETS.

Are the Government and her advisors within MPI and MFE blind? Post 1989 forest owners are currently the most effective contributor for sequestering carbon, yet Government action to date has been to support major emitters with a 2 to 1 subsidy, and to allow agriculture to totally ignore it's massive contribution towards NZ's carbon liability, and to the degradation of the environment. Yet Government continues to interfere and erode the NZ ETS to the cost of post 1989 forest owners. The Government through it's interference with the NZ ETS has created the situation it now finds itself in, and now appears to be looking yet again to make post 1989 forest owners carry this cost as well.

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

To not include agriculture within the terms of reference of this review simply shows the Government's lack of interest in working towards "a carbon constrained future." That inaction creates the difficulties the Government subsequently seeks to address by interfering with the NZ ETS.

Agriculture could easily meet its emissions burden by planting forests on marginal lands. This would create considerable economic diversification opportunities for hill country farmers and produce significant environmental benefits of biodiversity, improved water quality, better soil protection, and reduced flood risks, etc...

If the main emitter, the dairy sector, had been subject to a functioning NZ ETS from the beginning, it may have been more constrained in the scale of its recent dairy conversions. This may have reduced the degree of unprofitability that it is now suffering.

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

Yes. The original concept of the NZ ETS was to include all sectors, i.e. all sources of emissions. The logic for this was that every exception would create distortions and perverse outcomes. Due to Government interference, this is exactly what has happened.

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

This would bring fairness to the market place, and a true valuing of the benefits of forests. Forestry is the only sector within the economy subject to full surrender obligations.

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

Immediately. The sooner NZ moves to include all sectors of the economy in the NZ ETS, the lower will be the future costs of adjusting to a GHG emission constrained world.

By avoiding action in recent years, it is the Government who has created the situation where as a nation we will face massive future costs in addressing the issue of reducing net emissions.

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

No. No more Government interference please. The marketplace is the mechanism by which prices can be managed.

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

Again, look to the cost of recent Government interference. The initial rationale for the NZ ETS was to have the carbon marketplace encourage the decrease of emissions and the increase of sequestration. The role for Government should simply be to ensure that the NZ ETS is a market based system that is robust and free of distortions.

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

I'm uncertain. My concern is that it could be yet another distortion to the NZ ETS.

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?

For the Government to give a clear consistent message that it now acknowledges that Climate Change is a real and massive problem. To date the Government has given the message that it does not believe that Climate Change is an issue. It has chosen to only do the minimum to satisfy international obligations, for the most part at the expense of post 1989 forest owners. The terms of reference, especially excluding agriculture, and the wording with the Review Discussion Document show the Government doesn't see climate change as an issue to be addressed, and suggests it will continue to meddle with the NZ ETS, further deferring our need as a nation to meet our international obligations.

Instead our Government chooses to invest?? taxpayers' money in it's pie in the sky attempt to limit methane emissions from livestock.

Further, the Government has reintroduced the Afforestation Grant Scheme, a clear signal that it's management of the NZ ETS has reduced investment in forestry, not encouraged further new planting. A functioning NZ ETS would promote market driven investment in forestry, and avoid the need for prop up policies like the Afforestation Grant Scheme.

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

There is no such thing as “free allocation”, which in effect is simply a subsidy to one funded by a tax on another. To date it is post 1989 forest owner’s who have been subsidising the rest of the economy on this matter. The Government should act now to reduce “free allocations”.

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?

None. There was a clear pathway within the initial NZ ETS, but the Government has continually interfered with this, eroding trust in the forestry sector that the Government will ever do anything other than penalize forestry so that it can protect major emitters, and especially farming.

13. How does the carbon price impact your forestry investment decision-making?

When the price was high, many forest owners looked at expanding their investment in forestry as a way to manage their surrender liabilities that arise at harvest.

The initial treatment of pre 1990 forest owners being made mandatory participants in the NZ ETS with a massive deforestation liability placed over their lands was such a theft of land value that many forest owners lost all trust in Government integrity.

The subsequent treatment of post 89 forest owners with the May 2014 Climate Change Response (Unit Restriction) Act has further eroded trust. This action was in spite of Minister Bridges’ statements specifically made to provide participants in the NZ ETS with “certainty” over their ability to meet their commitments with ERU’s, and clause 30 G in the Climate Change Response Act that prevented the Government from applying retrospective rule changes to the use of various units. Despite this, the Government’s retrospective May 2014 legislation prevented post 1989 forest owners, and only those forest owners, from using ERU units that they had acquired under law for the purpose of exiting the NZ ETS.

I now have no clients looking at investing in new forestry, and my clients have lost all faith that they will be treated fairly in the NZ ETS.

Separately, climate change in reality has seen a recent increase in the frequency of major windthrow events, with major windthrow happening in areas where it has never been seen before.

Had Government not allowed emitters access to cheap international carbon units such as Emission Reduction Units (ERU's) from the Ukraine, NZU prices may have remained around the \$20/NZU level. This would have seen a continued and significant investment in new forestry on reverting farmlands.

The discussion document raises the potential fiscal risk to the Government of the 140 million NZUs held in the NZ Emissions Unit Register. The idea that Government could further restrict forest owners from using those units should finally kill off any remaining hope of post 1989 forestry participants of getting a fair deal in the NZ ETS.

When post 89 forest owners quit the NZ ETS and harvest their forest, the Government will be liable for the loss of sequestration for the period from planting to 2008. The question then arises will the Government make those forest owners liable for the costs of all their emissions from planting, not just those sequestered by their forests since 2008. The Government has already done this with pre 1990 forest owners in the initial set up of the NZ ETS. Given past Government betrayals, there exists a real risk to post 1989 forest owners. This perception of risk could be the final nail in the coffin of future new forest investment.

14. Are there opportunities for the NZ ETS to increase incentives for forestry investments, outside of NZU price?

Yes. Ensure all sectors of the economy are participants in the NZ ETS, and let the market place drive the operation of the NZ ETS, without Government interference.

15. What are your reasons for the above answer?

Again, ensure all sectors of the economy are participants in the NZ ETS, and let the market place drive the operation of the NZ ETS, without Government interference.

16. If international units are eligible for NZ ETS compliance in the 2020's, should restrictions be placed on their use?

I have concerns related to access to international units given the inequities of the May 2014 Climate Change Response (Unit Restriction) Act. I acknowledge that climate change is a global issue requiring a global response, but have yet to form an opinion on this issue.

17. Should auctioning be introduced in the NZ ETS?

No. Why invite further Government interference in carbon market supply and pricing. To date that has been a dismal failure.

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

No role, no Government interference.

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?

No idea, and there is no need to interfere with unit supply by auctioning.

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

A massive impact with the loss of trust of my clients in the Government re the blatant breaches of trust and fairness in Government's continued interference in the NZ ETS. With my clients this has led to no planting of new forests in recent years.

Post 1989 forest owners incurred high compliance costs in becoming participants in the NZ ETS, and based their decisions on a carbon price of \$20/NZU. The Government then precipitated the crash in carbon prices via its 1 for 2 subsidy for participants from the liquid fossil fuels, industrial processes, stationary energy and waste sectors, by excluding farming from the NZ ETS, and by allowing the importation of cheap foreign units. This action has lead inevitably to little new forestry investment , and has stimulated vast clearance of exotic and native forest, increasing emissions and decreasing sequestration capacity.

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

No. Has Government learnt anything as yet about the negative consequences of it's ill conceived interferences in the NZ ETS? The purpose of the NZ ETS was to reduce net emissions by decreasing gross emissions (demand) and to increase sequestration (supply).

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

I can think of none. See my answer to 21. above., and translate "managing price stability" to "continued ill conceived interference."

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

It shouldn't, full stop!

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

Yes. Staff MPI and MFE with people who understand the importance of post 1989 forests in enabling NZ to meet her international climate change obligations.

25. Can you provide further information to support your answer?

Review the failure to date of NZ in meeting our international climate change obligations, only possible by the importation of almost valueless poorly supported Emission Reduction Units (ERU's) from the Ukraine by staff at MPI and MFE to the massive cost of post 1989 forest owners.

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

Further Government neutering of the NZ ETS.

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

Yes. Get out of the way of a functional market driven NZ ETS.

28. Please comment here

The Government has expensively meddled at every turn in the NZ ETS, and this has ensured that the NZ ETS has cost post 1989 forest owners in both compliance costs and loss of expected values by driving down the cost of emissions. This has in fact led to an increase in emissions and a reduction in sequestration capacity.

Forestry provides the most effective means to meet any emissions target the country wishes. However the Government continues to break trust and knee cap the forestry sector continually.

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