

Submission on NZ ETS Review 2015/2016 Priority Issues

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Submitter background

I am a Wellington based independent accountant with an interest in sustainability and climate change issues. I am also a trustee of the Rameka Forest Restoration Charitable Trust which owns "Project Rameka", a forest carbon sink in the Permanent Forest Sink Initiative ("PFSI").

This submission covers the two priority issues set out in the discussion document;

- 1) moving to full surrender obligations for non-forestry NZETS participants (ending the 2 tonnes for 1 unit surrender option);
- 2) adjusting or terminating the existing \$25 price cap - the fixed price surrender option. We note that submissions on these matters close on 19 February 2016.

Moving to 100% (1 for 1) surrender obligations

The review discussion document describes the full surrender obligation as follows:

The one-for-two surrender obligation allows participants from the liquid fossil fuels, industrial processes, stationary energy and waste sectors to surrender one unit for every two tonnes of emissions (ie, a 50 per cent surrender obligation). This means that these participants do not face a full obligation for their emissions. As a result, the effective carbon price they pay is half the unit price. For example, with a New Zealand Unit (NZU) price of \$7, these emitters pay an effective carbon price of \$3.50 for each tonne of emissions, with a maximum effective carbon price set at \$12.50 due to the \$25 fixed price surrender option (page 12).

Adjusting or terminating the existing \$25 price cap

The review discussion document describes the issue of the \$25 price cap as follows:

The \$25 fixed price surrender option allows businesses to surrender an NZU by paying the Government \$25 per unit. It was established as a transition measure in 2009 to protect firms and the economy from price spikes or excessive costs. It acts to cap the maximum carbon price in the NZ ETS, and in combination with the one-for-two surrender obligation, it currently ensures that the maximum effective carbon price any non-forestry participant will face is \$12.50 per tonne (page 14).

The recommendation

The one-for-two surrender obligation and the \$25 price cap should be terminated immediately.

Reasons

Both of these measures are two of many 'cost-moderating' design features of the NZETS. These two were originally introduced in 2009 as transitional measures and therefore of a temporary duration. However their application was extended in 2012.

These 'cost-moderating' features have been too successful: they have prevented the NZETS from setting a sufficient price incentive to drive reductions in emissions of greenhouse gases. As the discussion document states on page 8:

“Projections indicate that New Zealand’s current policy measures, of which the NZ ETS is the main instrument, will have little impact on gross emissions in the future if current settings continue.”

The market price of the NZ emission unit collapsed during 2011 and 2012. I attach overleaf a chart of the trading prices for the NZ emission unit from 2010 to 2015. It clearly shows the price collapse. The one-for-two surrender obligation and the \$25 price cap have contributed to the price collapse by moderating the costs passed onto businesses. If the cost obligations paid by emitters under the NZETS remain minimal, then there is no price incentive to reduce emissions.

The role of 'cost-moderating' features is discussed in Jessika Luth Richter's 2012 masters thesis with the University of Lund; "Institutional Feasibility the end or the means in emissions trading Evaluating the New Zealand Emissions Trading Scheme" (available from <http://lup.lub.lu.se/luur/download?func=downloadFile&recordId=3129328&fileId=3129330> 106 pages, 1.8MB pdf).

During the 2007 design stage, Treasury and the Ministry for the Environment assembled a complete smorgasbord of possible 'cost-moderating' features (free allocation, access to international markets, safety-valve price caps, two-for-one obligations). As these measures all had the same function (reducing cost and therefore price impacts), they felt only some were necessary in the 2008 NZETS. However, the 2009 amendments added all the cost-reducing measures into the NZETS. As Richter notes with understatement:

"Additional moderating design features in the NZ ETS are also mentioned in literature and have been used in other schemes; however New Zealand is unique in the range of these features all incorporated into one ETS."

In other words, the current design of the NZETS includes far too many cost-moderating features, and the two-for-one arrangement and the price cap which are cost-moderating features that were meant to be temporary, should be terminated immediately.



New Zealand Emission Unit Prices 2010 to 2015. Chart created by Mr February and published on Wikimedia Commons on 21 January 2016 under a Creative Commons Attribution-ShareAlike 4.0 International licence (CC BY-SA 4.0 <http://creativecommons.org/licenses/by-sa/4.0>).