

New Zealand ETS review 2015/16 consultation



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

Answer 1: Unsure

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

Answer 2:

The ETS can never be truly effective if agriculture is excluded. It is ridiculous that one land use, forestry, is mostly included, but agriculture, is not. This distorts land use decisions and land prices, and means that land is not put to its best use. There are plenty of examples of recent dairy conversions which have not been good for the environment: - as well as carbon and methane emissions, these conversions have led to increased water pollution, and soil degradation and erosion. New Zealand would be better off if these conversions had not happened. Instead, large-scale planting should have taken place on marginal farming land. The ETS has not encouraged this, therefore it has failed.

Traditional agriculture is important to New Zealand, but as recent dairy prices have shown, it is unwise to put all our eggs in this basket. There is nothing special about milk and meat - humans do not need either to thrive.

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

Answer 3: Yes

3A. Please explain your answer:

These measures were always considered transitional measures. They should expire by default, and the MFE should not be running this process.

The 1-for-2 measure effectively halves the cost of carbon to these sectors. As oil and gas prices are at record lows, there has never been a better time to remove the 1-for-2.

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

Answer 4:

Since the ETS was introduced, technology in areas such as solar, batteries, energy efficiency, has improved dramatically and significantly fallen in cost. Forward-thinking businesses can easily adapt to higher carbon prices by using these technologies.

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

Answer 5: a) 2016

Outline the reasons for your answer, and include any comments on the pros and cons of applying an increased surrender obligation to a partial or a full NZ ETS reporting a year.

As oil and gas prices are at record lows, there has never been a better time to remove the 1-for-2 than right now. The potential move has been published in the media. Businesses have had plenty of opportunity to buy NZUs at current prices under \$10 / tonne.

Many ETS participants have large stockpiles of NZUs that they can use to meet their obligations. There is no need for any additional measures.



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

Answer 6: No

6A. Please explain your answer:

As above - no need to manage any potential price shocks.

Many ETS participants have large stockpiles of NZUs that they can use to meet their obligations. There is no need for any additional measures. If participants have not stockpiled units, they should not complain as they have had plenty of opportunity to do so.

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

Answer 7:

7A. Please explain your answer: No need for

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

Answer 8:

The fixed price option should be abandoned immediately. The NZ ETS is unique in that the full spectrum of price moderating features were introduced, when there was no need for them. Other emission trading schemes had much more limited price moderating features.

Oil and gas prices are at record lows, there so even if carbon prices increase to \$50 / tonne, the total cost of oil and gas products will still be lower than in 2014.

Any capping of the price diminishes the incentive to invest in lower carbon technologies and reduce emissions.

This is particularly dangerous, because businesses may plan on a long term carbon price of \$25 / tonne, and invest in long-lived fossil-fuel infrastructure. Then, even if the cap is removed later, it is difficult for new renewable technology to compete against pre-existing fossil-fuel infrastructure, with sunk costs already spent. The effect of this will be to make it very difficult to reduce emissions later.

So it would be better if the \$25 price is removed immediately, in order to retain the possibility that carbon prices may exceed \$25 / tonne in the medium term. This will signal to businesses that fossil-fuel capital expenditure may not be profitable, and discourage this expenditure. It will also signal that renewable and efficiency expenditure may payback its investment sooner.

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

Answer 9:

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

Answer 10:

I favour a carbon tax, with prices starting at \$25 / tonne rising at \$10 / tonne per year. This would make planning much easier. It is a myth that the uncertainty created by the ETS encourages low-carbon investment. In fact, the



opposite is true. The recent experience with the New Zealand ETS, with prices falling to as low as 0.17 per unit, has shaken the confidence of many people in the Government's ambition to reduce carbon emissions. Unless the Government explicitly states that they favour higher carbon prices, people have become convinced that the Government will keep meddling in the ETS to keep prices low.

Additionally, under a fixed, published price, no business would be able to mislead the public or their customers about what the price is. At present, some businesses have charged their customers carbon costs of \$25 / tonne, when the actual costs have been much lower than this.

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

Answer 11:

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?

Answer 12:

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

Answer 13:

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

Answer 14:

15. What are your reasons for the above answer?

Answer 15:

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

Answer 16:

16A. Please explain your answer:

17. Should auctioning be introduced in the NZ ETS?

Answer 17:

17A. Please explain your answer:

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

Answer 18:

18A. Please explain your answer:

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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?

Answer 19:

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

Answer 20:

20A. Please explain your answer:

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

Answer 21:

21A. Please explain your answer:

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

Answer 22:

22A. Please explain your answer:

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

Answer 23:

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

Answer 24:

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

Answer 25:

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

Answer 26:

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

Answer 27:

28. Please comment here

Answer 28:

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