

New Zealand ETS review 2015/16 consultation



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

Answer 1: Yes

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

Answer 2:

Further to (1), the ETS Review could and should go further than it has to include an assessment of the actual costs and benefits of including agriculture in the ETS, removing or reducing industry allocations, introducing a cap on emissions and adding an assessment of the likely costs of inaction with respect to climate change as a counterpoint to the oft-quoted costs of action.

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:

There are three strong arguments for the full surrender obligation to be re-instated. First, the 1-for-2 obligation was introduced as a transitional measure in 2009 and it is well past both its stated expiry date and the economic conditions that justified its introduction. Second, why should emitters (and their customers) not face the full cost of their emissions, especially when the 1-for-2 provision simply transfers the costs from emitters to taxpayers? Third, the 1-for-2 obligation is open only to some but not all emitters and thus fails an equity test.

An additional, compelling reason to remove the 1-for-2 provision is to reduce fiscal risks to the Crown related to the banked surplus of units in the NZEUR. Unless the 1-for-2 provision is removed, we cannot expect that backlog of units to be bought and surrendered through the ETS before 2020.

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

Answer 4:

I expect no significant change personally as a consequence of this change; pass-through ETS costs on fuel and energy bills are too small to have any meaningful impact. If carbon prices rise high enough, I would consider carbon forestry as an investment.

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.

This provision is already overdue; provided the change is announced in plenty of time (even if legislation follows) this will have no material impact on surrender obligation planning because participants have until May 2017 to make up any additional unit demands and surrender them to the Crown.

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

Answer 6: No

6A. Please explain your answer:

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No. No price management was considered necessary when carbon prices fell, so no measures should be introduced in the event of prices rising. This reflects the way markets work.

In addition, we should not consider the change in value from the lowest price on carbon to a price that allows the cheapest available mitigation option (forestry) to break even as a 'shock'. A better description of this would be moving from unrealistic prices to realistic prices, which is desirable.

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

Answer 7: a) maintain the fixed price option at \$25

7A. Please explain your answer:

The fixed price option is also a transitional measure that is 3 years past its expiry date. That said, of the options offered to control price movements maintaining the fixed price option 'as is' is the best. Lowering the fixed price option risks undermining the volume of units surrendered from the banked surplus, as does a gradual move to full surrender obligations, leaving the current fiscal risk to the Crown unmitigated.

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

Answer 8:

The \$25 fixed price option should be removed altogether or raised. If raised, a rise of \$5 per year is justified, from \$25 in 2017 to \$30 in 2018, \$35 in 2019 and \$40 in 2020.

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:

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?

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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?

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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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