Submission on NZ ETS Review 2015/2016 consultation – priority issues

Contact information

Name	Geoff Simmons
Organisation	Morgan Foundation
Address	PO Box 19218 Wellington 6149
Telephone	[redacted]
Email	[redacted]

Context and drivers for the review

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

Yes, but some drivers are missing.

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

What is the ETS trying to achieve in terms of domestic emissions reductions? Given we have no confirmed international trading, the starting point should be planning to meet our 2030 target with domestic emissions reductions. What carbon price trajectory would it take to achieve that goal? That information is central to this consultation.

Regardless of international trading, our economy needs to transition to net zero carbon this century. Where is the Government's plan for this transition?

Moving to full surrender obligations

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

Yes. There was no real justification for introducing the one-for-two deal in the first place, and removing it is well overdue.

NZIER's modelling shows that any economic impact will be very modest, and this analysis has not considered the benefits of early action towards meeting our 2030 target.

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

To the extent that the move will incentivise more afforestation, it will have a positive impact on the Morgan Foundation's philanthropic work on conservation. Even plantation forests have proven benefits for biodiversity in New Zealand, while native forests deliver greater benefits.

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

a) 2016

The Government has already kept the one-for-two offer longer than recommended by the 2011 ETS review panel. There is no rationale for keeping it any longer. It should be removed immediately.

With oil prices and NZU prices so low, and set to rise from here, there will never be an easier time. Do it now.

Managing the costs of moving to full surrender obligations

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

No.

The Government didn't do anything to stop the crash in prices caused by the flood of cheap, fraudulent international units, so why should it interfere to stop prices rebounding in the opposite direction?

Even with the one-for-two deal removed, the current NZU price (around $9.20) is still lower than the effective price when emitters first entered the ETS in 2010. No further softening measures are required.

What we actually need is an immediate rise in carbon prices to kick-start the transition of our economy off fossil fuels. It may cause short-term adjustment costs, but will result in long-term savings as we have to reach net zero emissions between 2050 and 2100.

Our 2030 target requires an effective carbon price as soon as possible – particularly to get some trees planted to buffer the looming impact of the wall of wood. Given the growth curve, we need to get planting immediately to make a decent dent by 2030. That means we need NZU prices above the minimum threshold of $15 ASAP.

The key to returning to higher NZU prices is to burn through the bank of units accumulated over the last three or more years. This is the result of a policy failure and needs to be rectified, particularly when it comes to the free units given out to emissions-intensive trade-exposed industries. They should never have been allowed to engage in arbitrage by handing in cheap foreign credits and banking their free NZUs.

We estimate that a typical highly emissions-intensive firm would have banked enough units to cover its 10% emissions liability for roughly 14 years (after removal of the one-for-two), while a moderately emissions-intensive firm at a 40% liability would have enough for roughly 3 years. The Government should address this by putting a one-year freeze on free allocations, forcing companies to use their banked units. This would clear most of the bank of freely allocated units.

If the Government is not prepared to do that, it should look instead at implementing a floor price of at least $15.

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

None of the listed options – see above.

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

The price cap should be removed.