



New Zealand Green Building Council Submission to the Review of the Emissions Trading Scheme

February 2016

Introduction

New Zealand's emissions trading scheme (ETS) was developed to be the primary policy measure to reduce greenhouse gas emissions in New Zealand, and to enable us to meet our Kyoto Protocol commitments. It is difficult to accurately quantify its effect, for a number of reasons, including:

- Distinguishing the effects of the ETS, from the effects of the level of economic activity.
- New Zealand's emissions are affected by the availability of water in hydro-electric catchments.
- The ETS allowed international emission units to be imported and surrendered. These have been available at low cost in recent years.

It is likely that the low international costs of emission units have meant that the ETS has had minimal effect on business and consumer decision-making with regard to energy sources, energy technologies and energy efficiency practices. Some businesses and consumers are focused on these issues; however their motivations are likely to be the overall cost of energy and long-term sustainability strategies and values, rather than the present costs of the emission units.

New Zealand has a current target to reduce greenhouse gas emissions to 5 per cent below 1990 levels by 2020. It's new post-2020 target is equivalent to 11 per cent below 1990 levels by 2030. New Zealand will need to meet these targets through a mix of domestic emission reductions, the removal of carbon dioxide by forests and participation in international carbon markets. The ETS will need to make a credible contribution to these targets.

Drivers for the Review

The ETS needs to make a greater contribution to greenhouse gas reductions in New Zealand. However, we need to ensure that the ETS does not impose inequitable costs on households, particularly as lower-income households will have less (if any) discretionary income to allocate to increased household costs. We also need to ensure that the ETS does not impose disruptive costs on agriculture, forestry and some industrial sectors. These are the

reasons that the transitional measures were included in the ETS, and are still considerations when changes to these measures are considered.

There is a balance required. The primary purpose of the ETS review is to find this balance; ensuring that the ETS contributes to New Zealand's movement towards a lower-carbon economy, while not creating inequitable or perverse effects.

Issues for Industrial Emitters

Policy Certainty

The fundamental requirement for business is that they need to be able to plan with confidence into the future. This means that the principles on which Government policies such as the ETS are based, are well known and consistent, particularly through changes of Government. Government climate change policy has been relatively consistent since 2008, enabling industries to plan. There is a sustainable commitment to imposing a price on emissions, with recognition of the commercial effects on industry, particularly the emissions-intensive, trade-exposed sectors. There has been clear signalling of the need to progressively increase New Zealand's efforts, to keep us aligned with global commitments to reduce the risk of future climate change.

Policy certainty does not require that the details of policies are never changed. It is inevitable that changes occur as circumstances change. Policy certainty is achieved, if those changes occur within an envelope that is transparent, well-established and communicated, and not vulnerable to electoral cycles.

Increased Emission Costs

It is clear that if the ETS is to contribute to reductions in New Zealand's greenhouse gas emissions, then the cost of an emissions unit must be increased. One simple mechanism for this would be to change the "one-for-two" current surrender obligations, to full surrender obligations. The extent of this change would require a phase-in period.

However, these changes are still significantly below the levels that would trigger transformative change in the energy generation and energy use sectors. The Government therefore needs to consider not just the short-term strategy of phasing in full surrender obligations. It also needs to consider how it will regulate the ETS so that prices continue to rise in the future, but in a way that does not create inequitable or unnecessarily disruptive changes to householders and to business.

Additional Policy Measures

There have been various estimates of the emissions unit price required to reduce global greenhouse gas emissions to the level required by the Paris Accord, (that is to limit the increase in atmospheric concentrations of greenhouse gases to levels that will limit potential increases in global temperatures to less than 2⁰ Celsius). These are of the order of NZ \$100 or more. These levels will be both disruptive to business and inequitable in their effects on households.

In the short to medium term, the ETS may make a contribution to reducing New Zealand's greenhouse gas emissions. However, it will not, on its own, provide assurance that New Zealand will achieve its targeted reduction.

The ETS review needs to occur in the context of the fact that other targeted policies and measures will be required to achieve New Zealand's targeted reduction. Such policies and measures will need to address:

- Energy efficiency standards for buildings, vehicles, consumer products and industrial equipment.
- Energy infrastructure, particularly that which would accelerate the uptake of public transport and alternative fuels including electricity.
- Environmental policies with co-benefits, particularly particulate emission standards for vehicles.

Conclusions

The New Zealand Green Building Council believes that the ETS should move to full surrender obligations, as part of a planned, transparent process to increase its effectiveness. We also believe that there needs to be further development of additional policy measures to directly facilitate further emissions reductions.

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