

Topics for NZ ETS Review 2015/2016 consultation

About the consultation

The Government is reviewing the New Zealand Emissions Trading Scheme (NZ ETS) to assess how it should evolve to support New Zealand in meeting future emissions reduction targets and its ongoing transition to a low emissions economy. This follows the announcement by the Government in July this year that New Zealand's post 2020 target is to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030.

The Ministry for the Environment is leading the consultation and welcomes your feedback on how the NZ ETS is working and how it might work better in the future.

The review will focus on:

- some transitional measures introduced to moderate the impacts of the NZ ETS
- what is required for the NZ ETS to evolve with changing circumstances including future targets
- operational and technical improvements.

Discussion document

For more information about the consultation, read our discussion document. It sets out the issues on which the Government is consulting, the objective and drivers for the review. It also contains the terms of reference for the review.

Some transition measures are being given priority and have the first deadline for submissions as they may be candidates for legislative change in 2016 (see closing dates for submissions below). Refer to the discussion document for detail on the priority and other matters under review.

Technical notes on the following specific issues will be available in December or early 2016 to support submissions:

- modelling of the impacts of the priority issues outlined in the discussion document
- forestry sector matters, including accounting methodologies for post-1989 foresters
- operational and other technical matters.

To be notified of when these technical notes are available, please email nzetsreview@mfe.govt.nz.

Closing dates for submissions

- Submissions on priority issues close at 5pm on 19 February 2016
- Submissions on other review matters close at 5pm on 30 April 2016.

You may make submissions on both priority issues and on the other matters. If you provide feedback on both you can do so in a single submission or separate submissions. Please note submissions on priority issues must be received by 19 February 2016.

Publishing and releasing submissions

All or part of any written submission (including names of submitters), may be published on the Ministry for the Environment's website www.mfe.govt.nz. Unless you clearly specify otherwise in your submission, we will consider that you have consented to website posting of both your submission and your name.

Contents of submissions may be released to the public under the Official Information Act 1982 following requests to the Ministry for the Environment (including via email). Please advise if you have any objection to the release of any information contained in a submission and, in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information. We will take into account all such objections when responding to requests for copies of, and information on, submissions to this consultation under the Official Information Act.

The Privacy Act 1993 applies certain principles about the collection, use and disclosure of information about individuals by various agencies, including the Ministry for the Environment. It governs access by individuals to information about themselves held by agencies. Any personal information you supply to the Ministry in the course of making a submission will be used by the Ministry only in relation to the matters covered by this consultation. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that the Ministry may publish.

Contact for queries

Please direct any queries to:

Phone: +64 4 4397400

Email: nzetsreview@mfe.govt.nz

Postal: NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143

Questions to guide your feedback

The questions below are a guide only, and all comments on topics are welcome.

To ensure your point of view is clearly understood, please explain your rationale.

Contact information

Name	Matt Paterson
Organisation (if applicable)	
Address	██
Telephone	██████████
Email	██

This submission covers only the 'priority issues' – questions 3 – 8. Any comments on the other questions will be included in a separate submission.

Submission Form

Context and drivers for the review

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

Yes

No

Unsure

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

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

Emissions trading schemes operate on the market principle of balancing supply and demand within defined constraints. ETSes generally operate on constraining the supply side rather than the demand side. The integrity of the system design relies on participants paying for their full emissions, rather than the current system which halves the demand side.

A good argument could be made there is sense in limiting demand when the scheme was set-up and to allow time for businesses to get used to the scheme (especially during the GFC). There is no ongoing logical reason why NZ ETS participants should pay for only half of their emissions, especially now that the scheme has been operating for several years.

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

Please include specific examples or evidence of the impacts on you or your business of:

- a) *increased carbon prices, including actions to reduce emissions and future investment decisions. Please comment on effects that may occur at carbon prices ranging from \$5 to \$50, including any evidence of actions taken previously when carbon prices were higher.*
- b) *any NZ ETS administrative or operational issues, for example the option for participants to apply for a unique emissions factor.*

I am not a business so it will have no direct impact on me. There is likely to be a small indirect impact if prices of goods I consume which include an ETS component rise as a result but as that is the purpose of an emission trading scheme to discourage emissions I am prepared to pay it.

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

- a) 2016

Ideally, but probably not practical - see below.

- b) 2017

Most practical - see below

c) 2018

d) other – please specify

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 year.

Ideally the one-for-two surrender obligation should be removed as soon as possible (ie 2016). However its removal should be done in a manner that is administratively sensible for both government and business. In that sense it should be well signalled and apply only to the next full emissions year. Applying it to a partial emissions year would make accounting both for government and business complex and costly and would unlikely make a meaningful environmental difference over removing it 6 months later. I recognise that this would mean 2017 and to meet the 'well signalled' criterion may mean moving to full surrender obligations from 2018. 2017 is far preferable to 2018, which should be a last resort option.

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?*

Yes

No

Unsure

Only if Government and business consider that the price shocks are likely to be significant. I do not believe that they will be given NZU price has already appreciated as a result of the announced consultation and should not 'shock' when the Government finalises a decision that has been well signalled. However there is a risk and sensible price management options could be considered (see below).

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

a) *maintain the fixed price option at \$25*

Yes.

The \$25 fixed price option is a form of supply. Changing it is a supply side intervention that will have an impact (positive and/or negative) on other forms of supply. The fixed price option should only be changed (lowered, raised or removed) in the full context and with full consideration of what impact that would have on other forms of supply in the NZ ETS. As that will not be done until at least stage 2 of the Review (and may not be done at all) this is not a viable option when the decision is made to move to full surrender obligations.

Changing the value of the fixed price option would require the Government to determine what it thought an appropriate price would be. This is a fraught process which the Government is highly likely to get wrong, ie it will likely cause unexpected impacts and consequences which may take New Zealand further away from its goal of reducing emissions. If the Government prefers to change prices directly a 'carbon tax' would be a better climate policy option (but one that would not be as economically efficient or give certainty of emissions reductions – which the ETS could be if its design was modified).

Finally, and perhaps most chillingly, is the potential impact that changing the fixed price option would have on certainty in the NZ ETS. Taking such a blunt response to control price would show that this Government (and potentially) any Government is willing to change the price settings at anytime. This is not conducive to efficient operation of a market driven by the market and will inevitably led to increased lobbying of interests groups to both lower and raise the price – which ones win will likely depend on the Government of the day. The NZ ETS should not be a political football. Any future changes to the fixed price option should be to either remove it or raise it as both a defensible against the primary purpose of the NZ ETS – to reduce emissions.

b) lower the fixed price option

No – at least not until a full review of supply and a supply management plan has been agreed by Government.

c) gradually move to full surrender obligation

If price management is seen as necessary with the change to full surrender obligations a gradual move is the best option. It keeps the Government's intervention to the demand-side of the NZ ETS but just slows the impact on business giving them time to prepare for the higher costs. It will not have the same highly uncertain impact of other forms of supply or confidence in the NZ ETS as supply-side interventions would.

Any transition period should be kept to a minimum, which in my view should be a maximum of two years i.e. year 1 move from 50% to 75% obligation and year 2 move from 75% to 100% obligation. This should be sufficient time for businesses to plan financially for the change and source sufficient units to meet their obligations.

d) other methods.

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

Other issues: business responses to the NZ ETS

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

Yes

No

If yes, how do you do this?

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

Other issues: protecting competitiveness through free allocation

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

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?

Other issues: managing unit supply - forestry

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

In your answer, we are interested in the:

- a) extent to which the NZU price impacts decisions, compared to other factors
- b) impacts of the current price, and of your expectations for future prices.

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

Yes

No

Unsure

15. What are your reasons for the above answer? If you answered yes, we would be interested in comments on:

- a) any barriers to participating in the NZ ETS that could be reduced
- b) other factors.

Other issues: managing unit supply – international units

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

- a) restrictions on where units can be sourced from (location of and/or types of projects)
- b) restrictions on how many units can be surrendered
- c) others (please explain).

Other issues: managing unit supply – auctioning

17. Should auctioning be introduced in the NZ ETS?

Yes

No

Unsure

If yes, when?

- a) in the next two to three years
- b) within five years (before 2020)
- c) after five years (post 2020).

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

- a) to align supply in the NZ ETS more closely with our international target
- b) to more actively manage NZU prices
- c) other (please explain).

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?

Other issues: managing price stability

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

- a) minor
- b) moderate
- c) significant.

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

Yes

No

Unsure

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

a) upper price limits (eg, fixed price option, or a price ceiling implemented through an auctioning mechanism)

b) lower price limits (eg, price floor)

c) other (please explain).

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

Other issues: operational and technical matters

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

Yes

No

Unsure

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

We would be interested in comments on:

a) complexities involved in NZ ETS participation

b) penalties for breaching NZ ETS obligations

c) any technical or operational changes that could be made to the NZ ETS to improve efficiency.

Other issues: addressing barriers to the uptake of low emissions technologies

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

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

Any other comments related to issues set out in the discussion document

28. Please comment here

When your submission is complete

Email your completed submission to nzetsreview@mfe.govt.nz or post to NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143.

Submissions on Priority issues close at 5.00pm on 19 February 2016.

Submissions on Other matters close at 5.00pm on 30 April 2016.