

# New Zealand ETS review 2015/16 consultation

Copy of your submission



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:

New Zealand requires a well thought out and documented plan to end our dependency on fossil fuels and end our carbon emissions. This must also incorporate an exact pathway to meet our 2030 target and our obligations to the rest of the world. The ETS review needs to be integrated with such a plan. The review must also ensure any modifications required to achieve congruence with the pathway to the above goals are explicitly implemented.

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:

Given the mounting emission problems, there is no time for transition measures left. The world is committing to cutting GHG emissions and New Zealand is lagging behind. We must absolutely move to full surrender obligations. The "one-for-two" deal on emissions should be scrapped immediately, as this will assist in meeting the objectives of the ETS. Namely to reduce New Zealand's net emissions and help meet our international obligations.

Modelling forecasts that the impact on the economy will be modest, and acting now will help reduce the cost of meeting our 2030 target. Moving to full surrender will bring us in line with pricing that is already implemented in other nations around the globe.

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

Answer 4:

As a single member of the public it is hard to quantify specifically the full surrender obligations will have on me. However, the overall economic impact on the average individual is likely to be minimal.

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. Ideally this should be implemented immediately, however practically it should be done by the end of 2016 at the very latest. The sooner we move to full surrender obligations, the sooner the benefits will be realized. The sooner we do this, the more it will help meet our emission targets.

Now is the time for a move, especially for removal of the one-for-two deal, with the price of oil and carbon being low. Already OPEC and non-OPEC alliances are being formed and they are exploring capping oil production to artificially drive up prices. We can gain a strategic advantage for New Zealand by implementation at the lowest cost point that is likely to exist for some time. Prices will inevitably rise in the future, thus increasing the cost of implementation.

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In addition we must send a clear signal that we are stepping up our action following the Paris agreement.

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

Answer 6: Yes

6A. Please explain your answer:

The potential price shocks should be managed fairly, however it is important not to reduce the carbon price to ineffective levels. Modelling conducted by the New Zealand Institute of Economic Research shows that removal of a cap will only have a modest economic impact, thus it is likely that the short term price shocks can be absorbed. This can be done by allowing a temporary fixed cap at \$25 till the end of 2016.

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

Answer 7: d) other methods - please specify

7A. Please explain your answer:

A price cap should be kept (as mentioned above) till the end of 2016. From then on, either it should be completely removed, or gradually increased at a fast rate, such that by 2017 we are at a measurably meaningful level. A good proxy to use for benchmarking this would be the US EPA's "social cost of carbon" currently estimated at about NZD 60. While the price cap should eventually be entirely removed, it is paramount that in the interim, post 2016, the cap keeps up with and reflects the above proxy (or an established measure specific to New Zealand. This measure should be comparable to other developed nation standards).

In addition the government should consider tax adjustments to reduce the impact on low income households, where basic needs and transport costs make up a bulk of expenditure.

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

Answer 8:

As mentioned in the previous question, a fixed price surrender should only be an introductory measure. Again, NZIER modelling shows that a cap of \$25 could severely restrict the potential net emissions reductions, thus rendering the mitigation effort redundant.

The price should reflect the true impact of carbon emissions, and as mentioned previously the world already has such estimates, and our pricing must reflect this reality. Thus it must at a minimum move the EPA's "social cost equivalent", NZD 60 at the moment, and likely to rise in 2017 and into the future.

In addition, we must face the reality of the cost of inaction, which is orders of magnitude larger than the cost of action. Because of this we must also introduce a price floor with immediate effect to stimulate forest planting and other such active mitigation measures. A threshold of \$15 will start to achieve this, although it is not adequate for meeting our 2030 targets. A full surrender would help strengthen prices.

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

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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?

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:

Name Pubudu Senanayake

Organisation (if applicable)

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Ministry for the  
**Environment**  
*Manatū Mo Te Taiao*

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Address [REDACTED]

Telephone [REDACTED]

Please enter your email address to receive a copy of your submission [REDACTED]