

# Submission Form: Barry Coates [REDACTED]

## Contact information

Name	Barry Coates
Organisation (if applicable)	
Address	[REDACTED]
Telephone	[REDACTED]
Email	[REDACTED]

## Context and drivers for the review

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

Yes

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

- Making a responsible contribution towards meeting the aims of the Paris Agreement (this is more specific than moving towards a carbon constrained future).
- Fulfilling New Zealand's responsibilities under the Paris Agreement by setting a higher target for emissions reductions to meet out international responsibilities and stimulate domestic action towards a low emissions economy, with economic and social co-benefits.
- Establishing an independent Commission on Climate Change to advise on targets and measures required.
- Establishing a sufficient price on emissions to provide incentives for New Zealand businesses to significantly reduce emissions (a price signal could be achieved by either a price floor or a cap on the emissions released through auctioning).
- Bringing agriculture into the ETS through a phase entry process that allows incentives for farmers taking measures to reduce their emissions.
- Using a sufficiently high price signal to reflect the externalities of emissions that contribute to climate change, in accordance with the Polluter Pays Principle.
- Support New Zealand businesses in traded sectors to make the transition towards meeting increasingly high standards for low emissions delivery of goods and services.
- Stimulate R&D and innovation that will enable New Zealand businesses to participate in rapidly-growing clean technology markets.
- Restoring the trust of New Zealand businesses and the public in the ETS, thereby increasing their motivation to change their behaviour accordingly.
- Seeking ways to generate co-benefits for the environment, equity (especially by supporting low income members of society and those facing the impacts of climate change) and quality of life.

- Replacing the ETS with a carbon tax, reflecting the public and business lack of trust in the ETS mechanism in the light of poor policy, mismanagement and fraud in the past.
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## Managing the costs of moving to full surrender obligations– submissions on these priority issues closed on 19 February 2016.

### Other issues: business responses to the NZ ETS

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

N/A

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

N/A

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### Other issues: protecting competitiveness through free allocation

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

Start to phase out free allocation rates before 2020. For any further maintenance of free allocation, there should be clear and transparent criteria for disadvantage, materiality (above a threshold in terms of business costs), proportion of trade exposure and identification of competitors not facing a carbon price.

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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?

N/A

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

Yes

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

There has been insufficient support for the Permanent Forest Sink Initiative. This should be incentivised via an adequate price, but also through promotion for use in areas that are not suitable for commercial forestry (which includes urban areas, riparian planting, steep hillsides and erosion-prone land).

The Review should consider creating a Permanent Forest Unit as recommended in the Pure Advantage report, 'Our Forest Future'.

b) other factors.

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### 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 major cause of the failing of the ETS to date has been the grossly inadequate price that has resulted from poor government policy, including allowing the use of international credits. Given the difficulties of ensuring adequate regulation of credits under UNFCCC rules for Kyoto Protocol, there can be no confidence that sound rules can be put in place under the Paris Agreement.

One key reason is the complexity of the situation with developing countries having emissions reduction targets themselves, emissions reductions finance by Climate Finance mechanisms and potentially emissions reductions via a trading scheme. Verification of additionality between these mechanisms will be impossible, and the potential for further fraud will be high.

The UNFCCC does not have the systems or capacities in place to be able to manage a certification, tracing and verification scheme on a global scale. The governance structures under the UNFCCC have been shown to be grossly inadequate, even when there was clear evidence that fraud was rife. And of greatest concern, there is still no clear accountability for these failings from the UNFCCC Secretariat or complicit governments who bought and sold these units, including the government of New Zealand.

A transparent, sufficient and predictable price is the main mechanism to reduce these barriers, together with a commitment that there will be no international trading.

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

If there is to be trading (which is not recommended), there should be a cap on trading as a proportion of units surrendered. This cap should be no more than 10% to avoid excessive influence over the local supply and demand conditions.

### Other issues: managing unit supply – auctioning

17. Should auctioning be introduced in the NZ ETS?

Yes

If yes, when?

a) in the next two to three years

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

The ETS needs to be structured to make a positive contribution to achieving our international target, but also well beyond that target – our target falls short of our international responsibilities to avoid dangerous climate change, as has been shown in international comparison by Carbon Action Tracker that judged New Zealand’s target as ‘inadequate’.

b) to more actively manage NZU prices

Price needs to be managed to establish a sufficient price signal to drive action on emissions. The price uncertainty and poor policy settings so far have not provided the price signals necessary for long term investment. This can be achieved by a minimum price and an annual price escalator.

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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?

Given the failings of the ETS so far, it is recommended to rule out international credits and use a price floor to manage price, rather than the politicised system of allocations that has allowed fraud in the source of credits and unfair trading advantages to some firms. Auctioning of units above this floor price can then be used to ensure there are only enough units available to meet a higher international target than at present.

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### Other issues: managing price stability

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

c) significant.

I am not a business owner but have interviewed a number of business owners who have complained about the lack of a predictable price signal for investment. This has also been borne out in reviews of the ETS.

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

Yes

There should be a minimum price put in place to ensure there is a degree of predictability in pricing.

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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)

It is crucial to restore integrity to the ETS, and the establishment of a price floor is essential in doing so, with an annual escalator. Auctioning could then take place above that level and a price ceiling could be established to provide predictability on the maximum level. Auctioning of units and domestic trading could take place within the bounded price zone. Given the lack of a regulated international market for units, and the infeasibility of establishing one, there should be no international credits allowed.

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### Other issues: operational and technical matters

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

Yes

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

We would be interested in comments on:

a) complexities involved in NZ ETS participation

There needs to be greater transparency and public confidence in the ETS. If a significant reason for an ETS is to change behaviours in the New Zealand economy, this will not be achieved if consumers and businesses do not trust the system. The previous cases of fraudulent supply of units has seriously damaged the ETS. A transparent carbon tax would be a preferable mechanism.

b) penalties for breaching NZ ETS obligations

There have been opportunities for participants to 'game' the system by arbitraging units. They have received NZUs and bought cheap international units to use for their surrender obligations. There should be a tightening of the rules to prevent such market manipulation. Regulation needs to be far more stringent.

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

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### 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?

Barriers and market failures are pervasive across the economy. Climate change is a massive externality and it is not factored into planning systems, including the Resource Management Act.

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

Government action is required to set the framework for emissions reductions. The ETS will not do the job by itself.

For example, in transport:

- Public investment is needed to facilitate the switch from road to low emissions transport modes, including far greater investment in rail and cycling.
- Government needs to provide incentives and infrastructure for the introduction of electric vehicles.
- Urban policy direction, including on housing, needs to be consistent with well-managed intensification rather than urban sprawl.
- The Government needs to establish emissions standards for vehicles reflecting climate change targets.

There need to be supportive policies across other sectors in order to make the price signals in an ETS effective, to provide alternatives, and to enable citizens and businesses to respond. Using price alone will load the cost burden onto low income groups in society.

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