NZ ETS Review Consultation
Submission by
Tauranga Carbon Reduction Group

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Stage 2 – Other Matters.

Introduction

This stage 2 submission is presented in the light of the stage 1 submission attached. In the meantime, the group has increased to nearly 70 in number, and there have been increasingly dire warnings of the rapidly changing climate changes. In addition, the release of the World Bank Group paper "Emission Trading in Practice: A Handbook on Design and Implementation" and the Royal Society of NZ paper "Transition to a low-carbon economy for New Zealand" have provided a wealth of relevant information.

Responses

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

Yes, in part. As mentioned in the stage 1 report, the CRG is very concerned about the lack of impact that the ETS has had on emissions to date, and we hope that the review will go some way to addressing that. However, we consider that the review will need to go well beyond the factors currently conceived in this review if it will seize the opportunity for New Zealand to build a strong "Climate Change Momentum" in the light of the Paris agreement. We accept that a market-based ETS could make an important contribution to encouraging meaningful behaviour change, but only if it is well designed and effectively managed. This requires a substantial improvement over past practices.

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

a. **Leadership:** There needs to be a much stronger emphasis on the need for NZ to effectively contribute to global commitments to preventing temperature rises to below 2^{o}C and as close to 1.5^{o}C as possible. This is an issue that goes beyond legal commitments and market processes to ensuring the survival of the planet. This objectively needs to be clearly stated and repeatedly stated at the highest levels. The Government needs to take leadership and support long term business investment in cleaner and low-carbon technologies.

b. **Integrity of rationale.** The frequently stated argument that NZ's contribution to mitigation can have a only a very small effect globally undermines the motivation for making serious mitigation efforts, and tends to reduce the process to a legalistic function. Fundamentally, the rationale is morally bankrupt, because if everyone else adopted it, then mankind would be doomed. It is the same rationale that says that voting is pointless because the small impact that one can have. The important issue is that NZ has one of the highest emission profiles per person, and needs to make a commensurate contribution to reducing that emission. If we fail, and continue at the bottom end of mitigation efforts, then we will lose our international reputation, reasons to be proud of our country and the reputational benefits that we bring to international negotiating and trading capability.

c. **Develop an effective set of complementary measures** such as regulations, standards, taxes, government services, subsidies, information and education programs, voluntary measures, local government initiatives and overall monitoring to ensure the effectiveness of the measures. [*Emissions Trading in Practice, A Handbook on Design and Implementation*: International Bank for

Reconstruction and Development/The World Bank 2016, pp3, 22, 23, Box 0.4]. See: https://openknowledge.worldbank.org/bitstream/handle/10986/23874/ETP.pdf

d. **All significant aspects of GHG emissions** need to be addressed through appropriate measures. The recent Royal Society of New Zealand publication Transition to a low-carbon economy for New Zealand provides key information for this process. See http://www.royalsociety.org.nz/expert-advice/papers/yr2016/mitigation-options-for-new-zealand/

e. **Community Engagement** through education and participation in decisionmaking on a broad scale is required to gain their support of the program to ensure that the overall mitigation process was effective.

f. **Agriculture** is an important part of the problem and is also an important part of the solution. It needs to have the incentives to adapt. However, the current approach to relying on technical solutions to mitigate the emissions from the established ruminant dominated systems is too narrow. Agriculture based on animal farming is proving far too inefficient and environmentally damaging for its sustainability. To ensure the long term viability of agriculture it needs to be moving more to plant-based products that can provide much more of the sustenance required for growing populations. For this to occur, agriculture needs to bear its fair share of their environmental costs.

g. **Imports/Exports.** A major impediment to an effective ETS to date has been the need to protect exporting industries. With the Paris agreement, we need to be

   i. Developing our protection strategies in the context of the strategies of our major trading nations. Our protective measures are an incentive for other countries to protect theirs – undermining the incentives for mitigation in both countries. We need to ensure we protect our industries only when necessary.

   ii. Ensure our imported products bear the appropriate environmental costs.

   iii. Address the factors that promote import of unnecessary products and services, thus forcing us to promote environmentally damaging industries to pay for them. That is, to observe the requirements for sustainable production and consumption.

h. **Incorporate the Sustainable Development Goals** (SDGs) into the climate mitigation strategy. These 17 goals, including climate change, accepted by all nations, incorporate the key factors for long term sustainability.

i. **Further, for the reviewed NZ ETS to effectively drive a low-carbon economy, we consider that it should**:

   i. Set up an absolute cap on emissions to guarantee that NZ achieves its commitments,

   ii. Cover all sectors and all gases to full obligation (including agriculture emissions) to reflect our true impact on the environment. Exceptions only to occur when the impact is small and the administrative costs are large,

   iii. Support the transition to a net zero emission and a reduction in gross emissions domestically,

   iv. Phase out the 2 for 1 allocation as soon as possible,

   v. Introduce auctioning as soon as possible to enable an effective emissions cap.

   vi. Include only properly accredited international units with restriction on the number and quality of the units able to purchase from offshore.

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

All sectors and all gases should be included in the ETS. Free allocation should be phased out as soon as possible (preferably before 2020).

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)

YES. Environmental integrity, measurement reporting and verification standards are vital to maintain integrity of the NZETS. Limited international credits can be used if they have been proven to not undermine the environmental integrity of the NZETS. Government shall investigate and release a list of international credits provider.

a) restrictions on how many units can be surrendered

Yes, to ensure that NZ undertakes abatement measures so that it adpts to low carbon operating conditions.

17. Should auctioning be introduced in the NZ ETS?

Yes

If yes, when?

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

Avoid too many international units being purchased

b) to more actively manage NZU prices

Helping mitigating the risk of under-supply NZUs resulting in:

- Reliance on Fixed Price Options
- NZU prices become politically unacceptably high, leading to regulatory interventions

In both cases, longer term NZ ETS policy certainty would be undermined.