

**NZ ETS Review Consultation**  
**Submission by**  
**Tauranga Carbon Reduction Group**

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**Stage 1 – Priority Issues.**

## **Introduction**

The Tauranga Carbon Reduction Group is an informal group of around 50 people who are committed to raising awareness of the need to reduce carbon emissions and to support activities to that end. Our members come from a wide range of organisations and businesses around the region. We are pleased to present this submission as the ETS plays such an important role in NZ's carbon abatement strategy.

## **Context**

This ETS review is being undertaken in the context of a seriously deteriorating climate situation. It is becoming increasingly clear that drastic reductions in greenhouse gas emissions are required to address the threats that science is predicting to the future environment of our world. The need to look seriously at our national emissions and the method that we have been using to manage them is brought about by a number of factors.

1. Our poor record in managing our overall GHG emissions which have been increasing consistently since 1990. This contrasts with the EU which has been decreasing since that time.
2. Our overall GHG emissions which are amongst the highest in the world, despite the fact that we are blessed with a very high levels of renewable electricity resources. Consideration of our high level of agricultural emissions does not improve the situation very much.
3. The December 2015 Paris climate change agreement in which a global temperature increase target below 2°C approaching 1.5°C was agreed to. This agreement increases the need to reduce emission to achieve international expectations.
4. Our privileged position as a country that has built its high economic standards substantially on the consumption of fossil fuels, in contrast to the many developing countries which need to be able to use fossil fuels, at least in part, to bring themselves out of their poverty levels.
5. The uncertainty about the level of climate change mitigation achieved by prescribed emission reductions due to the uncertainty presented by a number of tipping points that the climate system is approaching. For instance the increasing flow of Antarctic and Greenland ice and the methane emissions from Arctic tundra and sea floors is very unpredictable, and exacerbate the current threats.
6. Our potential contribution to global leadership in generating concerted effort amongst nations to make the changes to achieve the levels of mitigation required. We have a reputation for supporting multilateral efforts, but the modest level of our own leadership increases the risk of failure.
7. The low level of public and industrial awareness and commitment to making the changes needed to achieve the radical reductions in emissions required. These changes do not merely involve the changes in energy sources but also the changes in lifestyles and industrial practices which would substantially reduce the energy demand. Such changes include reduction of unnecessary travel, particularly recreational travel, shifts of cargo from trucks to rail and the expansion of public transport.

In short, this is a case of national and global survival, far beyond the very modest issues that the government is presenting in the ETS review. While the IPCC have targeted carbon neutrality by the year 2100, with the increasing ambition and the climate uncertainties many experts argue that 2050 needs to be the global neutrality target, and developing countries need to be looking at 2035.

This stage 1 submission addresses the identified high priority issues that need to be submitted by the 19<sup>th</sup> February. A subsequent submission will address the lower priority issues by the 30<sup>th</sup> April.

### **Response - 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/No/Unsure**

**Yes.** The critical issue is whether the carbon price motivates an adequately rapid shift in practices. The current half surrender conditions at \$10 a tonne is equivalent to 1.2 cents per litre, or ~0.5% of price for retail petrol. Requiring full surrender increases the cost to ~1% of price. This makes it a very small portion of common price variations. According to price elasticity modelling<sup>1</sup> this would produce a change in petrol consumption of ~0.15% in a year. Considering that we are looking for changes more like 5-10%/year, then we would be needing incentives greater than 30 times as much. This would be equivalent to carbon prices greater than \$300. While such a price is high, it is low in comparison to some corporate modelling<sup>2</sup> which uses carbon pricing up to USD357, equivalent to \$545.

1 <https://www.nzta.govt.nz/assets/resources/research/reports/331/docs/331.pdf>

2 <https://www.cdp.net/CDPResults/carbon-pricing-in-the-corporate-world.pdf>

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.

**No Response** - Not relevant to our organisation.

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

**2016** Full surrender needs to be implemented immediately to eliminate the completely unwarranted freeloading of a large portion of the community. As argued above the price is trivial so there needs to be no consideration of extending the benefits any further.

### **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**

**No.** As the price shifts are a small fraction of common price variations there will be no price shocks that can be ascribed to the move.

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

**See above** – it does not need to be done at current price levels.

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

**The price of the** surrender option should be moved well into the region required to achieve effective mitigation – i.e. \$300 or above.