

New Zealand ETS review 2015/16 consultation

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

Answer 1: Unsure

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

Answer 2:

A key factor is the comprehensive nature of the agreement in Paris. Now that essentially all the world's emissions are covered by the agreement, this has major implications for NZ's approach to free allocation.

In short, now that every economy must bear the costs of emissions in accordance with their commitments, there is no case for giving free allocation to prevent leakage of emissions or protecting competitiveness against producers in economies that are free riding.

It is also time to bring agriculture into the scheme. There is no credible economic case for continuing the cross subsidy for this sector under the ETS.

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:

NZ should move to full surrender. A higher emissions price is needed to drive material emission reductions and meet our international obligations. Indeed, a higher price is needed to stop our gross emissions which are ballooning.

It is inefficient to have some forms of abatement incentivised at the "full surrender" price and others incentivised at half this rate. It is also an equity problem as some firms and households are paying a greater share of the cost of emission reductions regardless of their costs of abatement.

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

Answer 4: More likely to support a scheme that is effective, efficient and fair.

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.

There is no credible reason to delay.

Emitters have access to a liquid market for units as well as opportunities to reduce emissions/exposure to pass through costs that can be implemented quickly. Government also has programs in place to support energy efficiency/ subsidise plantings. The 2 for 1 arrangement was signalled as a temporary measure and its removal long anticipated. Its removal should be no surprise.

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

Answer 6: No

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6A. Please explain your answer:

The rationale for the ETS is that the private sector is better placed to manage uncertainty in abatement costs than government. Under this logic there is little rationale for intervening to manipulate the price.

As this policy change has been signalled well in advance, the price of NZUs has already adjusted to reflect anticipated greater surrender demands and the one time “shock” of doubling the effective emissions cost for some sectors is going to be very small given the small effective emissions price. A 2-3 cent movement in petrol price isn't a shock that government should be concerned about.

Moreover, if the market is as liquid as the MfE evaluation document suggests then the chances of a shock from constrained supply seem low.

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

Answer 7:

7A. Please explain your answer:

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

Answer 8:

It should be removed. It is an arbitrary number that modelling suggests is too low to reduce our gross emissions significantly. If the government knows what price represents abatement that is too expensive we should have had a carbon tax.

An interim step would be to increase it to the assumed international price that has been used to justify NZ's UNFCCC condition of access to the international emissions trading market. This would at least mean NZ's international statements about our willingness to bear costs and the ability of our ETS to actually impose them would be consistent.

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

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:

Clarity over when subsidies for agriculture and emissions intensive industries will be removed.

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

Answer 11:

New Zealand having an emissions reductions goal and wanting to achieve this at least cost.

There are no longer sound grounds for continuing free allocation. Some submitters will argue that free allocation should only be removed if all countries have an emissions price in place or if the world price of relevant trade

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exposed outputs is set by a producer bearing a carbon price These are not useful criteria. Essentially all countries are part of the global agreement now and their choice of policy instrument should not impact our ETS design. Subsidising our emissions intensive industries' emissions costs just because other countries do so is not in NZ's interests.

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:

It would help make decisions about which firms to invest in. If government signals that the the subsidies to emissions intensive firms and agriculture are indefinite then I will be more likely to invest in firms in these sectors.

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: No

15. What are your reasons for the above answer?

Answer 15:

There are non-GHG benefits of permanent native afforestation but the ETS is probably not the right tool to use for providing these incentives.

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:

- 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

16A. Please explain your answer:

It is important to avoid another price collapse.

It is important to avoid the use of units of questionable environmental integrity.

17. Should auctioning be introduced in the NZ ETS?

Answer 17:

17A. Please explain your answer:

Yes but only once fixed price option and free allocation are removed and if international linkages remain prohibited.

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

Answer 18: a) to align supply in the NZ ETS more closely with our international target

18A. Please explain your answer:

Govt should not be actively managing prices.

Auctioning may not be needed under tougher future targets so should be clearly identified as temporary if introduced.

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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:

All sectors must face the same price. Units will therefore need to be identical if the scheme remains closed to linkages.

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: No

21A. Please explain your answer:

In general, only a scheme design that exposes all sectors to a full obligation and phases out free allocation. The rationale for the ETS is that firms and individuals are better placed than government to understand and manage uncertainty in the cost of reducing emissions.

Two sources of instability to avoid creating are introducing uncontrolled linkages to other schemes and legislative amendments that collapse the price through emitter subsidies as has previously occurred.

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

Answer 22: c) other

22A. Please explain your answer:

Government should not be creating an expectation that emitters will be shielded from a price on emissions or uncertainty in that price.

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

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Answer 23:

That there needs to be an expectation that emitters will pay the full price of their emissions regardless of sector and that government will not step in to subsidise pollution.

That government is not well placed to understand the cost of reducing emissions.

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:

Because the ETS is so administratively efficient exemptions for smaller emitters should be removed.

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