

Topics for NZ ETS Review 2015/2016 consultation

About the consultation

The Government is reviewing the New Zealand Emissions Trading Scheme (NZ ETS) to assess how it should evolve to support New Zealand in meeting future emissions reduction targets and its ongoing transition to a low emissions economy. This follows the announcement by the Government in July this year that New Zealand's post 2020 target is to reduce greenhouse gas emissions to 30 per cent below 2005 levels by 2030.

The Ministry for the Environment is leading the consultation and welcomes your feedback on how the NZ ETS is working and how it might work better in the future.

The review will focus on:

- some transitional measures introduced to moderate the impacts of the NZ ETS
- what is required for the NZ ETS to evolve with changing circumstances including future targets
- operational and technical improvements.

Discussion document

For more information about the consultation, read our [discussion document](#). It sets out the issues on which the Government is consulting, the objective and drivers for the review. It also contains the terms of reference for the review.

See the following two technical notes for information on specific issues relating to forestry and on operational matters that could be improved. Submissions on these matters close at 5pm on 30 April 2016.

- [Operational matters technical note](#)
- [Forestry technical note](#)

The following three technical notes were made available to support submissions on the NZ ETS review's priority issues. Submissions on priority issues are now closed.

- [The New Zealand Emissions Trading Scheme evaluation report 2016](#)
- [Economic impacts of removing NZ ETS transitional measures](#)
- [Afforestation responses to carbon price changes and market certainties.](#)

Closing dates for submissions

- Submissions on priority issues closed at 5pm on 19 February 2016
- Submissions on other review matters close at 5pm on 30 April 2016.

Publishing and releasing submissions

All or part of any written submission (including names of submitters), may be published on the Ministry for the Environment's website www.mfe.govt.nz. Unless you clearly specify otherwise in your submission, we will consider that you have consented to website posting of both your submission and your name.

Contents of submissions may be released to the public under the Official Information Act 1982 following requests to the Ministry for the Environment (including via email). Please advise if you have any objection to the release of any information contained in a submission and, in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information. We will take into account all such objections when responding to requests for copies of, and information on, submissions to this consultation under the Official Information Act.

The Privacy Act 1993 applies certain principles about the collection, use and disclosure of information about individuals by various agencies, including the Ministry for the Environment. It governs access by individuals to information about themselves held by agencies. Any personal information you supply to the Ministry in the course of making a submission will be used by the Ministry only in relation to the matters covered by this consultation. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that the Ministry may publish.

Contact for queries

Please direct any queries to:

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Postal: NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143

Questions to guide your feedback

The questions below are a guide only, and all comments on topics are welcome. To ensure your point of view is clearly understood, please explain your rationale.

Contact information

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Submission Form

Discussion Document

Context and drivers for the review

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

Yes

It is vital that New Zealand recover its reputation in the International setting with respect to combatting the challenge of Climate Change and the ETS should be a major component of our managing our emission reduction contribution.

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

1. I believe the review should consider the fundamental design of the Emission Intense Trade Exposed allocation process, and in particular the need to install a mechanism for regular review of the allocation baseline for each activity.

Reason; when the ETS was first enacted the settings for the EITE allocation programme included a small annual percentage decrease which was designed to recognise and encourage continuous efficiency improvements. Without this encouragement, and with the passage of five years from enactment, some activity participants may be receiving more units than the fundamental philosophy of the protection mechanism entitles them to.

2. Agricultural emissions. While there is still a strong belief, held and communicated by Government, that technical solutions to agricultural emission levels are very difficult to reduce, the fact that the ETS does not include these emissions leads to an inertia in the management of the emissions on farm.

I would respectfully suggest that some mechanism(s) be developed to include some on-farm emission sources in the ETS, for example, nitrogenous fertilizer usage.

Moving to full surrender obligations – submissions on these priority issues closed on 19 February 2016.

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?

Yes

If yes, how do you do this?

I am making this submission as the director of a small company which is not yet active. The cost of emissions will be important when the business becomes active.

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

The key to improving a business' ability to account for the cost of carbon in forward planning is to have a robust, liquid market with sufficient visibility of depth and future market perception of the price of NZU's. To improve on liquidity and depth the ETS settings should be set so as to encourage more participants such as foresters with small forests (see later). The demand side of the market is currently limited by the generally high level point of obligation for most activities. Only a very small number of small businesses have any view, or need to view the cost of carbon. Inclusion of Agriculture with point of obligation at the farm gate would dramatically solve this limitation.

Future market price of NZU's relies on market platforms developing 'Futures' instruments and making that area of the trading market visible. This may not be in the jurisdiction of the Government's legislation, but could be encouraged.

Other issues: protecting competitiveness through free allocation

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

The free allocation programme designed to protect competitiveness and ensure carbon leakage does not occur for the EITE activities should continue until the risk of carbon leakage is nullified. This was the original intention of the EITE programme and the purpose remains true. However – there are a number of points which should be taken into consideration in the programme:

1. At the implementation of the ETS it was stated that the EITE protection mechanism would remain in place until our major trading partners implemented similar cost of carbon mechanisms in their economies. Many of our major trading partners do now have a cost of carbon in their economies, but most, if not all of these have a competitiveness protection programme similar to our EITE allocation programme.

The effect of these competitiveness protection mechanisms is to compensate EITE businesses within their borders, thereby liberating product into the international marketplace with no effective cost of carbon imposed. Thus, in assessing the risk of carbon leakage in each of our EITE activities, with the purpose of reducing the allocation rates, it will be vitally important to assess not only if our trading partners have a cost of carbon implemented in their economy, but whether the activity is protected by an EITE type mechanism.

a. The fact that most emission trading schemes around the world have a protection mechanism for Emission Intense (and Trade Exposed) activities suggests that businesses performing these activities have little encouragement to improve efficiencies or find technological innovations to reduce emissions. This was particularly true with very low prices for Carbon, but is only marginally changed with rising carbon prices. Thus, the most intensive emitting industries are protected, world wide. Many of these activities may use the Agricultural reason – “technically too hard” because they are based on empirical process reactions (Cement, Steel). The public credibility of this reason is probably similar to that for Agriculture.

In order for New Zealand to reduce its free allocation rates for the heavy industry EITE activities it may need to work with other nations to simultaneously reduce

the EITE protection of their industries. {A mechanism which may be useful in this endeavour would be the IPCC Sectorial budgets and the associated Science Based Target Setting procedures.}

2. When the ETS legislation was enacted the EITE allocation baselines were set for each activity using a national average emission impact procedure covering all participants in each activity in New Zealand. Depending on the significance of the emission's cost of carbon for each activity they would be compensated with allocated units at either 60% or 90% of the baseline. The original intent was to reduce these allocation levels by a small percentage, of the order of 1.3%, each year to encourage efficiency and innovation programmes. No other mechanism for review or adjustment of baselines appears available in the ETS legislation or regulations, although the Government did make a general, system wide adjustment to electricity baselines in 2010.

After nearly six years of operation there are now two scenarios where businesses may be receiving a greater allocation than the fundamental purpose "to protect that business from competitive imports that carry no cost of carbon".

- a. Over six years some efficiency and technology improvements are highly likely to have occurred. While this could be considered effective encouragement for that efficiency improvement, it is against the principle purpose of the allocation.
- b. Over six years it is very possible that the participants in an activity may have changed. The setting of an activity's baseline as the national average encouraged the most efficient businesses with a 'bonus' and discouraged the less efficient businesses with higher costs. It is possible that this differential has lead, or contributed, to changes in the industry structure.

Both of these scenarios lead to some businesses receiving higher levels of allocation than were originally intended under the fundamental purpose of competitiveness support. I believe a review of baselines for allocation is well overdue.

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?

This is not applicable to my business and I don't have a view.

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.

This is not applicable to my business and I do not have a view.

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

Yes

It is well communicated that forestry has very beneficial effects on a number of New Zealand's ecological problem areas including water quality, erosion stability of land, air quality and amenity value.

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

Some of these benefits are achieved through small forest lots, such as riparian plantings for water quality which are either not capable of being included in the ETS, or very difficult to administer into the ETS. It is recommended that this review consider mechanisms to allow greater participation by small-lot foresters.

b) other factors.

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) restrictions on where units can be sourced from (location of and/or types of projects)

If international units are to be eligible for ETS compliance after 2020 then the units must be of highest, internationally verified integrity. The level of integrity is the key quality parameter rather than the location or type of project.

b) restrictions on how many units can be surrendered

The number of units permitted must be limited as internal abatement of New Zealand emissions is an essential outcome of the ETS legislation. While I have no knowledge of the macro-economic influence of the different percentages I would suggest that a participant be permitted to surrender no more than 10% in imported units.

c) others

Please explain your answer.

It is essential that New Zealand carry out its obligations to the Paris Agreement with a committed programme that achieves abatement of New Zealand domestic emissions. The balance with agricultural emissions may be difficult but simply permitting an open door to international units is not in the New Zealand reputational interests.

Other issues: managing unit supply – auctioning

17. Should auctioning be introduced in the NZ ETS?

Yes

It is vitally important that the Government identify its Carbon Budget, not only in the Paris Agreement decade but in the years 2016 to 2020. This budgeted emission volume MUST BE linked empirically to our actual interaction with the atmosphere; physical emissions and sequestrations.

{It is my understanding that currently this link to our atmospheric interaction is not empirically accurate and this makes a sham of the entire process}

Having secured the NZU budget to the atmospheric interaction, the Government must then manage the budget to achieve the Paris Agreement obligations and auctioning NZU's is a viable management process.

If yes, when?

c) after five years (post 2020).

There is a large bank of units in the registry and if further units are brought to market (by Government auction) this will just delay or dilute abatement activity. It is recommended that this bank be depleted before 2020.

While the Government's Paris commitment is considered by many to be very inadequate, the Government must set the scene for more ambitious targets to develop. Management of the volume of units available for auction must balance a steady growth in Carbon price with the effect that has on forestry and industry response.

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

yes

b) to more actively manage NZU prices

yes

c) other

Please explain your answer.

Managing the Carbon budget has the dual role of meeting the international target(s) while maintaining as stable a carbon price as possible to allow for foresters and industries to manage their businesses toward a net zero carbon emission economy.

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?

Auctioned units must be related *pari passu* with other sources of supply. My understanding is that the metadata associated with each unit will identify its source and path, but the currency should have one denomination.

Other issues: managing price stability

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

Please explain your answer.

Not applicable to my business

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

Yes

Please explain your answer

Carbon budget management as described above.

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)

Please explain your answer

It is recommended that in managing the Carbon Budget as described above, the Government is very transparent in identifying the trajectory / avenue of price verses internal abatement to achievement of the international target.

This brings me to recommending an independent Climate Change Commission to manage the carbon budget. We have had too much political interference making the direction of policy confused and leading to a lack of action in industry and forestry. The path must be visible for all participants to walk on.

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

Putting the responsibility in the hands of an independent Climate Change Commissioner.

Other issues: operational and technical matters

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

Yes

I have recently spoken with small-lot foresters and farmers with small but secured (native) forest blocks. Both indicated that they would not go attempt to engage with the ETS because of the administrative difficulties.

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

We would be interested in comments on:

- a) complexities involved in NZ ETS participation see above
- b) penalties for breaching NZ ETS obligations complexity on harvesting
- c) any technical or operational changes that could be made to the NZ ETS to improve efficiency.

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?

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

Any other comments related to issues set out in the discussion document

28. Please comment here

[NB: Separate consultation form]

NZ ETS review: Forestry technical note

The following questions relate to information presented in the Forestry technical note.

Existing structural design settings

F1. What do you consider are the strengths and weaknesses of the NZ ETS forestry settings?

A distinct weakness is the inability to bring in small lot foresters.

F4. Does the NZ ETS provide effective incentives for smaller foresters to participate in the scheme? If not, what settings do you think would?

No

Please explain your answer

Discussions with a small – lot forester and farmers with small blocks of either indigenous or pine forests suggest it is too hard to participate, and the cost of surrender on harvest makes it not worth the effort. (See later for comment on accounting mechanism).

F5. Does the NZ ETS work well alongside other forestry programmes? If not, how do you think these programmes could be better aligned?

Unsure

Please explain your answer

We hear much about the other ecological benefits of forests and small tree planting lots and it would appear logical to bring about synergistic win-win mechanisms for plantings to improve water quality (riparian strips), land stabilisation and other benefits while sequestering carbon and generating carbon units.

I recommend the review look at ways to include small, aggregated wood lots in some easily administered programme.

F6. What changes could be made to NZ ETS forestry sector provisions to improve the scheme?

Future forestry accounting in the NZ ETS

F7. What are important factors when considering changes to forestry accounting settings in the NZ ETS?

Forestry accounting settings of the ETS should relate directly to the interaction between the biota and the atmosphere. Putting this another way, Carbon Dioxide in the atmosphere is the cause of Climate Change, not carbon sequestered in wood. With the New Zealand

Government no longer signed up to the second commitment period of the Kyoto Protocol it is time our emission management system stopped making the Kyoto assumption of combustion of all wood at time of harvest.

F8. Do you think a different forestry accounting approach in the NZ ETS would change the scheme's incentives for afforestation?

Yes

Please explain your answer

Major benefits can accrue to New Zealand business, particularly the forestry, lumber and wood processing industries, if the sequestered value of carbon is carried through the supply chain.

Ten years ago there was a significant amount of work done on Harvested Wood Products here and in Australia and I am aware of one submission to the NZ Government (December 2005, Land Use and Land Use Change) expounding on a process whereby the sequestration value of carbon in wood was carried through the supply chain (rather like GST). At points along the chain there are materials side-lined and burnt for energy (shavings, sawdust etc) and only these would be liable for surrender, as would the end-of-life demolition wood products. With the growth of FSC (Forest Stewardship Council) chain of custody accreditation the tracing of wood volume through our commercial supply chains is more common.

Averaging

F9. Do you think averaging should be introduced for post-1989 forests? If so, why?

Yes

Please explain your answer

I believe averaging would be a suitable accounting mechanism to encourage small lot foresters and farmers to participate.

Do you think it should be optional or mandatory?

Optional – it may not be suitable for large plantation or other participants.

F10. Should there be limits on the types of forests that can use an averaging accounting method? For example, new forests only or forests under a size threshold.

No

Please explain your answer

I believe it should be left to the individual forester to recognise the most appropriate mechanism for their forest circumstance. This is particularly true if synergy systems are developed for other ecological benefit situations.

F11. How might averaging impact on your business decisions?

Not relevant to my business

Harvested Wood Products

F12. Do you think deferred liability for emissions from Harvested Wood Products (HWPs) should be recognised domestically? If so, how?

Yes

Please explain your answer

As above, I believe a scheme should be implemented which carries the sequestered value of the carbon in wood products through the supply chain with only those off-takes which are combusted being liable to surrender units. This scheme could be run in conjunction with the FSC Chain of Custody programme.

Such a programme carries “credits” into wood products, thereby encouraging wood use in building, and only when wood products from demolition or other disposal are burnt is the emission to the atmosphere finally recognised.

Such a scheme more accurately represents the forest wood interaction with the atmosphere, and I recommend the Review consider this mechanism.

F13. How might the options for deferred liability for emissions from HWPs impact on your business decisions?

Not relevant to my business.

Other

F14. Do you have any other comments or things you think are important?

[NB: Separate consultation form]

NZ ETS review: Operational matters technical note

The following questions relate to information presented in the Operational Matters Technical Note, which can be found here.

Disclosure of NZ ETS information

OM4. Does the current level of information available allow you to make informed decisions about your participation in the NZ ETS?

No

If not, please give examples of information you think would be useful, and how it would help you.

I believe that as a member of the public I am provided with NO information about how the ETS impacts on my life and costs. As the public becomes more aware of Climate Change impacts I believe it is essential that the Government give more information and guidance as to how to change behaviour and reduce our emissions.

("What's my number", EECA Energy conservation website etc.)

OM5. Are there any additional forms of information that would assist with your understanding of, or participation in, the market?

When your submission is complete

Email your completed submission to nzetsreview@mfe.govt.nz or post to NZ ETS Review Consultation, Ministry for the Environment, PO Box 10362, Wellington 6143.

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