

## **Submission to the Ministry for the Environment on the NZ Emissions Trading Scheme Review 2015/16**

### **Priority Issues**

**Peter Hardstaff, Head of Campaigns**  
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### **Summary of recommendations**

The New Zealand Emissions Trading Scheme as it stands does little or nothing to reduce emissions. New Zealand, as part of the international effort, needs to play its part by reducing emissions as much as possible, as soon as possible, with the aim of reaching zero net emissions by 2070. Welcoming this ETS review, WWF-New Zealand recommends:

- The New Zealand government should introduce a price on agricultural emissions in order to stimulate further innovation at the farm level. This could be through the ETS or some other mechanism.
- The government could look at ways to reduce costs for farmers in other areas in order to offset the overall impact while still maintaining a price on pollution which will reward innovation in emissions reduction.
- The government should publish in full the estimates of the cost of different abatement options in other countries compared to New Zealand.
- The government should undertake a more systematic analysis of the wider co-benefits of mitigation action so that these can be better taken into account in decision-making processes.
- The government should explicitly recognise the limitations of an ETS – even a well-functioning one – and commit to introducing a comprehensive set of policies across different sectors that can help kick-start the transition to zero net emissions.
- The government should bring an end to the ‘two for one’ transitional measure and move to ‘full surrender obligations’ as soon as possible.
- The government should abandon the price ceiling of NZ\$25 per tonne and investigate options for ensuring a steadily rising minimum price in order to create greater certainty about the future direction of the emissions price.

## 1. Introduction

WWF-New Zealand thanks the Ministry for the Environment for the opportunity to make a submission on the Emissions Trading Scheme (ETS) review and engage with government on this crucial climate change issue. As requested, this submission is focused on the 'priority issues' set out in the discussion document. A separate submission will be made on the 'other issues' by the 30<sup>th</sup> April deadline.

WWF-New Zealand is part of the WWF International Network, the world's largest and most experienced independent conservation organisation. It has close to five million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which people live in harmony with nature. This is achieved by working on the ground with local communities, and in partnership with government and industry, using the best possible science to advocate change and effective conservation policy.

WWF-New Zealand advocates action to reduce greenhouse gas emissions in line with the best available science. The most comprehensive assessment of climate change science to date was completed by the Intergovernmental Panel on Climate Change (IPCC) in 2013. This *Fifth Assessment Report* (AR5) reached the strongest conclusions to date that it is highly probable that human actions are causing climate change.<sup>1</sup> The report warns of catastrophic consequences for people and nature of run-away climate change and highlights the need for immediate action to mitigate, and adapt to, climate change.

The IPCC *Fifth Assessment Report* usefully set out a carbon budget that humanity needs to stay within in order to have a reasonable chance of keeping below a 'relatively safe' level (i.e. 2 degrees) of average warming. Even if annual global emissions remain constant, rather than continuing to increase, this budget will be exceeded in 2035.

It is important to bear in mind that this '2 degree' warming level that has been deemed relatively safe by some governments still entails potentially catastrophic impacts. This means biodiversity loss, significant Arctic sea ice loss, a high risk of mass coral bleaching, a high likelihood of sea levels rising more than 1m, high risks from the increased incidence and severity of extreme weather events and a high risk to crop production. Governments should aim to stay as far below the '2 degree' level as possible and the acknowledgement of the 1.5 degree target in the 2015 UNFCCC Paris Declaration is welcome.<sup>2</sup>

The imperative to take significant action urgently could hardly be clearer. In this context, New Zealand, as part of the international effort, needs to play its part in reducing emissions as much as possible, as soon as possible, with the aim of reaching zero net emissions by 2070 at the latest.

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<sup>1</sup> See: <https://www.ipcc.ch/report/ar5/syr/> **this link doesn't work. Do you mean <http://ipcc.ch/report/ar5/wg1/>**

<sup>2</sup> UNFCCC (2015). *Report on the structured expert dialogue on the 2013–2015 review*. FCCC/SB/2015/INF.1. 4 May 2015. <http://unfccc.int/resource/docs/2015/sb/eng/inf01.pdf>

## 2. Comments on Evidence and Assumptions

### 2.1 Excluding agriculture

In section 1.2 (pages 4 & 5) of the discussion document, it is made clear that biological emissions (i.e. methane and nitrous oxide from agriculture) are being excluded from the review and will therefore remain outside the ETS and exempt from an emissions price.

The point of putting a price on pollution is to create an incentive to reduce emissions. As the discussion document states in Section 1.1 (page 3): “[A] price on emissions is intended to create a financial incentive for investment in technologies or practices that reduce emissions, and for carbon removals from forestry”.

In theory, the idea behind an emissions trading scheme is that the market will respond to the price signal by creating and then implementing solutions. Yet the government’s approach on biological emissions implies that this theory does not work in the case of agriculture, and the market is not capable of responding to a price on emissions. Instead the government has decided that only a centrally-planned research effort can deliver the solutions required and these can then be handed down to farmers.

The government has yet to produce any evidence to support the assumption that farmers are incapable of innovating in response to a price on pollution.

WWF-New Zealand recommendations:

- The government should introduce a price on agricultural emissions in order to stimulate further innovation at the farm level. This could be through the ETS or some other mechanism.
- The government could look at ways to reduce costs for farmers in other areas in order to offset the overall impact, while still maintaining a price on pollution which will reward innovation in emissions reduction.

### 2.2 “New Zealand’s relatively costly domestic abatement options”

Section 2.2 (page 9) of the discussion document reiterates the claim that reducing emissions in New Zealand is more expensive than in other countries.

Without providing any evidence it is impossible to subject this claim to any scrutiny. It can be assumed that the government has estimated the costs of different abatement options in different countries (e.g. the relative cost of building wind farms, building railways, planting trees, installing energy efficient lightbulbs etc). However, to date the government has refused to release these estimates and has only been willing to publish meaningless tables of aggregate numbers.

In the electricity sector, it is clear that New Zealand has some of the lowest cost renewable options in the world, given that both onshore wind and geothermal generation can compete, without a subsidy, with thermal generation. Experience to date with the ETS

and the emissions price required to stimulate tree planting demonstrates that forestry is also a relatively low cost option for New Zealand.

The discussion document also perpetuates the government's on-going focus on the potential costs of taking action while ignoring the potential benefits. The co-benefits of taking action to reduce emissions include improved human health and wellbeing arising from increased walking and cycling or reduced water pollution from more riparian tree planting. Studies already exist on the estimated costs of air pollution in New Zealand,<sup>3</sup> the economic costs of congestion,<sup>4</sup> the costs to the economy of physical inactivity,<sup>5</sup> the potential economic benefits of more active transport modes,<sup>6</sup> and the potential economic benefits of riparian planting.<sup>7</sup>

It is disappointing, albeit not surprising, that the Ministry for the Environment (MfE) has commissioned economic modelling on the overall costs to the economy of a higher carbon price to accompany this review but has not commissioned or summarised any work on the economic benefits.

WWF believes that the government's assertions about the costs of reducing emissions in New Zealand are highly dubious. To enable an adequate assessment, we urge the government to release the evidence for these calculations and assumptions. It is also important that the Ministry for the Environment produce analysis on the economic benefits of emission reduction so that this can be viewed alongside the rather blunt tool of computable general equilibrium modelling.

Ultimately it is imperative that the government and MfE recognise that there is no 'free rider' option. All countries are going to need to reduce net carbon dioxide emissions to zero by the second half of this century so all countries will need to get beyond just picking off the 'lowest cost options' while making up the difference with overseas credits. The sooner the transition towards zero net emissions is started, the easier and cheaper it will be.

WWF-New Zealand recommendations:

- The government should publish in full the estimates of the cost of different abatement options in other countries compared to New Zealand.
- The government should undertake a more systematic analysis of the wider co-benefits of mitigation action so that these can be better taken into account in decision-making processes.

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<sup>3</sup> For example, the work of the Health Research Council of New Zealand. See: [http://www.hapinz.org.nz/HAPINZ%20Update\\_Vol%201%20Summary%20Report.pdf](http://www.hapinz.org.nz/HAPINZ%20Update_Vol%201%20Summary%20Report.pdf)

<sup>4</sup> Congestion is estimated to cost the NZ economy around \$1 billion per year. See: <http://www.nzta.govt.nz/resources/travel-planning-toolkit/docs/resource-1-facts-and-figures.pdf>

<sup>5</sup> See, for example, work done by several regional councils on the cost to the country of physical inactivity: <http://www.gw.govt.nz/assets/About-GW-the-region/News-and-media-releases/Physical-inactivity-costs-report.pdf>

<sup>6</sup> See, for example the work of Auckland University researchers in 2008: Valuing the health benefits of active transport modes. <http://www.nzta.govt.nz/resources/research/reports/359/docs/359.pdf>

<sup>7</sup> See recent Landcare Research work on ecosystem services: <http://www.landcareresearch.co.nz/publications/newsletters/soil/issue-23/riparian-zones>

### 3. Drivers for the review

WWF-New Zealand agrees with the discussion document that, as it currently stands, the ETS will do nothing to reduce emissions.

As the Parliamentary Commissioner for the Environment (PCE) stated when the Modified Trading Scheme bill was passed in 2009, “in its current form, the bill virtually guarantees that the ETS will not achieve its stated goal of reducing our greenhouse gas emissions”.<sup>8</sup> Since then there has been no significant change to the ETS and the PCE’s prediction has been borne out in reality.

It is therefore imperative that action is taken as soon as possible to ensure a meaningful price on emissions in New Zealand.

However, WWF-New Zealand strongly emphasises that the ETS is just one mechanism to encourage action to reduce emissions. Even with a more meaningful carbon price, the ETS cannot, on its own, deliver the emissions reductions New Zealand needs to achieve and kick start the transition towards zero net emissions. It is imperative that the government implement a set of ‘complementary measures’ that can help achieve this objective alongside the ETS.

WWF-New Zealand recommendation:

- The government should explicitly recognise the limitations of an ETS – even a well-functioning one – and commit to introducing a comprehensive set of policies across different sectors that can help kick start the transition to zero net emissions.

### 4. Moving to full surrender obligations

The current ETS is an expensive, complicated and bureaucratic way of achieving very little. It needs an overhaul so that the price on emissions creates a meaningful incentive for reduction.

For example, it has been reported that the emissions price needs to be more than NZ\$15 per tonne in order to stimulate tree planting<sup>9</sup> and the price would likely need to be significantly higher to stimulate the substitution of high emissions for low emissions technologies.

However, the transitional obligation for participants to surrender only one unit for every two tonnes of equivalent carbon dioxide (CO<sub>2</sub>e) emitted, coupled with the lack of control

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<sup>8</sup> Parliamentary Commissioner for the Environment. (2009). ETS amendments bill "won't help environment", says Environment Commissioner, Press Release, 25 November 2009. <http://www.pce.parliament.nz/our-work/news-insights/ets-amendments-bill-wont-help-environment-says-environment-commissioner>

<sup>9</sup> Watson, P. 2012. Carbon benefits going up in smoke? *Nelson Mail*, 20/11/2012. <http://www.stuff.co.nz/nelson-mail/lifestyle-entertainment/primary-focus/7973648/Carbon-benefits-going-up-in-smoke>

over purchasing international credits, have resulted in a negligible emissions price in New Zealand for several years. The unit price has not been above NZ\$10 per tonne since late 2011 and was below NZ\$5 per tonne between mid-2012 and late 2014.<sup>10</sup> Not surprisingly, this has led to a rising gross emissions trend and even net deforestation.

The discussion document rightly points out in section 2.3 (page 10) that “increasing certainty around future policy settings in the NZ ETS could make it easier for firms and households to plan for the future.” The issue at the heart of the ETS’s effectiveness as a tool to stimulate emissions reductions is not only a meaningful price now, but also certainty that there will be a meaningful price into the future. To date, the ETS has completely failed to deliver this certainty which means that businesses making long term investment decisions with significant emissions implications have little incentive to make the low emissions choice.

WWF-New Zealand recommendations:

- The government should bring an end to the ‘two for one’ transitional measure and move to ‘full surrender obligations’ as soon as possible.
- The government should abandon the price ceiling of NZ\$25 per tonne and investigate options for ensuring a steadily rising minimum price in order to create greater certainty about the future direction of the emissions price.

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<sup>10</sup> Simon Johnson, a Wellington-based researcher, has created a time series graph of New Zealand Unit prices from 2010 – 2015. <https://commons.wikimedia.org/wiki/File%3ANZU-NZ-emission-unit-720by540.svg>