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Updating the New Zealand Emissions Trading Scheme: ECO Submission

1. Introduction

ECO is an organisation of about 50 member organisations and several hundred Friends of ECO. We have a long standing interest and expertise in climate and greenhouse gas emissions policy. This submission draws on our series of policy processes on these matters and on submissions to both legislative processes and policy processes and the Review of the ETS.

We note that the ETS Review team comprised people with significant links to those who would benefit from shifting costs to the public, future generations, and the environment. So it is misleading to refer to it in the *Foreward* to the consultation document as “independent”, given that it was stacked with people from the highly polluting industries.

It is disappointing that the Consultation document does not draw attention to the UNFCCC review of the New Zealand 5th National Communication. Further the *Foreward* might lead people to think that the so-called Independent Review was a product on that process (para four, p 3).

2.0 The objectives of the Scheme.

The document lists the following as the government’s objectives of the ETS, but we think these should be revised to include protection of biodiversity to avoid perverse effects of this Scheme.

“The Government’s objectives for the ETS

The Government has reconfirmed the objectives of the ETS:

- *help New Zealand to deliver its "fair share" of international action to reduce emissions, including meeting any international obligations*
- *deliver emission reductions in the most cost-effective manner*
- *support efforts to maximise the long-term resilience of the New Zealand economy at least cost.*

These objectives will continue to guide the implementation of any changes to the ETS, including those outlined in this document."

ECO considers that policy making should pay attention to other factors including protection of our biodiversity and international law, including the Convention on Biodiversity requirements for protection of native biodiversity *in situ*.

We have concerns that the proposals will incentivise the removal of native biodiversity in favour of pines, and that the refusal to include natural regeneration as a replacement for felled forest is unsound and environmentally damaging.

Thus we recommend the amendment of the ETS scheme and the government's goals for it so that one of its objectives is:

"to avoid systematic incentives to damage native biodiversity in situ and to provide incentives to protect soil carbon and native biodiversity".

3.0 Consultation questions

3.1 General

1) What do you think of the overall package of amendments the Government is proposing to make to the ETS as outlined in this document?

The proposed overall package of amendments to the ETS has some valuable elements but its overall effect is to:

- Overall, further weaken the ETS and so to shift costs from the emitters to taxpayers.
- Delay incentives for investment in low carbon futures and introduce further delays in NZ achieving genuine re-gearing of the economy to a low carbon future;
- Give special interests, particularly farmers, signals that there is a huge pay-off to lobbying and political support. They will be signalled once again that there are great returns for lobbying for privately beneficial

but socially costly changes to the ETS. These proposals are environmentally and socially harmful and economically inefficient and give unfair indulgences that shift of costs to others who have no capacity to respond to those costs by reducing emissions. This signals that the government is not working for the public interest but rather for special interests at the expense of others. Government reputation is battered and confidence is undermined by this pandering to special interests.

- d) Further burden the New Zealand tax payer, future generations, and consumers with the liabilities that should belong to those who produce the emissions and their consumers.
- e) To set up some perverse incentives in the name of land use flexibility that will systematically damage indigenous biodiversity protection and to foster even further GHG emissions with conversions from plantation forests to dairy farming.
- f) By further weakening the ETS in many respects, New Zealand will put further at risk the climate and systems dependent on it, and will fail to meaningfully engage in the genuine emissions cut backs against the 1990 benchmark of Kyoto.

ECO Notes the comments of the UNFCCC review of the 5th National Communication which draws attention to the small impact of the ETS and the progressive weakening of it as the government has tinkered with it in response to special interests.

*“37. New Zealand considers its ETS as the principal policy instrument in its climate change programme for the period 2008–2020. The ETS was launched in 2008 by amending the CCRA, and in 2009 it was amended again in order to ease the effect of the ETS on the economy in the first years of its implementation. Forestry was the first sector covered by the ETS in 2008, followed by fossil fuel use in stationary energy sources, transport and the manufacturing industry sector (included in the ETS as of 1 July 2010). As a result of these changes compared to the original design of the scheme, the expected effect between 2008 and 2012 **is very small** (see para. 39). For the post-2012 period, it is foreseen that the waste sector and synthetic gases will be included in the ETS in 2013 and the agriculture sector in 2015. Thus, it is expected that by 2015 all sectors and gases will be covered by the ETS. The ETS will be reviewed every five years, with the first review to be carried out in 2011, which will also take account of international climate policy developments. As the decision concerning the inclusion of the remaining sectors in the post-2012 period within the ETS depends on the developments in international climate change policy, it is uncertain if all sectors will be covered by the ETS as currently foreseen.*

38. *The allocation of allowances for industry under the ETS is based on energy intensity per unit of production, and a transitional phase (1 July 2010 to 31 December 2012) is planned, during which assistance in the form of free allocation to energy-intensive industry is foreseen until 2012 (90 per cent and 60 per cent rates of assistance for highly and moderately emission-intensive industry). The monitored reporting and verification system within the ETS is similar to the tax system, as it includes self-assessment, powers of audit and penalties for fraud. In cases of non-compliance, financial penalties and an obligation to buy missing allowances are implemented.*

39. *Several rules have been implemented in the ETS during the transition phase to soften the possible impact of the scheme on the participants. New Zealand will allow participants in the ETS to buy emission units from the Government for a fixed price of 25 New Zealand dollars (NZD). In addition, participants from the fuel combustion in energy industries, transport and the manufacturing industry will have to surrender only one emission unit for every two tonnes of emissions they produce during the transition phase. From 2013, these rules will be abolished and one tonne of CO₂ emitted will have to be covered by one allowance.*

40. *The ERT noted the efforts made by New Zealand to implement the ETS as well as to educate its participants. However, the ERT noted that the design of the scheme as well as the conditionality of its full implementation by 2015 create uncertainties in relation to the delivery of its estimated emission reductions. The ERT noted the need to monitor the mitigation effect delivered by the ETS, especially in the forestry sector where most emission reductions are expected to occur.*

(UNFCCC, Report of the in-depth review of the fifth national communication of New Zealand, Feb 2011, p 11 & ff. (<http://unfccc.int/resource/docs/2011/idr/nz105.pdf>))

ECO notes other criticisms of the NZ policy measures – and lack of them – and the concern by the UNFCCC Review of the fifth national communication (5NC) NZ of the lack of monitoring and reporting of the effectiveness of the ETS and other measures.

ECO welcomes the intention to end the transitional measures, but deplores the intention of delay the end of these transitional measures.

ECO finds it extraordinary that the government's paper stresses the wish of businesses to have clarity and certainty about the design of the ETS, but then proposes to change it yet again, further weakening it and introducing further uncertainty.

3.2 The Government's proposed changes

The following are the key changes as set out in the Government Proposals document.

- *Phase out the 'transition measures' more gradually from 2013 to 2015 by accepting the Panel's recommendation to phase out the 'one for two' measure in three equal steps.*

The “transition measures” should better be described as massive subsidies from the taxpayers and future generations to current emitters. It is very poor that this aspect of the transition measures is omitted from the Review paper and that this aspect is glossed over, as is the further weakening of the ETS's effect from the proposals.

ECO opposes any extension or delay of the transition measures and urges that the two for one subsidy should be removed immediately. The Budget 2012 would be an opportune moment to do this.

Lack of certainty:

ECO finds it extraordinary that the government's paper stresses the wish of businesses to have clarity and certainty about the design of the ETS, but then proposes to change it yet again, further weakening it and introducing further uncertainty.

- *Maintain the \$25 fixed price option until at least 2015 rather than accepting the Panel's recommendation to increase the fixed price by \$5 each year.*

ECO disagrees, and suggests that this fixed price option should, if it is retained at all, be subject to at least a \$5/pa increase. ECO supports removing the fixed price cap.

- *Introduce more explicit powers to enable auctioning of NZUs within an overall cap subject to further consultation on the detailed settings.*

The principal of a cap and auction is important, but this measure seems to be designed more to protect the fiscal position of the Crown than to actually ensure that NZ reduces its emissions. Despite this, ECO supports a genuine and effective cap on NZ emissions but considers this should be a falling cap and that it should be accompanied by measures to reduce New Zealand's gross emissions to the 1990 Kyoto benchmark so as to lead to an ongoing gross emissions reduction profile. ECO notes that the government is committed to a 50 percent reduction in emissions by 2050. While ECO considers this to be totally inadequate, the current proposals doesn't even put New Zealand on track to that commitment.

The details are highly significant so it is very difficult to judge the proposal without those details and we have learnt that the government often provides indulgences to special interests at the expense of society and the future and

environment, so we place that caveat on our support for an effective cap and urge that the greenhouse gas emissions effectiveness be the primary objective of the design of the detail.

- *Provide a power for appropriate quantitative restrictions on the use of international units subject to further consultation on details.*

As above, the details are crucial. We would like to see genuine quantitative restrictions, but also that these aim to reduce NZ gross emissions, not simply to protect the NZ liability. ECO does not want to see hot air imported into New Zealand or international units of dubious quality. This proposal should see a clear commitment to reduce emissions globally.

- *Provide more flexibility to convert land to its highest value use by allowing for the 'offsetting' of deforestation on pre-1990 forest land, and consistent with the international flexible land-use rules agreed in Durban.*

In our view any such move should restrict the ability to deforest where there is native forest or regenerating forest or other high biodiversity values, and that regeneration into native species should be encouraged, not debarred. This proposal should be consistent with the NZ Forest Accord and associated agreements between the forest industry and conservation groups.

The measures should ensure that there are no penalties on restoring land or meeting biodiversity and water quality commitments for example to set aside previously planted riparian buffers.

- *In light of the introduction of pre-1990 forest 'offsetting', which will significantly reduce deforestation liabilities under the ETS, review the number of compensatory NZUs provided to pre-1990 forest landowners.*

Subject to the above, we agree.

- *Provide for a power to delay the entry of emissions from animal livestock and fertiliser use for up to three years if certain criteria are not met, following a review in 2014.*

ECO opposes this strongly. The delay is reprehensible, it fosters the false idea that agriculture has no options for reducing emissions, and it promotes highly damaging uncertainty and false signals.

The criteria are vague and subject to wide interpretation. We oppose the criteria and the whole intent of this and its cost-shifting to the rest of us and the adverse effects it will have on the climate, native biodiversity and confidence in government. The indulgence of special interests in the agricultural sector is a national disgrace and is undermining public faith in government.

- *Provide for a power to extend, if necessary, the fixed price option beyond 2015 and align it with any price ceiling in Australia if we link with the Australian scheme.*

ECO opposes the proposal for price ceilings and suggest that a price floor would be much more to the point for maintaining incentives to invest in decarbonisation and to reduce emissions.

Second tranche of compensation

- 2) *Should the Government adjust the level of compensation to pre-1990 forest landowners in light of the introduction of offsetting?*

Yes, if this off setting is introduced, but measures should be included to protect indigenous biodiversity (see our previous comments).

- 3) *If the Government was to adjust the level of compensation, which of the three options for adjusting the second tranche of allocation, as outlined in this document, do you prefer and why?*
 - a. a full removal of the second tranche of pre-1990 compensation for all eligible landowners*
 - b. a reduction of the second tranche of pre-1990 compensation for all eligible landowners*
 - c. a removal of the second tranche of pre-1990 compensation only for those landowners who take up offsetting.*

As noted elsewhere in our submission, we consider that any such change to land use should have measures to protect and to incentivise protection of native biodiversity and to discourage conversion of land use to high emissions activities such as dairy farming.

Subject to the above, we consider that there should be a full removal of the second tranche should be adopted.

4) If a reduction of the second tranche is your preferred option (option 3b) what do you consider the most desirable way to do this and why?

Our preference is for 3a.

4.0 CONCLUSIONS

1. ECO strongly urges the Government to reconsider its proposals to weaken the Emission trading scheme.
2. ECO would welcome an opportunity to present oral submissions on the proposals. Could you please contact the ECO office on 385-7545 or email: eco@eco.org.nz

Yours sincerely,

Cath Wallace,
Co-Chairperson.