

Submission

REFORMING THE EMISSIONS TRADING SCHEME: RULES FOR AUCTIONING

Submission to: Ministry for the Environment – etsconsultation@mfe.govt.nz
Due 19 December 2019

<https://www.mfe.govt.nz/consultations/nzets-rules-for-auctioning>

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Contact Details

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The Forest Owners Association

The New Zealand Forest Owners Association Incorporated (FOA) is the representative membership body for the commercial plantation forest growing industry. FOA members are responsible for the management of approximately 1.2 million hectares of New Zealand's plantation forests and over 75% of the annual harvest.

In 2018, the forest growing sector was worth \$6.38 billion in export value and has a 12% share of rural land use.

Overall comment

The FOA strongly recommend:

1. Auction participation to be limited to obligate emitters only. Emitters to include landowners who intended to change land use out of forestry to another land use (i.e. undertake deforestation). The intent of this is to prevent speculators or those intent on arbitrage from registering for auctions.
2. Units auctioned to be renamed "Permits to Pollute", not NZUs, to draw a clear distinction from forestry units which are underpinned by Carbon Sequestration. The term "Permits to Pollute" would make the auction system much more transparent and easier for the general public to understand.
3. Units auctioned to have a vintage expiring two years from date of issue.
4. Units auctioned to go direct to the purchaser's registry settlement account on closing of the auction, thus not being available for trading on secondary markets.

Cost Containment Reserve Mechanism

The Ministry for the Environment consultation document on Auctioning refers to a Cost Containment Reserve mechanism (actually a Carbon Price Containment Reserve as the real cost of Climate change to the New Zealand economy will be many times greater than the NZETS's current \$25/t carbon price cap).

The FOA supports the Carbon Price Containment Reserve mechanism but based on triggers in the expert analysis of the Productivity Commission (August 2018); page 61 set price bands in which the auction mechanism should be allowed to operate based on various levels of ambition.

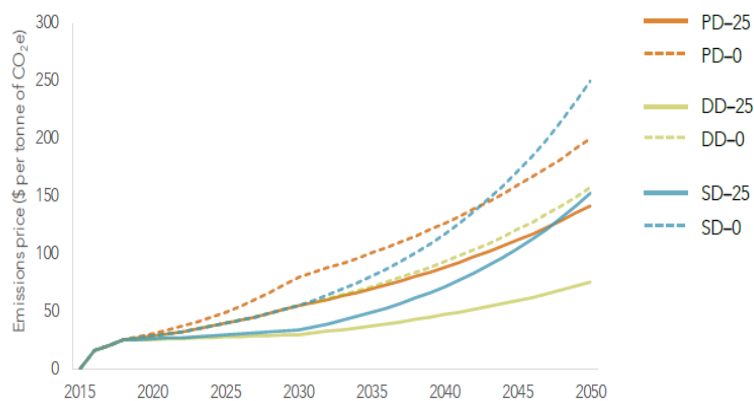
The FOA submits that the auction system initially commences with a price cap of NZD\$80 (as per the Productivity Commission's *Policy Driven* pathway to net zero - PD-0), lifting to NZD\$200 (plus inflation adjustment) by 2050. Refer to Table 3.11 below)

Table 3.3 Emissions prices vary by pathway at 2030 and 2050

| Pathway | Assumed emissions price set for 2030 | Reason for 2030 emissions price | Model-generated emissions price in 2050 |
|---------|--------------------------------------|---|---|
| PD-25 | \$55 | Reflects strong early policy action given expectation of slow technological change | \$142 |
| DD-25 | \$30 | Lower price relying on fast technological change | \$75 |
| SD-25 | \$30 | Same as DD-25 | \$152 |
| PD-0 | \$80 | Higher price needed sooner to achieve more ambitious 2050 target | \$200 |
| DD-0 | \$55 | Higher price needed sooner to achieve more ambitious 2050 target, but not as high as PD-0 because of anticipated help from technology | \$157 |
| SD-0 | \$55 | Same as DD-0 | \$250 |

Source: Concept Consulting et al. (2018a).

Figure 3-11 Emissions price trajectories, 2015–2050



Source: Concept Consulting et al. (2018a).

Table 3.1 The six modelled pathways

| Scenario | Net emissions target in 2050 | Pathway name |
|----------------------------------|------------------------------|--------------|
| 1. Policy Driven Decarbonisation | 25 Mt CO ₂ e | PD-25 |
| 2. Policy Driven Decarbonisation | Net zero | PD-0 |
| 3. Disruptive Decarbonisation | 25 Mt CO ₂ e | DD-25 |
| 4. Disruptive Decarbonisation | Net zero | DD-0 |
| 5. Stabilising Decarbonisation | 25 Mt CO ₂ e | SD-25 |
| 6. Stabilising Decarbonisation | Net zero | SD-0 |

Source www.productivity.govt.nz/assets/Documents/4e01d69a83/Productivity-Commission_Low-emissions-economy_Final-Report.pdf

Differentiation between units

The FOA considered there is justification in ensuring there is an identifiable difference in characterisation of a carbon credit unit contrived from the Government selling its Paris “budget” allocation and one backed by sequestered carbon in trees and a further distinction with native is also possible.

For credibility it will be important to have a clear demarcation between units that are actually delivering a permanent reduction in emissions and those that are produced to “balance the accounts”.

The proposed non-differentiation prevents any party/sector (such as a food producer) from being able to claim they are carbon neutral because a proportion of any purchased credits are likely to be these “phantom credits”.

The Crown has no financial exposure under Paris to not meeting its “best endeavours” target by 2030 and this raises further concerns about the commitment to constraining the supply of printed units.

Rotation bands and averaging

The FOA would like the opportunity to discuss the implications of rotation bands and averaging when it is appropriate to do so. We understand neither feature of the ETS is the focus of this current consultation.

Further input

Thank you for the opportunity to comment on the proposal. Representatives of the FOA are available to discuss the content of this document if required.

A handwritten signature in black ink, appearing to read 'D Rhodes', with a stylized flourish at the end.

David Rhodes, Chief Executive, Forest Owners Association