

Appendix 1

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ETS Consultation
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Submission on Proposed Changes to the NZ Emissions Trading Scheme

Thank you for the opportunity to provide comment on Government's proposed changes to the NZ Emissions Trading Scheme (ETS).

Council makes this submission:

- as a forest owner and participant in the current ETS
- as an advocate for communities in Tairāwhiti with a wide range of interests in the ETS.

In general, Council supports proposed changes to the ETS that will:

- support NZ achieving its emissions targets under international agreements in a way that does not undermine the ability of regional NZ to prosper
- make the scheme less complex to participate in
- provide equitably for large and small forest holders to participate
- ensure that the risks of entering the ETS are clear to participants
- uphold NZ's reputation for ethical practice.

Our submission is divided into two parts:

- feedback on the general proposed changes to the ETS
- feedback on the changes to the ETS related to forestry.

Our comments relate to those aspects of the proposed changes that we think would have the most significant impact on Tairāwhiti.

General Proposed Changes

Unit Supply

1. Council supports the proposed changes re setting the unit supply:
 - a. Five-year rolling review with ability to adjust in years two to five

This provides some certainty in the short term and will support participants in emission planning while allowing the Government some flexibility to respond to wider economic, technological and other changes.

- b. Extension of matters to be considered in setting unit supply

The current matters to be considered is narrowly focused on NZ's emissions targets. While this is the purpose of the Climate Change Response Act, this should not be the focus at all costs. The projected economic forecast in the short to medium term needs to be considered in setting unit levels to minimise economic impacts particularly where our primary production exporters are competing in international markets with nations who have opted out of international climate change agreements.

Auctioning

2. Council supports the proposed changes re introducing auctions:

- a. Single round, sealed bid, uniform price auction

It is more likely to minimise complexity, protect against market integrity risks, and support market efficiency.

- b. All NZ Emissions Trading Register account holders eligible to participate

It will encourage wider participation than just allowing ETS participants to enter auctions so will maximise opportunities for competitive bidding.

- c. Monthly or quarterly auction timing

It is more likely to result in efficient level of units being available for auction reducing inefficiency (too frequent) of an undersupply and the risk of destabilising the market with an oversupply (too infrequent).

3. Council requests that the proceeds gained from auctioning units be earmarked for ongoing climate change mitigation responses, particularly research and on the ground programmes.

Price Ceiling

4. Council supports an interim increase in the Fixed Price Option (price ceiling) to reflect market conditions before 2020 when any new pricing mechanism would be introduced. It means the emissions prices are in line with international markets and will provide a more predictable price for transition to an alternative pricing mechanism. Council recognises that for this to work effectively, we would need some controls on volume of units in the market.
5. Council is concerned about the impact of volume-limited price ceilings on the level of risk for participants in the ETS. Council requests that Government take a balanced approach to sharing the risks with participants. A shift over time to transfer the risk to participants can be made once the market matures. This is particularly important as the future of the agricultural sector in the ETS is yet undetermined.

International Units

6. Council supports the proposed changes re international units:
 - a. Cap on international emissions and requirements that international units meet high environmental standards

The proposed changes would contribute to upholding the integrity of the ETS as a mechanism to reduce emissions in real terms. They would also protect the value of units from NZ forests.

- b. Retaining participant choice in the modes through which international units are traded

Smaller landholdings may not have the capacity to engage directly in international carbon markets – this could be a significant cost to smaller participants. Government would need to manage some of the portfolio risks associated with this. However larger landholdings may benefit from being able to directly trade international units. There would still need to be Government controls over volume.

Proposed Changes Related to Forestry

General Comments

We have the following general comments to make about the proposed changes related to forestry.

7. Tairāwhiti has some of the most erosion-prone land in NZ if not the world. Council and Government need to be able to manage land use well to ensure that this is not exacerbated given the estimated costs of sediment annually to the NZ economy of up to \$200m. Government and Council policies and programmes need to support wider erosion-control issues in the region by incentivising planting the right trees in the right places. This may require a widening of the ETS to consider species other than *pinus radiata* and permanent forests particularly indigenous cover and tweaking of design settings to allow for non-plantation forestry.
8. For example, the ETS currently does not incentivise planting sensitive gullies and riparian areas as emissions units cannot be accessed. This is often due to the size and shape of these planting blocks – long and narrow bands. Yet in Tairāwhiti in particular these plantings would be more likely to be permanent (and sequester more carbon) due to their additional benefits of addressing erosion. The ETS needs to provide a mechanism for these areas to access emissions units.
9. Any proposed changes that would contribute to increasing the erosion issues in Tairāwhiti are unacceptable to Council and our community.

Accounting Method

10. Council supports, with conditions, the shift in accounting method:
 - a. Council sees the value in moving to an Averaging Accounting approach for **new forests** so that forestry participants earn emission units averaged over the life of the forest and do not have any liabilities for harvest or adverse events. The benefits of Averaging Accounting are significant. It reduces complexity of the system of accounting with no harvesting calculations required. It reduces compliance costs of ongoing reporting and monitoring. It reduces the fiscal risk to participants of unplanned loss of forest through an adverse event. The reduced complexity and risk may particularly suit smaller forestry interests.

- b. Council sees the value in allowing ETS participants with **existing forests** to choose the accounting approach that meets their business needs which may mean retaining the Carbon Stock-Change Accounting approach. With that said, that is not going to address the current issues with the Carbon Stock-Change Accounting approach that create disincentives for harvesting.
- c. Council considers that fair **transitional arrangements** for existing forests that are above the average carbon stock level should be carefully considered. Council requests Government take an approach that minimises the financial impact on existing forestry participants who are over the current average carbon stock levels. These participants could be able to repay units at any time up to the point immediately post-harvest as this allows time to adjust strategic and business plans as well as to cover the cost of repayment from harvesting proceeds. If transitional arrangements could be resolved well, there may be no need to retain the Carbon Stock-Change method.

Permanent Forest Category

- 11. Council supports the inclusion of permanent forests into the ETS. In many cases, permanent indigenous forest will offer the most overall benefit to Tairāwhiti including: sequestering large amounts of carbon over the long term; supporting erosion control efforts; improving biodiversity; and providing for tikanga Māori and cultural practices (in the case of indigenous forest).
- 12. The Government's own research indicates cases where emissions units from permanent indigenous forest have fetched above market price due to their quality and integrity.
- 13. Council does not support any forest on post-1989 eligible land qualifying for permanent status. This could have perverse outcomes including: locking out future indigenous forestry and reducing biodiversity significantly; and creating mono-cultural forests with limited ecological and cultural values. We call for a more sophisticated approach that looks across the full range of Government priorities (commitments to Māori as kaitiaki, commitments to freshwater and biodiversity management).
- 14. Council favours the creation of a new ETS forest activity. The activity needs to be designed to ensure the permanence of the forest resource while making it simple to understand and enter and still allow use of the resources where it does not impact on carbon sequestration. We suggest using existing covenanting mechanisms (such as QE2 Covenants and Whenua Rauhi) to reduce the administration burden. We suggest allowing for selective logging of individual trees (e.g for cultural purposes) without triggering the need to surrender emissions units. We suggest adopting the Carbon Stock-Change Accounting method for permanent forests to ensure maximum gains from long term investment.

We thank you for taking the time to consider our submission. Please contact me if you have any questions or points for clarification

Mauriora



Na Keita Kohere

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