

# Improvements to the New Zealand Emissions Trading Scheme

## SUBMISSION FORM

The New Zealand Emissions Trading Scheme (NZ ETS) was established in 2008 to support New Zealand to meet its international climate change targets and reduce greenhouse gas emissions below business-as-usual levels. It does so by putting a price on greenhouse gas emissions and removals.

The Government seeks feedback on a range of proposals to improve the NZ ETS. The proposals are outlined briefly in the summary and in further detail in subsequent chapters of the *Improvements to the New Zealand Emissions Trading Scheme* consultation document.

**Submissions close at 5.00 pm on 21 September 2018.**

## Making a submission

You can provide feedback in three ways.

1. Use the online submission form available on our [website](#). This is our preferred way to receive submissions.
2. Complete this submission form and send to us by email or post.
3. Write your own submission and send to us by email or post.

If you are posting your submission, send it to NZ ETS improvements, Ministry for the Environment, PO Box 10362, Wellington 6143 and include:

- NZ ETS improvements
- your name or name of the organisation you represent
- postal address
- telephone number
- email address.

If you are emailing your submission, send it to [etsconsultation@mfe.govt.nz](mailto:etsconsultation@mfe.govt.nz) as a:

- PDF
- Microsoft Word document (2003 or later version).

## 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](http://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.

## Submission form

The questions below are a guide only and all comments are welcome. You do not have to answer all the questions. To ensure your point of view is clearly understood, please explain your rationale and provide supporting evidence where appropriate.

## Contact information

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Submitter type*	Individual	<input type="checkbox"/>
	NGO	<input type="checkbox"/>
	Business / Industry	<input checked="" type="checkbox"/>
	Local government	<input type="checkbox"/>
	Central government	<input type="checkbox"/>
	Iwi	<input type="checkbox"/>
	Other (please specify)	<input type="checkbox"/> <a href="#">Click here to enter text.</a>

\* Questions marked with an asterisk are mandatory.

## Questions

1. What issues should the decision maker consider when making unit supply decisions? (Select all that apply.)
- proper functioning of the ETS
  - New Zealand’s projected emission trends
  - number of NZUs expected to be allocated
  - emissions covered by the ETS
  - arrangements that govern the operation of the ETS
  - any limit on international units
  - emissions budgets, such as those proposed in the Zero Carbon Bill
  - recommendations from the independent Climate Change Commission proposed in the Zero Carbon Bill
  - agreements or arrangements regarding international emissions reductions

- non-ETS climate change mitigation policies
- modelling of New Zealand’s domestic abatement potential and costs
- forestry reporting periods
- forecasts of international carbon prices
- inflation rates
- other (please explain).

Other: Need to consider technological advancements e.g. methane vaccine.

2. What, if any, restrictions should be placed on the NZ ETS decision maker when making unit supply decisions? (For example, currently one year’s notice must be given for changes to unit supply volumes.)

We support improving certainty by a process of setting supply volumes over an extended period. A 5 year time horizon is at the lower end of time-scales, given investments in horticulture infrastructure such as orchards and greenhouses would typically have 20 year plus time horizons. We would prefer at least a 10 year time frame.

In our view certainty provides an incentive for investment in technology to reduce emissions.

However, we recognise the system requires some flexibility to respond to events in the NZ ETS market, such as seasonal factors (such as a drought increasing the use of coal for electricity generation). Therefore some flexibility to forecast and the ability to adjust annually is needed.

We think that one year’s notice is the minimum notice period that should be provided for a change in ETS Unit volumes overall, perhaps with some flexibility to allocate the volumes within the year or draw off future volume in response to un-forecasted events (such as extreme weather).

3. Do you agree with the proposal to implement a single-round, sealed bid auction format with uniform pricing? If not, why not?

- Yes
- No
- Not sure

Most likely our growers will not bid directly in auctions, but instead have ETS costs passed on by coal, fuel, fertiliser, etc supplier, or possibly larger growers would participate via a broker. Therefore a transparent and competitive market is important.

Our growers have few units compared with traders, and so will have limited impact on the price themselves, however some growers may wish to have the option of purchasing units at auction to manage the risk of being overcharged by fuel suppliers.

Currently indoor fruiting vegetable growers are allocated free units through the industrial allocation scheme and they sell them on the secondary markets or have an agreement with

their energy provider to offset the ETS unit obligation with the free allocated units. This scheme is extremely important to their ability to continue to grow and invest in their business.

4. Do you think that auctioning frequency should be:

- weekly (*not preferred*) (please explain)

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- monthly (please explain)

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- quarterly (please explain)

We think quarterly may provide a balance between administrative costs and balancing the difference between the auction and the secondary market costs and market efficiency.

We think annually is too infrequent and may disrupt the secondary market that growers rely on to sell their allocated units.

- annually (*not preferred*) (please explain)

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- other (please explain).

[Click here to enter text.](#)

5. Do you agree with the proposal that all NZ ETR account holders should be able to participate at auction? If not, why not?

Yes

No

Not sure

While we do not anticipate growers are likely to participate directly in the auction because we expect the units will be bought and passed on by suppliers (coal, fuel, fertiliser), retaining the option to participate will help mitigate overcharging by suppliers. Allowing those fuel suppliers to participate will also help contribute to price transparency and ensure growers are paying close to the true market value. Indoor tomato, capsicum and cucumber growers who have applied for units under the allocation scheme are all ETS account holders.

6. Do you think that the Government should use the proceeds gained from the auctioning of NZUs for specific purposes? If so, please explain what those purposes would be.

Yes

No

Not sure

We strongly advocate for investment in technology to reduce GHG emissions, and investment into technologies to make growers more efficient. For example, commercially viable alternatives to coal for South Island greenhouses; and new energy efficiency measures such as energy screens in greenhouses.

We are also of the view, that if agricultural emissions are included in the ETS, proceeds should be invested in removing barriers to horticulture, as the expansion of horticulture offsets methane emissions by providing an alternative low emissions landuse.

7. Do you agree with the proposal to replace the \$25 fixed priced option with a cost containment reserve price ceiling implemented through the auctioning mechanism?  
If not, why not?

- Yes  
 No  
 Not sure

Relative to the fixed price option it reduces certainty. If costs escalate, the cost to growers increases and there's no certainty; the increase in costs are not likely to be passed on to the consumers because growers operate in the market as price takers. As a commodity trading industry, we cannot pass the costs on to anyone, unlike other industries.

The uncertainty price fluctuations create limit growers ability to invest and expand. Smaller growers will be especially vulnerable to fluctuations and uncertainty. This may result in those products being replaced by imported vegetables which are not subject to the same level of carbon costs.

8. How do you think the price level and number of units in the cost containment reserve should be managed over time? (Note: specific settings will be consulted on later.)  
(Select all that apply.)

- decision maker has discretion to determine the settings while having regard to certain factors (please explain)   
If price escalates rapidly, we think the decision maker should have discretion to manage unintended consequences through the release of units or change in the containment reserve/price ceiling.
- settings are determined by mandated formulae (please explain)   
Click here to enter text.
- other (please explain).   
Click here to enter text.

9. What actions should occur if the price ceiling is struck? (Select all that apply.)

- increase the price ceiling trigger level, if it was set on a too low or erroneous basis
- increase the limit on international units, if high domestic abatement costs are the cause of the excessively high prices
- undertake a fuller system review, if the high prices are seen as a sign of wider market dysfunction
- government buying international units to compensate for additional units added to the market through the price ceiling
- adjust the overall cap

– other (please explain).

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10. Do you agree with the proposal to review the price ceiling if another significant event occurs (such as a decision to link the NZ ETS with another carbon market)?

- Yes  
 No  
 Not sure

This will reduce certainty. However, as we are a trade exposed industry, linking to international carbon prices is important.

11. Do you agree that the \$25 FPO may not be appropriate for the short term, and may need to be adjusted before 2020? Please explain.

- Yes  
 No  
 Not sure

Over the last three years growers have faced an increasing ETS because of the rise to \$25, and the phasing out of the “2 for 1”. This is partially offset for some by the free industrial allocations, but does not cover all the costs for many growers, especially in the South Island.

Removing the \$25 FPO before 2020 removes the price certainty that this measure was designed to provide. The 2016 ETS consultation asked for feedback on EITHER removing two for one, OR increasing the FPO. If the FPO is changed in 2020, this will effectively be a “double whammy”, since in 2020 the full surrender rate will also come into effect. This possibility has not been signalled previously.

Meanwhile, there are still no viable options for our growers to mitigate their ETS costs.

12. Which mode of purchase for international units (direct or indirect) would be the best approach for the NZ ETS, acknowledging that there are other significant factors that will influence this decision? Please explain.

The international market needs to have genuine units with integrity and purchase opportunity, and should also represent real relative costs of emissions for our competitors. We believe they need to be purchased direct so there is the opportunity for growers to pay prices which are aligned to our international trading competitors who supply horticultural products.

13. If NZ ETS participants are able to purchase and surrender international units directly, do you think that there is justification for varying the percentage of allowable international units by participant type? If not, why not?

- Yes  
 No  
 Not sure

Because the purpose of exposure and international units should be to keep New Zealand prices aligned with our trade competitors.

14. How do you think decisions on a phase-down of industrial allocation should be made? (Select all that apply.)

- make an up-front decision to phase-down industrial allocation from 2021
- set a test or condition that would trigger a phase-down
- establish a decision-making process to determine industrial allocation rates over time
- other (please explain).

Our preference for a phase-down would be to have a requirement put in place for alternative technology to be available before any phase down begins. The requirement should be availability and use of a viable alternative technology to heat greenhouses throughout New Zealand. Once a critical mass of growers were able to use this then phase down is instigated at 1% p.a.

The lesser preferred option is to begin 1% phase-down from 2021 to provide certainty to participants.

Decisions in this area need to consider: trade exposure, carbon leakage, and availability of viable technology.

15. If a decision-making process for industrial allocation is implemented, which of the following factors should the decision maker take into account? (Select all that apply.)

- New Zealand’s emissions budgets
- the risk of emission leakage, with the aim of avoiding leakage driven by differential emission pricing policies, and based on economic analysis of the markets for emissions intensive and trade exposed activities and their products
- other sources of supply into the NZ ETS
- the availability of low-emissions technologies
- New Zealand’s international obligations
- other (please explain).

Potential increases in costs of the domestic supply of food and substitution of NZ fresh food with imported food needs to be considered. This is particularly an issue in the winter months and during times of adverse weather events.

Horticulture expansion is a key method of providing a resilient low emissions economy. If the costs of the ETS make horticulture less competitive internationally it will impact on the ability of horticultural expansion to be maximised.

16. If a phase-down is initiated in future, which of the following rates for phasing-down industrial allocation should be considered? (Select one option only.)

- 0.01 per year



- 0.02 per year
- 0.03 per year
- other (please explain).

It is important that phase down is predictable and signalled in advance and the phase down is related to international competitiveness.

17. What impact would changes to the levels of industrial allocation from 2021 have on your investment or business decisions?

Certainty is important when making business decisions. Our growers need to take a long term view when investing in new glasshouse technology. New glasshouses cost several million dollars. If growers cannot see a return on that investment, and changes in industrial allocations are not clearly forecast and provide no measure to offset emissions costs, then new investments in indoor growing will not be made. Current glasshouses last on average 25 years thus investment in new glass for covered crop growers is inevitable and ongoing.

18. For each of the seven areas that we have identified as being sources of potential risk, what is your assessment of the level of risk that they create, both now and in the future? Please provide examples or evidence if possible. (Select all that apply.)

	<b>Current risk</b>	<b>Future risk</b>
– inadequate, false or misleading advice (please explain) Click here to enter text.	<input type="checkbox"/>	<input type="checkbox"/>
– a lack of transparency, monitoring and oversight for trades (please explain) Click here to enter text.	<input type="checkbox"/>	<input type="checkbox"/>
– risks of manipulation of the NZU price (please explain) Click here to enter text.	<input type="checkbox"/>	<input type="checkbox"/>
– insider trading (please explain) Click here to enter text.	<input type="checkbox"/>	<input type="checkbox"/>
– money laundering risks (please explain) Click here to enter text.	<input type="checkbox"/>	<input type="checkbox"/>
– credit and counterparty risks (please explain) Click here to enter text.	<input type="checkbox"/>	<input type="checkbox"/>
– potential conflicts of interest (please explain) Click here to enter text.	<input type="checkbox"/>	<input type="checkbox"/>
– other (please explain). Click here to enter text.		<input type="checkbox"/>

19. Do you think that there would be benefits from publishing individual emissions data reported by NZ ETS participants? (Please explain.)

- Yes
- No
- Not sure

[Click here to enter text.](#)

20. Do you think cases of non-compliance should be published? (Please explain.)

- Yes
- No
- Not sure

[Click here to enter text.](#)

21. How would publishing these types of information affect you?

[Click here to enter text.](#)

22. Do you agree with the proposal to introduce strict liability infringement offences for low-level non-compliance? If not, why not?

- Yes
- No
- Not sure

[Click here to enter text.](#)

23. What are your views on the levels of the proposed fines?

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24. Has the excess emissions penalty for failing to surrender or repay units by the due date caused issues for you? If so, please explain.

- Yes
- No
- Not sure

[Click here to enter text.](#)

25. Should the excess emissions penalty for failing to surrender or repay units by the due date be changed? If so, please explain.

- Yes
- No
- Not sure

[Click here to enter text.](#)

26. What option do you see as most appropriate for the excess emissions penalty?

- set the penalty at a fixed dollar value and remove the ability to reduce the penalty
- use a proportional approach where the penalty is a percentage of the outstanding surrender obligation
- other (please explain).

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27. Do you agree with the proposal to use approved units to repay any overdue unit obligation from a previous reporting period, before any remaining balance is transferred to the owner? If not, why not?

- Yes
- No
- Not sure

[Click here to enter text.](#)

28. Should large purchasers of coal, natural gas or obligation fuels have the ability to opt-in for only a portion of their obligations?

- Yes
- No
- Not sure

[Click here to enter text.](#)

29. As a mandatory participant that supplies this controlled fuel, what burden would it create if more of your large purchasers were to opt-in? Please explain.

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30. Do you agree with the proposal that all coal sold or used from a stockpile be reported, regardless of whether the participant meets the threshold for coal importing or mining in the year the coal was sold or used? If not, why not?

- Yes
- No
- Not sure

[Click here to enter text.](#)

31. Do you agree with the proposal that the Government should be able to amend Unique Emissions Factors from previous years? If not, why not?

- Yes
- No
- Not sure

[Click here to enter text.](#)

32. Do you agree with the proposal that participants should repay the same type of units, rather than the exact same unit? If not, why not?

- Yes
- No
- Not sure

[Click here to enter text.](#)

33. Do you agree with the proposal to extend the general 30 day due date for repayments to annual allocation adjustment repayments? If not, why not?

- Yes
- No
- Not sure

[Click here to enter text.](#)

34. Do you agree with the proposal that the deadline for surrenders and repayments is 60 working days from the date a notice is sent? If not, why not?

- Yes
- No
- Not sure

[Click here to enter text.](#)

35. Do you agree with the proposal that industrial allocations can be transferred to a consolidated group account? If not, why not?

- Yes
- No
- Not sure

[Click here to enter text.](#)

36. Do you agree with the proposal that account operators continue to operate NZ ETS accounts until a succession plan is in place? If not, why not?

- Yes
- No
- Not sure

[Click here to enter text.](#)

37. Do you agree with the proposal that units should vest in the Crown if the account operator chooses to close the account? If not, why not?

Yes

No

Not sure

[Click here to enter text.](#)