



Photo of *ForesightNZ* workshop participants (29 April 2016)

## Submission

Consultation for the New Zealand Emissions Trading  
Scheme Review 2015/16  
May 2016

2 May 2016

NZ ETS Review Consultation  
Ministry for the Environment  
PO Box 10362  
Wellington  
New Zealand

To whom it may concern,

**Consultation for the New Zealand Emissions Trading Scheme Review 2015/16 –  
Consultation Document (May 2016)**

Please accept the following letter and attachments as the McGuinness Institute's submission on the consultation for the New Zealand Emissions Trading Scheme review 2015/16.

The *Foresight*NZ participants and I would appreciate the opportunity to be heard in support of this submission.

Kind regards,



Wendy McGuinness  
Chief Executive  
McGuinness Institute

Attachments:

1. *Strategy*NZ: *Strengthening strategy stewardship one-day workshop invitation flyer* (July 2016)
2. *Think Piece 21: Strategy Stewardship Matters: Utilizing the Government Department Strategies Index* (April 2015)

### **About the McGuinness Institute**

The McGuinness Institute was founded in 2004. The McGuinness Institute is a non-partisan think tank working towards a sustainable future, contributing strategic foresight through evidence-based research and policy analysis. *Project 2058* is the Institute's flagship project, which includes a research programme that aims to explore New Zealand's long-term future. In preparing this submission the Institute drew largely on the McGuinness Institute's overarching project, *Project 2058*. In more recent years this has included the Institute undertaking public policy workshops with participants between the ages of 18 and 25 years.

### **About the Chief Executive**

Wendy McGuinness wrote the report *Implementation of Accrual Accounting in Government Departments* for the Treasury in 1988. She founded McGuinness & Associates, a consultancy firm providing services to the public sector during the transition from cash to accrual accounting. From 2003–2004 she was Chair of the NZICA Sustainable Development Reporting Committee. In 2004 she established the Institute in order to contribute to a more integrated discussion on New Zealand's long-term future. In 2009 she became a fellow chartered accountant (FCA).

### **Contact details:**

Wendy McGuinness,  
Chief Executive, McGuinness Institute  
Level 2, 5 Cable Street  
PO Box 24-222, Wellington 6142  
+64 4 499 8888  
[wmcg@mcguinnessinstitute.org](mailto:wmcg@mcguinnessinstitute.org)  
[www.mcguinnessinstitute.org](http://www.mcguinnessinstitute.org)

## Introduction

Climate change requires urgent action as a pressing global issue of our time – the consequences of which are continuously increasing the risk and uncertainty facing current and future generations. New Zealand’s response is crucial as public demand for action grows. This was recently emphasized to the Institute when to a diverse number of young people made their concerns clear in the application process of our latest workshop.

The Institute ran a three-day *Foresight*NZ workshop from 27–29 April 2016. We received 89 applications (of which 36 were accepted). In response to the question about the most significant challenges and opportunities facing New Zealand in the next 40 years, most applicants strongly advocated that climate change was the most pressing issue requiring government attention. Some of these responses are quoted in Part A of this submission.

The workshop closed last Friday, but due to the strength of feeling, a small number of participants grouped together on Friday 29 April 2016, to prepare a submission. What was concerning was that, to our knowledge, none of the participants knew this consultation process was coming to a close.

Hence the following submission consists of two parts: Part A is written by a group of the *Foresight*NZ participants in response to the questions in the consultation document whereas Part B outlines the Institute’s overarching recommendations.

## PART A: FORESIGHTNZ WORKSHOP PARTICIPANTS

The following is prepared by a group of participants from the ForesightNZ workshop.<sup>1</sup>

We are the 36 participants of the *ForesightNZ* workshop and are aged between 18 and 25. Our purpose over three days was to develop conversation and promote action on the long-term future of New Zealand. Our discussion on the future continually came back to strong concerns about climate change, in particular on how to protect New Zealand from its impact. Collectively, we believe this submission is an important way to make our voice heard and thus all agreed that this submission be prepared by a small team of participants to represent the concerns of young New Zealanders. We acknowledge that this does not reflect the views of all participants however the importance of the issue was unanimous. We see it as critical to take a long term view to the Emissions Trading Scheme (ETS) when assessing costs and benefits, and we all agree it is our duty to act now to implement this scheme and increase its effectiveness. What follows are our thoughts and recommendations for the ETS review, as set out following the eight submission questions.

*“New Zealand’s ecological diversity is central to many New Zealanders’ self-identity, and a significant contributor to our economy. We must devise and adopt environmentally sustainable practices.”*

– Griffin Leonard (24)

*“Global warming is a significant threat to humanity, threatening to disrupt the current world setup... It is imperative that we prepare for the challenges associated with climate change. As one of the planets biggest challenges, global warming also provides the biggest opportunity for New Zealand. Government leadership and well-designed policy can support New Zealanders in maximising these opportunities.”*

– Benjamin Nistor (23)

*“The clean green image that clings so well to New Zealand should be invested in, not only for the environment but also as a commercial tool. It was one of the dominant reasons for my family’s choice to move here.”* – Matthew Wort (22)

*“I feel that New Zealand, being such a small country, has the opportunity to be world leaders in terms of how we operate as a society. Our innovation and community spirit needs to be nurtured, a return to a society built on integrity, to focus on the collective rather than the individual.”* – Karina Liddicoat (25)

*“The consequences of climate change, specifically rising sea levels as well as greater frequency and intensity of tropical cyclones, will have significant impacts on both NZ and her island neighbours. Our desire for a*

---

<sup>1</sup> To learn more about the *ForesightNZ* workshop, see [www.foresightnz.org](http://www.foresightnz.org)

*leadership position in the Pacific, as described in the White Paper, will require commitment into providing HADR and research into preventative measures.” – Michael Hannah (22)*

*“Climate change is a significant issue because we have the opportunity to ensure that the earth is looked after so that future generations of kiwis can grow up in the same beautiful country past generations have experienced.” – Sharelle Abbott (20)*

*“Key challenges include recognising the true cost of our activities and accepting that some practices are unsustainable and need to be re-thought... I believe a stronger environmental focus needs to be placed on future discussions, as our awareness of unsustainable practices increasing and environmental issues increase in New Zealand.” – Hugo Bloor (22)*

*“I understand climate change to be the most significant challenge facing New Zealand (and our planet) in the next 40 years. I...see only fatalistic reasons to go about improving living standards for New Zealanders now, if it jeopardises life at all for New Zealanders (and mankind) in the future.” – Michelle Walsh (24)*

*“The opportunity for New Zealand to be a leader in climate change mitigation strategy should not be ignored.” – Selina Kunac (22)*

## **Consultation Document Questions:**

### **CONTEXT AND DRIVERS FOR THE REVIEW**

#### **1. Do you agree with the drivers for the review? Yes/No/Unsure**

We agree that any iterative process involving public evaluation and adaptation is incredibly positive and valuable. However, in terms of specific drivers, our thoughts on each driver varies and therefore we are unsure on the drivers presented. It may become apparent that although we fundamentally support ETS performance objectives, we are concerned our interpretation of the current drivers and context and what is required to satisfy these may differ from those of the Government.

##### 1.1 NZ ETS Performance against objectives

- Assisting New Zealand to meet its international obligations
  - We believe this objective should be set higher and requires more specificity. International obligations should be surpassed in the development of a more efficient trading scheme. New Zealand is a small and flexible country who has the capability to be a world leader in this area. Therefore, we believe that rather than using these obligations as a target, they should act as a minimum standard. On a world stage we

believe a driver is surpassing international obligations to improve our international relations and credibility.

- Reducing New Zealand's net emissions below business as usual levels
  - There is no conclusive evidence that the current ETS has reduced our overall emissions rate. In fact, the opposite has occurred and our emissions have still been growing since its inception. The wording used in this area makes interpretation difficult and makes the actual results of the ETS unclear, for instance even though the 'intensity of emissions is decreasing,' overall emissions have increased. Greater transparency is definitely required in this area to make any true changes clear.
  - Throughout the economy, we think the idea of the ETS is to internalize the externalities of carbon intensive industries. From this we should expect to have seen these costs being passed onto consumers through a significant increase in prices. However in practice we do not see this, nor a great shift away from carbon intensive industries. Unfortunately this shows the ETS is acting as a top down policy, which means we have yet to see any real consequences for businesses or the environment.
  - The concept of 'business as usual,' though nice sounding, is ambiguous and thus enables the Government to shirk responsibility. Although it is an admirable idea to reduce New Zealand's net emissions below 'business as usual' levels, ensuring that New Zealanders have a clear idea of what this means (and can therefore hold the Government accountable) would strengthen this objective immensely. We would like more specific and tangible wording used here to quantify what 'business as usual' actually means so that the results of the ETS can be measured against it and progress can be compared annually.
  - Given our abstract interpretation of 'business as usual,' we do not think the Government has succeeded in developing a 'clear and measurable goal.' We hope that the Government intends here to take a global leadership role in shifting attitude towards this issue starting with clearer and more ambitious objectives.

## 1.2 Preparing for a more carbon constrained future

- In particular, we take issue with the phrase that the 'new 2030 target [is] more ambitious than previous targets.' We believe that the opposite is true and the 6% increase for our new post-



2020 emissions target is not ambitious enough.<sup>2</sup> As we are currently ‘meeting our obligations’ with no decrease in emissions, a larger percentage decrease is required in order to be ambitious. Our definition of ambition is being willing to go far beyond international level obligations in order to lead the world in reducing emissions.

### 1.3 Increasing certainty about future policy settings

- We think this objective is desirable for business but lacks practicability. In our view, future policy settings are inevitably uncertain because of the nature of Governmental, environmental and societal changes. It is important that the policy is willing and able to adapt to meet new scientific and economic research and development. A fast response and the ability to be flexible will help New Zealand prepare for our inevitably uncertain future. We think an objective that works towards increasing our policy capabilities for flexibility would therefore be a better driver.
- It is clear that New Zealand needs to put careful thought into preparation for the future consequences of climate change. We understand that though uncertainty exists in this area, this uncertainty is present in all future events. Therefore we see ‘uncertainty’ as no reason to discount certain forecasts. With climate change, the magnitude of possible outcomes are so great that even though they cannot be quantified, it is important to set smart targets.
- We are reluctant to describe the unpredictability of climate change effects as we don’t want to imply that the impact of climate change cannot be helped. However, we must be prepared with the ability to recognise the increasing rates of change in our environment we will see in the future, so that policy settings can adapt fast to these changes.

## **2. What other factors should the government be considering in this NZ ETS review?**

A common theme that arose among all of us was the difficulty of understanding and interpreting the ETS. The language surrounding the scheme has not been designed with comprehension of the layperson in mind and we believe this creates ambiguity and hinders constructive discussion in this area. We therefore think another factor to consider is public comprehension and participation with the scheme. A better educated public will help to keep businesses and the Government held accountable for the impact of their actions.

---

<sup>2</sup> See New Zealand’s 2030 climate change target here: <https://www.mfe.govt.nz/climate-change/reducing-greenhouse-gas-emissions/new-zealand%E2%80%99s-post-2020-climate-change-target>



The participants all had different opinions on how the scheme worked, including what methods it used and whether these were effective. Therefore, we recommend that efforts are made to improve communication of the ETS, because the inability to understand it means that a number of people, and especially youth, are too intimidated to voice their thoughts. We think it is important to develop a simple and clear explanation of the ETS, its objectives and its alternatives so that a proper conversation can be had with all New Zealanders about its effectiveness.

Furthermore, ambiguous language gives scope to participants (both businesses and the Government) to manipulate or create uncertainty about whether they have been meeting their obligations.

Unfortunately, as seen in the car industry recently, if businesses are not directly accountable for their impacts they have the freedom to facilitate untruths and manipulate the scheme. This not only has negative environmental implications it also has unfortunate moral, social and economic implications for New Zealand and how it is perceived internationally.

Another factor we would like to see impacting this review are our concerns on inter-generational equity. The current international obligations do not include the opinions and views of enough young people and we believe this could be helped by improving education of society as part of the ETS scheme. We think that as well as meeting our international obligations, we need go beyond this and the ETS should include more extensive public consultation so it can focus on the needs of our people and future generations.

To improve performance and assessment under the ETS, we think further work is required to give the scheme clearer measures and indicators. This will improve the transparency of the scheme and will also build predictability for businesses. We think this could be achieved with greater public input and consultation and by using very specific lists of social, economic and environmental factors that must be considered.

## **MOVING TO FULL SURRENDER OBLIGATIONS**

### **3. Should the NZ ETS move to a full surrender obligation for the liquid fossil fuels, industrial processes, stationary energy and waste sectors? Yes/No/Unsure**

Yes, as we need to have fiscal and environmental inter-generational equity. Change needs to begin as soon as possible to encourage innovation and change how we as a country operate.

#### 4. What impact will moving to full surrender obligations have on you or your business?

Please include specific examples or evidence of the impacts on you or your business of:

- a) increased carbon prices, including actions to reduce emissions and future investment decisions. Please comment on effects that may occur at carbon prices ranging from \$5 to \$50, including any evidence of actions taken previously when carbon prices were higher.

We think that \$5 is too low and does not recognise the real cost of climate change. As mentioned in the review document, a low price makes the ETS ineffective. A low price pushes the costs of emissions onto future generations who will be forced to bear the brunt of both the climate effects and fiscal costs to government (through issues such as international obligations and debt).

Therefore, we believe that a higher price should be implemented because it will have a higher cost for those creating emissions and thus will have a greater impact in preventing them. By raising the prices now, we believe the future costs of carbon emissions will be minimised. Taking early action is both cheaper in the long run and allows us to have more choices in the future (due to not being fiscally or environmentally constrained).

- b) any NZ ETS administrative or operational issues, for example the option for participants to apply for a unique emissions factor.

We do not think participants should have the opportunity to apply for a unique emissions factor. We think consequences arising from this would lead to some participants taking advantage of the system and not fulfilling their obligations.

Another issue that hinders the operation of the scheme is its limited scope across all sectors. Obviously a big example of this is the special treatment of the agricultural sector, which allows it to avoid meeting its obligations under the scheme. Although this is not a point up for discussion in this submission, we would greatly appreciate an opportunity to discuss the factors impacting this decision and would like it to be reconsidered.

Giving participants a unique emissions factor may also result in a decreased ability to meet international obligations, putting more pressure on some participants to perform whilst allowing others freedom to avoid responsibility. Instead, we think greater equality among different businesses and sectors is the only way to have a fair and effective ETS. We also think equality would help businesses prepare with certainty for their emissions factor and would help clear public uncertainty about how the scheme works.

## **5. If full surrender obligations are applied, when should this be implemented?**

We believe option (a) 2016 is clearly the most appropriate option because of a number of reasons. Firstly, the issue is urgent and acting earlier will help prevent further inter-generational inequity. Secondly, since the GFC New Zealand businesses have had the time to recover and rebuild themselves. The ETS and its consequences were established in 2009, giving businesses years to prepare for its implementation. We see this as a fairness issue across society over time and therefore believe the full surrender obligations should not be extended any further.

The possible costs and benefits of this decision must be carefully weighted to reach an informed decision and we think it is clear that, when taking a long term view into the future, the benefits outweigh the costs of a 2016 implementation.

We understand (as many of us are students ourselves) that low income earners and students are vulnerable to any possible increased prices as a result of businesses passing on costs to the consumer. However, we accept that these decisions need to be made to protect the earth, our most valuable resource, and thus it is important we internalise the true cost of emissions. As contributors to the problem, we understand that we should pay the price. We also think a very positive implication of the full surrender obligations implementation is it will encourage consumers to make more educated and environmentally aware decisions by including the true cost of carbon emissions.

In the long run, aside from clear environmental benefits, we think a 2016 implementation will make New Zealand businesses more innovative by encouraging sustainable development. This may make them more competitive internationally and will help improve the global perception of New Zealand business. The scheme will thus improve the market credibility for New Zealand which will have flow on benefits for both businesses and consumers. It is also important to remember that failing to take action now will only make the eventual costs of climate change higher.

## **MANAGING THE COSTS OF MOVING TO FULL SURRENDER OBLIGATIONS**

### **6. If the NZ ETS moves to full surrender obligations, should potential price shocks be managed? Yes/No/Unsure**

Yes. We believe price shocks should be managed due to the potential negative effects releasing this suddenly onto the economy would have.

**7. If potential price shocks associated with moving to full surrender obligations should be managed, how should this be done?**

c) Gradually move to full surrender obligation.

We think it should be managed by gradually moving to full surrender obligation. A sudden change could cause a huge shock in the price per unit if the removal of the two for one is released suddenly into the economy. Change requires public announcement and development so it is important this process is followed. A very sudden change could lead to chaos with a huge scramble to buy units at cheaper prices, which would in turn cause the price to dramatically rise as demand outweighs supply.

By gradually moving to a full surrender obligation with a clearly articulated plan, participants will have a set timeframe and can prepare for the process in advance. This means businesses will be able to take the cost of buying credits at higher prices. It is imperative that these steps are incremental to reduce any chance of businesses panic in the ETS market.

It is also important that the Government commits to a schedule of price limit increases to remain creditable, which would ideally mean that the maximum price in the market will be removed in the foreseeable future. We would like to see the benefits that would arise if the price ceiling was removed. This would have positive results because the ETS would reflect true market forces and thus run as efficiently as possible.

**8. If the \$25 fixed price surrender option value should change, what should it change to and why?**

We cannot make a specific recommendation on this point without any clear substantive evidence on what the different price brackets would mean. We recommend more research is made on this point before a decision is made.

4.1 Business responses to the NZ ETS

**OTHER ISSUES**

**9. Do you consider the future cost of emissions in your business planning? Yes/No**

**If yes, how do you do this?**

We believe that most small-medium businesses (SMBs) in New Zealand do not have the expertise or resources to dedicate to factoring in the future cost of emissions in their business planning. The low NZU price and current 2-for-1 deal surrender option mean that current NZU expenses are minor

relative to other production costs (unless the product or service is highly fossil fuel intensive). This is exactly why we need to transition to an ETS that internalises the full cost of their emissions so that products reflect their emissions profile, encouraging both consumers and producers to seek out low emissions products.

#### **10. What would improve your ability to take into account the future cost of emissions in your business planning?**

Government signals are important for businesses so that they can prepare for change (i.e. the removal of the surrender options). Most (smart) businesses will have already prepared for such a change given the ETS has been running since 2009, and there has been increasing public and international awareness of global warming and COP negotiations. Any firm that has not yet had this consideration cross its horizon (and is being run sensibly) should be able to factor in such changes with a 12-month signal from Government. Further assistance could also be provided by Government for businesses through consultants, who may help businesses identify ways they can reduce their ETS expense (and thus emissions).

*[The following is in response to both questions above.]*

For example, one Dunedin-based SMB, which, admittedly, can be characterised as ‘in the cloud’ and so has a small carbon footprint, has devised its own carbon offsetting strategy. An employee is tasked to calculate annual ‘work-related emissions’ for the business; accounting for contributors such as electricity use and travel mileage. The Sustainable Business Network provides an online Annual Carbon Emissions (ACE) calculator to perform such an assessment. The employee must then develop a model to offset carbon emissions that is consistent with the environmental sustainability policies of this SMB: carbon offsetting is undertaken through tree planting and, to sustain biodiversity, trees must be native to New Zealand (note that four times as many of these trees must be planted to account for slower carbon sequestration in natives, but further research in this area is needed). Plots of land are sourced through collaboration with established non-profit organisations and, at the beginning of each financial year, shareholders and staff members are invited to plant trees together on the land.

This carbon offsetting strategy is a work in progress: measurement accuracy for carbon emissions and offsetting must be improved (this applies for the online ACE calculator, as well as the assessor), targets must be determined as an emissions profile for the SMB develops over time, and carbon offsetting methods (other than tree planting) may be explored. Additionally, this SMB is not

representative of all New Zealand businesses: it is a small business with a small carbon footprint and, furthermore, it is a social enterprise with a strong interest in environmental sustainability. Therefore, its 'DIY' carbon offsetting strategy is unlikely to work for all New Zealand businesses; which are of different sizes, interacting in different ways with the environment, and with different overriding motivations. However, this example does demonstrate how one SMB (and perhaps others) has responded to the current NZ ETS: it does not trust the Government's role as a 'middleman' for carbon offsetting; both in facilitating the fair trade of emission units and, more specifically, in determining how carbon emissions are ultimately offset. We suggest that greater trust in the Government's role as a 'middleman' for carbon offsetting could be fostered among New Zealand businesses through education and engagement; helping business people to better understand the purpose and function of the NZ ETS, and inviting them to have a say in how carbon emissions are ultimately offset.

The aforementioned SMB represents an 'early adopter' in the transition to a low-carbon economy. Responsive businesses like this incur greater costs in being among the first to establish carbon offsetting strategies, but they constitute a pivotal group, which, if trusting of the NZ ETS, could provide a gateway to participation from other more emissions-intensive and trade-exposed businesses. Fostering trust between New Zealand businesses and the Government through ETS education and engagement is imperative if we are to follow the lead of 'early adopters' and hasten our transition to a low-carbon economy.

#### 4.2 Protecting competitiveness through free allocation

##### **11. Under what conditions should free allocation rates start to be reduced after 2020?**

When agreement has been made (at a regional or OECD level) for the implementation of carbon pricing. Alternatively, when there is an international market for carbon trading that is credible and widely used across nations.

When New Zealand decides that we want to be a leader in promoting and developing green, low-emissions business. When we no longer accept carbon polluting firms in our own backyard and instead choose to export niche, high-value, low-emissions products.

**12. What impact would it have on your investment decisions over the next few years if there was a clear pathway or criteria for phasing out of free allocation after 2020?**

This would support investment decisions by reducing current uncertainty about what is going to happen post 2020 and if the business would no longer be viable. Introducing a clear pathway for phasing out free allocations starting in 2020 would encourage businesses to ‘clean up’ their practices by investing in low-emissions technology (as opposed to facing the costs that they will be able to foresee).

4.3 Managing unit supply

**13. How does the carbon price impact your forestry investment decision-making?**

No response.

**14. Are there opportunities for the NZ ETS to increase incentives for forestry investments, outside of NZU price? Yes/No/Unsure**

Yes – reduce the size of plantation required to obtain NZUs. That way smaller plantations or farms with sizeable shelter belts may be able to choose to participate.

**15. What are your reasons for the above answer? If you answered yes, we would be interested in comments on:**

- a. any barriers to participating in the NZ ETS that could be reduced

Plantation/forested areas are not large enough to participate in the NZ ETS. The threshold could be reduced.

International Units

**16. If international units are eligible for NZ ETS compliance in the 2020s, should any of the following restrictions be placed on their use?**

- a. restrictions on where units can be sourced from (location of and/or types of projects)

Yes – there must be verified credible production of units. An external international organisation or NGO should perform such verification and monitoring to avoid corruption or political interference.

Projects must be in line with best practice (i.e. not causing greater environmental harm by going to a form of production that reduces emissions).



b. restrictions on how many units can be surrendered

Yes, this should be outlined by a clear pathway/criteria to give business certainty, though this will be dependent on the above. May start low i.e. businesses only 5% of surrendered emissions may come from the international market which could be ramped up as teething issues and flaws ironed out and addressed by the validation/verification scheme. This percentage may even reach 100%, though anything higher than 50% would have to have a public mandate and be backed by strong evidence that the international units were credible.

Auctioning

**17. Should auctioning be introduced in the NZ ETS? Yes/No/Unsure**

Yes – as this would position NZ better in the medium-long term and help reducing perverse incentives related to the current issuing system. However, there should not be any hurry to implement this until other issues (such as the removal of surrender options) have been addressed and agriculture has been included. These should be our primary issues to resolve (not the distraction of incorporating an auctioning scheme).

**If yes, when?**

Within five years. This would give the Government of the day more levers to adjust were they to incorporate international units to once more align with the NZ ETS.

**18. What should be the role or purpose of an auctioning function in the NZ ETS, if one were introduced?**

a. to align supply in the NZ ETS more closely with our international target

This may lead to low prices if the Government sets a low international target. We need to be ambitious.

Auctioning also sets a clear price on an NZU that the government can more easily control. It is also a simpler system that reduces perverse incentives related to an allocation system and increases the accountability of firms. An auctioning system also provides the government with some revenue, which can be used to fund development and deployment of lower emission technologies. It is vital that funds raised through an auctioning system be retained for this purpose, as it will further help

businesses reduce their emissions without losing too much profit as well as help us to meet our international emissions target.

b. to more actively manage NZU prices

An auctioning system gives the government a more convenient tool to manage shocks in NZU prices, but it is important that NZU prices over the medium-term must be designed to reduce emissions below the set cap (when this is applied).

Auctioning system should be administered by an independent body with the goals of meeting the govt's stated emissions targets, making sure their policy is keeping them on track and managing price volatility in the short run

**19. How should auctioned NZUs relate to other sources of unit supply in the NZ ETS, especially NZUs generated through forestry removals and/or international units?**

No response.

4.4 Managing price stability

**20. What impact has carbon price volatility in the NZ ETS had on your business?**

a. minor

Students/young people have not felt any discernable effects of the NZ ETS. This may indicate that the price signals are not strong enough to change consumer behaviour (which is what we are ultimately trying to achieve).

**21. Do you think measures should be in place to manage price stability? Yes/No/Unsure**

Yes. Good to reduce price shocks. Would avoid unexpected increases in prices that may be detrimental to long-term outcomes.

**22. What do you consider are important factors for managing price stability?**

a. upper price limits (e.g. fixed price option, or a price ceiling implemented through an auctioning mechanism)

Yes - also important to protect from speculation (and unreasonable costs that not all business could afford).

- b. lower price limits (e.g. price floor)

We think that it is very important to have lower price limits, as we want to protect the businesses that have chosen to move to a low emissions-based practice. We cannot let the NZ ETS continue to pretend that there is no/a very low cost (which does not internalise the full environmental and inter-generational costs).

- c. other (please explain).

If no price limits were to be introduced we suggest that the government could just increase and decrease the supply of NZUs in accordance with meeting the cap/emissions targets to get to the required price band.

**23. What should the Government consider when managing price stability?**

No response.

4.5 Operation and technical matters

**24. Are you aware of ways the administrative efficiency of the NZ ETS could be improved?**

**Yes/No/Unsure**

Unsure

**25. Can you provide further information to support your answer? We would be interested in comments on:**

- a. complexities involved in NZ ETS participation

The language used in the NZ ETS is not accessible to most members of the public. A clear dialogue needs to be created and opportunities/incentives for businesses to learn or be taught about the NZ ETS. More needs to be taught about the NZ ETS at tertiary level.

4.6 Addressing barriers to the uptake of low emissions technologies

**26. Are there any barriers or market failures that will prevent the efficient uptake of opportunities and technologies for reducing emissions?**

Speculation on NZUs for financial gain might yield significant profits for individuals but could also distort the real price of the units which would create difficulties for businesses. Vested interests (who participate in the market and control the price).

Businesses anticipating falling unit costs so retaining polluting practices for longer than they would otherwise. May need a mechanism to prevent the price going down.

**27. If so, is there a role for the Government in addressing these barriers or market failures and how should it do this?**

In order to place as little a burden on businesses as possible the price of NZUs should be predictable over the medium-term so entities can make sensible investments in lower emission technology. A major source of volatility could be from market speculation. Proposals to minimise speculation in the ETS markets can minimise this - including limits on holding credits between periods, selling restrictions or restrictions on gains from speculation.

## **PART B: INSTITUTE RESEARCH TEAM SUBMISSION**

The Institute's key concern is around the lack of good governance for the management of 'emissions'. For this reason, we believe it is timely not only to undertake this review, but to explore more broadly the package of interventions to move New Zealand from a high to a low emissions environment. New Zealanders need to have confidence that we are not only moving in the right direction, but that we are 'all' moving in the right direction. There has been concerns raised over some stakeholders cheating the ETS.<sup>3</sup>

More broadly we have concerns about the level of deception that has played out in the car manufacturing industry internationally<sup>4</sup> and question whether this could be happening in our major emitting industries in New Zealand. For example, is our agricultural industry operating in their self-interest (rather than the interest of New Zealand in the long-term)? Are our climate polluters being responsible in how they manage and report on climate emissions and trading practices? Who is policing those industries? To what extent are these industries lobbying Government and to what extent are their financial self-interests taking precedence over that of current and future generations? We believe a review should stress-test the framework in terms of values, ideas and indicators – is the current system transparent, equitable and delivering on its purpose? New Zealanders need to have confidence in the system, and it is for this reason we welcome this review and make the following recommendations.

### **Recommendation 1:**

**A Government Department Strategy document should be prepared on how New Zealand will reduce its emissions (the package of initiatives)**

Part of the Institute's work includes preparing a Government Department Strategies Index for New Zealand.<sup>5</sup> This work aims to explore how New Zealand might strengthen Government Department Strategies (GDSs) so that they become more effective, transparent, measurable and durable through public consultation, engagement and ownership. Based on our findings in the current GDS Index, we understand there is no GDS specifically covering how New Zealand will reduce its emissions. See the Index for evidence that we have no GDS emissions document.

---

<sup>3</sup> See the Morgan Foundation report at <http://morganfoundation.org.nz/new-report-climate-cheats>

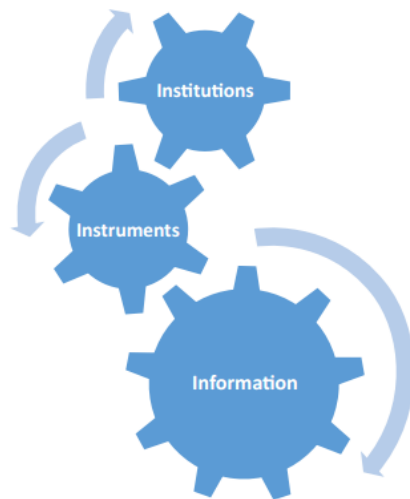
<sup>4</sup> The car manufacturing industry's lack of regulation and ability to manipulate data highlights a gap in the reporting process. Volkswagen, who intentionally equipped cars with devices to cheat emissions tests, brought the extent of those trying to cheat to the public's attention. See <http://www.stuff.co.nz/motoring/news/72321273/Anatomy-of-Volkswagens-deception-The-recall-that-never-fixed-any-cars>

<sup>5</sup> See our GDS Index NZ website at <http://gdsindexnz.org>

The Index forms part of a project, called *StrategyNZ*. This project is exploring how New Zealand might strengthen GDS documents to make them more effective, transparent, measurable and durable through public consultation, engagement and ownership. The Institute is hosting a one-day workshop<sup>6</sup> to discuss good practice in public service strategy development and the day-to-day issues this presents (see flyer attached). We believe it is critically important that New Zealanders understand and appreciate our approach to emissions reduction. Such a document should explain (1) foresight (opportunities and threats), (2) our capability and resources, (3) our vision and the benefits it will deliver, (4) our approach, (5) how this will be implemented and how stakeholders will be held accountable and (6) how this aligns with our legislation and government institutions. This approach is mapped out in the Index, but it perhaps best explained in Figure 1 of *Think Piece 21* (attached).

The answer to the question ‘what framework, in particular what institutions, instruments and information will enable efficient and effective assessment of the ETS going forward?’ is unclear. Figure 1 below illustrates how we consider ‘Institutions, Instruments and Information’ should work together to create an effective framework for policy analysts to develop policy and for Government to make informed decisions on the best policy.

**Figure 1: Three components that bring about change and drive the system in which you operate<sup>7</sup>**



---

<sup>6</sup> For more information on the *StrategyNZ* workshop see <http://strategynz.info/2016-strategynz-workshop>

<sup>7</sup> TalentNZ. (2015). *Worksheet 4: Illustrate an understanding of the three components that bring about change and drive*. Retrieved April 18, 2016 from <http://talentnz.org/wp-content/uploads/2015/11/20150514-TalentNZ-worksheet-41.pdf>

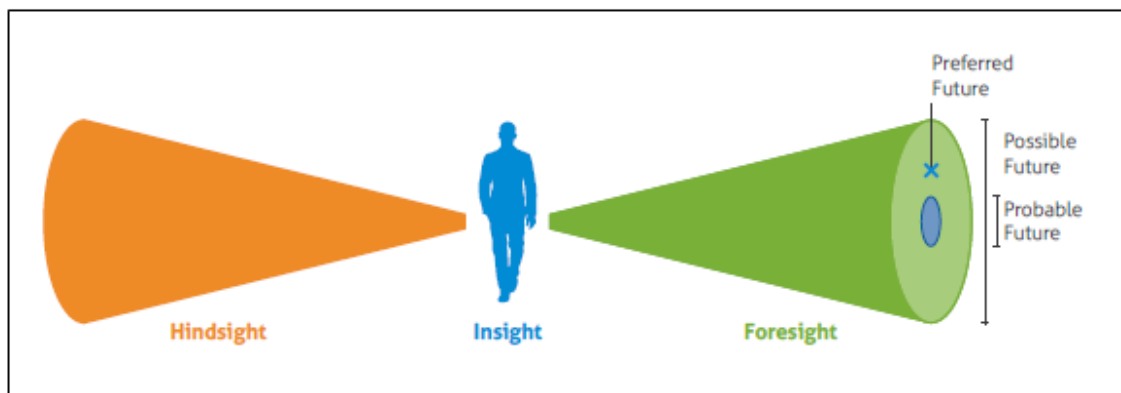
### **Recommendation 2:**

#### **Develop a set of indicators that measure progress towards a low emissions economy**

The answer to the question ‘what will a low emissions economy look like?’ is unclear. If we haven’t mapped what our preferred future as to what a low emissions economy would look like, how do we measure success?

As part of the Institute’s *Project Foresight*, we explore the future in terms of the Cone of Plausibility (see Figure 2). Having an understanding of the probable future we may face (given our current emissions trajectory) will help us recognize which levers to pull in order to shape our future. Currently this lack of strategic thinking is not obvious and may therefore be lacking in the climate change policy dialogue.

**Figure 2. The Cone of Plausibility**



### **Recommendation 3:**

#### **Require major emissions polluters to report on progress through a requirement to produce an integrated annual reporting**

The Institute has a project on integrated reporting and believe this is one instrument that can be used in both the public and private sector to improve accountability, integrated thinking and foresight.<sup>8</sup>

### **Recommendation 4:**

#### **Explore a package of initiatives to manage livestock emissions**

The elephant in the room in New Zealand’s climate change narrative is the role of livestock. Chatham House, a UK think tank, has undertaken research in this area producing a report titled

---

<sup>8</sup> See our *Project One Integrated Report* at [http://www.mcguinnessinstitute.org/Site/Projects/One\\_Integrated\\_Report/Project\\_One.aspx](http://www.mcguinnessinstitute.org/Site/Projects/One_Integrated_Report/Project_One.aspx)



*Livestock – Climate Change’s Forgotten Sector Global Public Opinion on Meat and Dairy Consumption.*<sup>9</sup> Later in 2016 the Institute will begin scoping this topic as part of a new project, *Project LiveStockNZ*.<sup>10</sup> The aim is to undertake more in-depth research with a view to publishing a report in 2017. We are looking to explore a new narrative for livestock farming in New Zealand – one that moves towards a more robust and ethically sound way of doing business while at the same time delivering better environmental and social outcomes for all.

**Recommendation 5:**

**Keep the Carbon Tax option on the table**

Cheating emissions is not only happening in Europe. For example, a recent report has indicated New Zealand has been buying fraudulent carbon credits from Ukraine and Russia through our Emissions Trading Scheme.<sup>11</sup> Currently the government is planning to use all these fraudulent credits so it can claim we are meeting our international obligations through to at least 2020. Being party to fraud puts our credibility as a clean, green, corrupt-free country at risk. New Zealand is avoiding the ethical obligation to reduce emissions.

This calls into question the viability of the Emissions Trading Scheme as a whole. We have concerns that the ETS may continue to develop flawed outcomes and that New Zealand, may by necessity, need to shift to a Carbon Tax. For this reason we recommend that Government continue to explore the Carbon Tax system as a back-up if the ETS simply fails sometime in the future. In defining failure, we are arguing that it may never deliver the outcomes New Zealanders, and the rest of the world need, in terms of an equitable low emissions economy.

Having a viable alternative will keep industry honest. It will make it clear to all stakeholders that the Government is serious and if the stakeholders do not come to the party, a rule based system is the only remaining alternative.

---

<sup>9</sup> See the Chatham House report at [https://www.chathamhouse.org/sites/files/chathamhouse/field/field\\_document/20141203LivestockClimateChangeBaileyFroggattWellesley.pdf](https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20141203LivestockClimateChangeBaileyFroggattWellesley.pdf)

<sup>10</sup> See our Project *LiveStockNZ* at <http://livestocknz.org>

<sup>11</sup> See the Morgan Foundation report at <http://morganfoundation.org.nz/new-report-climate-cheats>