

Submission:
**Improvements to the New Zealand
Emissions Trading Scheme (NZ ETS)**
September 2018

Mihi

***Ka mihi ake ai ki ngā maunga here kōrero,
ki ngā pari whakarongo tai,
ki ngā awa tuku kiri o ōna manawhenua,
ōna mana ā-iwi taketake mai, tauiwi atu.
Tāmaki – makau a te rau, murau a te tini,
wenerau a te mano.
Kāhore tō rite i te ao.***

*I greet the mountains, repository of all that has been
said of this place,
there I greet the cliffs that have heard the ebb and
flow of the tides of time,
and the rivers that cleansed the forebears of all who
came those born of this land and the newcomers
among us all.
Auckland – beloved of hundreds, famed among the
multitude, envy of thousands.
You are unique in the world.*

Introduction

1. Auckland Council would like to thank the Ministry of Environment for the opportunity to provide a submission on the Improvements to the New Zealand Emissions Trading Scheme (NZ ETS) consultation document (2018).
2. We commend the Government for providing this opportunity to address the issues of the current scheme. We reiterate our position in supporting the NZ ETS as the right mechanism to price carbon, albeit one within a wider set of complementary, flexible, price and non-price policy instruments to achieve a substantive reduction in emissions. The NZ ETS has a varied history, with recent developments impeding its effectiveness¹. The proposed improvements are an opportunity to update and renew the scheme according to international best practice considering the unique emissions profile and economy of New Zealand. It is important to implement the right framework and approach to ensure New Zealand's transition to a prosperous and resilient low carbon economy and society.
3. Auckland Council's submission is based on its several distinct roles. The council is an organisation affected by the NZ ETS through the operation of corporate and community facilities. Auckland Council also provides a regional policy and planning perspective based on the strategic goals and commitments of the Auckland Plan 2050 and Auckland's Climate Action Plan (currently in development). Finally, Auckland Council represents the interests of households, communities and business of the Auckland community who are affected by the impacts of climate change.
4. This submission is focused on nine of the 37 consultation questions raised in the *Improvements to the New Zealand Emissions Trading Scheme Submission Form* that the council deems most relevant.

¹ For instance, see Haites, Erik (2018). *Carbon taxes and greenhouse gas emissions trading systems: what have we learned?* Climate Policy, 18:8, 955-966, DOI:10.1080/14693062.2018.1492897

5. This submission is being lodged as an officer submission without full political endorsement and will be discussed by the Environment and Community Committee on 16 October 2018. At that point, we request the ability to provide additional details or amended recommendations to you if and as necessary.

Discussion Questions (from Consultation Document)

Question 1: What issues should the decision maker consider when making unit supply decisions?

6. The number of New Zealand Units (NZUs) in the market is intended to reflect the carbon budgets that will be advised/determined by the Zero Carbon Commission. We support the modelling of the New Zealand domestic abatement potential and cost. We believe the abatement potential modelling should consider all the issues covered under question one.
7. Other issues to consider are the accuracy of the data informing the New Zealand emissions trend and the ongoing assessment of NZ ETS effectiveness.

Landfill operators

8. While the Council supports the establishment of carbon budgets, a meaningful carbon budget requires robust data to inform it. When making unit supply decisions, the decision-maker needs to consider the challenges to the waste sector in projecting emissions accurately year on year and the implications of that both for landfill operators and the scheme in general. Emissions from waste are not always measured and reported accurately. Methane is a potent greenhouse gas which is released from landfill sites prior to capping. While Auckland's landfill operators report achieving a 95 per cent gas capture rate, analysis has demonstrated that traditional landfills achieve a 95 per cent efficiency only after around 16 years of operation.² This may lead to the systemic under-reporting of emissions being produced at landfills. Therefore, emissions budgets for the waste sector must be reviewed and re-set regularly as monitoring technology improves.

Question 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.

Purpose 1: Support Local Government to reduce greenhouse gas emissions while ensuring the communities are prepared for the impacts of climate change

9. Selecting specific purposes for the proceeds of NZU sales in the NZ ETS is critical. As stated throughout the NZ ETS consultation document, it is essential that government policy be consistent with a "just and fair transition" (p. 10) to a low carbon economy and a climate-ready New Zealand. Therefore, funds raised by the NZ ETS should be used to help New Zealand and major population centres with larger overall emissions, like Auckland, mitigate greenhouse gas emissions and adapt to expected climate impacts.
10. Climate change exacerbates existing inequity in that it affects society's vulnerable "first and worst". Furthermore, vulnerable groups are often those who have contributed least to the problem of climate change. Government policies can help reduce inequity by efficiently

² Levis, J and Barlaz, M. 2011. *Is Biodegradability a Desirable Attribute for Discarded Solid Waste? Perspectives from a National Landfill Greenhouse Gas Inventory Model. Environmental Science and Technology.* North Carolina State University

reducing emissions and working to ameliorate climate impacts, including directing funds from the NZ ETS to local adaptation/mitigation initiatives like those to be part of Auckland's Climate Action Plan (currently in development). Proceeds from the NZ ETS can therefore provide a "double dividend" of emissions reduction and public benefit. **We recommend some portion of proceeds from the NZ ETS be earmarked for local government climate adaptation and mitigation programmes.** Reinvesting proceeds from emissions trading schemes is not a new concept internationally. Indeed, it is standard practice in other countries with an ETS to reinvest funds into environmental and social programmes to address climate impacts. In Quebec, ETS revenue is allocated to the implementation of their Climate Change Action Plan (CCAP 2013-2020). This plan aims to reduce Quebec's greenhouse gas emissions, adapt to climate change impacts and accelerate the shift towards a "strong, innovative and increasingly low-carbon economy".³

Purpose 2: Support environmental biodiversity in the face of climate change

11. To optimise environmental outcomes, **we recommend that NZ ETS proceeds be used for environmental programmes to maintain and help New Zealand biodiversity to adapt in the face of climate stresses.** This strategy is also employed around the world. As of 2014, about 70% of cap-and-trade ETS revenues around the world directed revenues towards environmental purposes.⁴

Purpose 3: Support technological innovation to increase climate adaptation and mitigation

12. NZ ETS proceeds could also drive innovation for clean technologies that mitigate New Zealand emissions to support the transition to a "low-emissions and resilient economy" (p. 14). Innovation is particularly important for sectors that cannot easily or cost-efficiently reduce emissions (i.e. agriculture and aviation, both relatively high and important contributors to NZ emissions profile compared to other countries). Looking overseas, in the US approximately \$2.7 billion has been produced in revenue from the Regional Greenhouse Gas Initiative (RGGI). Between 2009 and 2014, RGGI states allocated 42% for energy efficiency programmes, 11% for bill assistance to low-income residents, 9% for GHG abatement, 8% for renewable energy development, 8% for state budget reductions, 4% for programme administration and 1% for RGGI management.⁵ The estimated a net employment effect of the RGGI between 2009 and 2025 is expected to be 30,200 jobs.⁶ According to the CCI (2017), California has raised \$3.385 billion in revenue through 2017 which has provided funding for high speed rail, low carbon transit, weatherproofing of low income homes and environmental conservation efforts. **We therefore recommend that the NZ ETS incorporate international best practice to drive innovation for clean technologies that create an equitable, healthy and resilient low carbon economy.**

³ International Emissions Trading Association (2015), 'IETA emissions trading 101', available at <https://www.ieta.org/resources/Resources/101s/ieta-emissions-trading-101-library-april2015.pdf> (accessed 16.9.2018)

⁴ Carl, J., & Fedor, D. (2016). Tracking global carbon revenues: A survey of carbon taxes versus cap-and-trade in the real world. *Energy Policy*, 96, 50–77. doi:10.1016/j.enpol.2016.05.023

⁵ Ramseur, J. L. (2017). *The regional greenhouse gas initiative: Lessons learned and issues for congress* (No. R41836). Washington, DC: Congressional Research Service.

⁶ Hibbard, P. J., & Tierney, S. F. (2011). Carbon control and the economy: economic impacts of RGGI's first three years. *The Electricity Journal*, 24(10), 30–40. doi:10.1016/j.tej.2011.10.020

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

Question 15: If a decision-making process for industrial allocation is implemented, which of the following factors should the decision-maker take into account?

13. Auckland Council suggests that a decision-making process be established to determine the allocation of free NZUs. Every industry has unique circumstances and technological challenges/opportunities and, while more complex and potentially more open to interference, a decision-making process allows for a more tailored industry-specific approach.
14. In addition to the factors listed in question 15, to assist the decision-making process ***we suggest all participants to free NZUs provide:***
 - a. a ***regular justification*** for its free yearly allocation
 - b. ***demonstrated carbon reduction projects/actions*** undertaken with an emissions reductions plan
 - c. the ***emission intensity*** of its process compared to international best practise

We also recommend that the process should be transparent, open to public scrutiny and to be independently peer reviewed. The information above should be used to determine both the number of NZUs allocated for each period and emissions reductions for each industry.

Question 16: If a phase-down is initiated in future, which of the following rates for phasing-down industrial allocation should be considered?

15. Rather than a gradual phase out, ***we recommend that the amount of free NZUs allocated be considered every two to five years*** (see answers to questions 14 and 15). The phase out approach is not simple as it requires a mix of pricing signals and in some cases new technology to reduce emissions. It is industry specific and should be considered together with the allocation every two to five years.

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

16. Currently the industries that receive a free allocation of NZUs must provide information on emissions intensity test (tCO₂e/ NZ\$ 1 million of revenue) and trade exposure (international trade of the activity's output and the viability of importing/exporting). Currently the information provided is not publicly available on the NZ ETS website. While the calculation used to determine allocation is available, the only information provided is the annual allocation of carbon units in each year.
17. To have a transparent and effective NZ ETS, ***we recommend that all participants to publicly report emissions data and supporting information.*** In addition, ***we suggest participants provide emissions intensity of operations and associated plans to reduce it.*** This would allow the performance of a company or process to be compared with international best practise and help unlock potential mitigation pathways.

18. Finally, ***we recommend that information relating to the determination of Unique Emissions Factors (UEFs) for each industry*** (e.g., waste composition and landfill capture rates) ***be made public and open to scrutiny and that regular reviews*** of UEFs should be undertaken.

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

19. To ensure higher levels of accountability and scrutiny to help encourage emitters to reduce emissions, ***we suggest that the release of non-compliance information be published.*** If non-compliance cases are not published, an essential tenet of the scheme (accountability) will be missing, minimising the emissions reduction imperative for emitters, thereby undermining the scheme.

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

20. It may be inappropriate to enforce strict liability for low level non-compliances for small-medium enterprises (SMEs). Before strict liability for low-level non-compliance is pursued, however, ***we suggest that the government provide adequate support for SMEs with limited resources*** to comply with the scheme. This is particularly pertinent in Auckland given that the majority of Auckland businesses are SMEs.

Question 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?

21. ***Given the myriad social, environmental and economic benefits, we believe that New Zealand should be ambitious in transitioning to a low carbon future.*** Coal is one of the least efficient and most polluting fossil fuels, with significant impacts to air quality, emissions and human health. ***We recommend coal be curtailed as quickly as possible, including*** ensuring all coal sales/use be reported and included as part of the ETS whether or not the sale/use reaches the ETS threshold.