

New Zealand Government



## The New Zealand Emissions Trading Scheme

# ❖ New Zealand Emissions Trading Scheme Review 2015/16

SUMMARY OF STAGE ONE: PRIORITY ISSUES CONSULTATION RESPONSES

JULY 2016



Ministry for the  
**Environment**  
*Manatū Mō Te Taiao*

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Ministry for the  
**Environment**  
Manatū Mō Te Taiao

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## Abbreviations

EITE	Emissions intensive and trade exposed
EPA	Environmental Protection Authority
GDP	Gross Domestic Product
NGA	Negotiated Greenhouse Agreement
NGO	Non-governmental organisation
NZ ETS	New Zealand Emissions Trading Scheme
NZU	New Zealand Units
PCE	Parliamentary Commissioner for the Environment
SGG	Synthetic greenhouse gas



# 1. Introduction

## 1.1 New Zealand Emissions Trading Scheme Review 2015/16

The New Zealand Emissions Trading Scheme (NZ ETS) Review began on 24 November 2015 with the release of a discussion document and call for written submissions. The discussion document set out the terms of reference for the review, and issues for consultation.

The issues for consultation covered the following three key areas:

- the transition measures, with the exception of surrender obligations for biological emissions from agriculture
- the evolution of the NZ ETS design, taking into account the changing conditions in which it operates
- operational and technical improvements.

From these issues, the Government identified two priority matters for consultation. These were:

- moving to full surrender obligations for the liquid fossil fuels, industrial processes, stationary energy and waste sectors
- managing the costs of those sectors moving to full surrender obligations.

Consultation on priority issues began immediately following the announcement of the review, on 24 November 2015, until 19 February 2016. The Government sought submissions on how changes to the priority matters would impact individuals, communities, businesses and other organisations. Submitters were encouraged to provide evidence, analysis or data to support their submissions.

The remaining issues under review were allocated a longer time for consultation. Submissions on the review's "other matters" were accepted until 5.00pm on 30 April 2016.

**This document provides a summary of consultation responses on the stage one (priority issues) only. A summary of submissions will be released for stage two (other matters) later in 2016.**

## 1.2 Technical notes

Technical notes were released during the stage one (priority issues) consultation to support submissions. The following documents were released on 5 February 2016 and published on the Ministry for the Environment website:

- The New Zealand Emissions Trading Scheme Evaluation Report 2016 (Ministry for the Environment, 2016)
- Economic Impacts of Removing NZ ETS Transitional Measures (New Zealand Institute of Economic Research, 2015)
- Afforestation Responses to Carbon Price Changes and Market Certainties (Manley, 2016).

A press release announcing the release of the technical notes was issued on the Beehive website ([www.beehive.govt.nz/release/ets-review-modelling-documents-released](http://www.beehive.govt.nz/release/ets-review-modelling-documents-released)). Emails were sent to members of the public who had requested direct notification of the release of the notes.

### 1.3 Stage one consultation (priority issues)

Consultation on the priority issues took place from 24 November 2015 to 19 February 2016. As a technical subject matter with economy-wide impacts, consultation focused on engagement with experts and participants, alongside members of the broader public.

The review was promoted to increase awareness of the review process and timeframes, and encourage stakeholders to submit their views. Notification included:

- announcement of the review and publication of a media release on the Beehive website ([www.beehive.govt.nz/release/government-begins-review-ets](http://www.beehive.govt.nz/release/government-begins-review-ets))
- release of the discussion document and information on the review process on the Ministry's website, including how to make a submission ([www.mfe.govt.nz/publications/climate-change/new-zealand-emissions-trading-scheme-review-2015-16-discussion-document](http://www.mfe.govt.nz/publications/climate-change/new-zealand-emissions-trading-scheme-review-2015-16-discussion-document))
- publication of public notices in five major newspapers (*The Press*, *The Dominion Post*, *The New Zealand Herald*, *Waikato Times* and the *Otago Daily Times*) on Saturday 16 January 2016, and in one major newspaper (the *Sunday Star-Times*) on Sunday 17 January 2016.
- placing a notice in a newsletter to all Emission Unit Register users and their representatives through the Environmental Protection Authority (EPA).

Meetings held with targeted stakeholder groups during the consultation included:

- Six information sessions held between 13 and 15 December 2015 in Wellington, Auckland and Christchurch. These were attended by approximately 50 stakeholders. The purpose of these sessions was to provide an overview of the issues being considered in the review, and advice on how to make a submission.
- Six regional hui held by officials, the Climate Change Iwi Leaders Group and its advisors between 19 and 29 January 2016. The hui were in Kaikohe, Rotorua, Tolaga Bay, Whanganui, Christchurch and Invercargill. They were attended by approximately 78 stakeholders. The hui provided an opportunity to discuss the matters under review with officials, with a particular focus on the priority matters. Attendees were provided information on the consultation process and how to make a submission.
- Nine targeted meetings held between 1 and 12 February 2016 in Auckland, Wellington and Christchurch. These were attended by approximately 100 stakeholders. These sessions provided further opportunity to discuss the matters under review, and in particular the priority matters. Discussion and information was shared to help attendees write submissions.

[Appendix 1](#) provides a full list of meetings undertaken and key themes raised by attendees.

## 1.4 Approach to analysis

The Ministry received 278 submissions.<sup>1</sup> All submissions were assigned a unique identification number and entered into a central database. Each submission was attributed a main sector interest and additional sector interests were noted for the analysis.

Some parties provided more than one submission document or correspondence. In these cases, all documents were logged as a single combined submission to avoid duplication. Where a party made multiple submissions on behalf of multiple organisations or individuals, these were logged separately. [Appendix 2](#) provides a full list of submitters.

A quality assurance process was undertaken and every effort has been made to ensure the report accurately summarises the overall feedback on issues regarding stage one (priority issues). We cannot guarantee that all views are reflected in this report.

## 1.5 Notes on conventions used in this document

Where numbers and percentages are used when referring to the number of submitters who responded to questions, these are based on interpretation of the submissions. Protocols were established to ensure as great a degree of consistency in interpretation as possible.

Selected quotes from submissions have been included in this summary document. These have been included for their value in illustrating issues raised by submitters, or because they articulate issues in a way that is difficult to paraphrase without losing the original meaning. Their inclusion in this document does not imply that they have been given more weight over and above submissions that have not been cited specifically.

Where quotes from submissions are used, any unexplained acronyms or minor typographical errors have been amended to allow for improved readability. Every effort has been made to ensure citations of submissions are accurate. Where these have been manually typed, however, there may be minor errors.

Percentages referred to in this document have been rounded to the nearest whole number. As such, in some cases total values may not equal 100 per cent.

Some parties also completed questions that are being considered in stage two (other matters). While these have been entered into the database, these responses were not considered during stage one. Including stage two (other matters) questions with their stage one submission did not prevent submitters from sending updated stage two responses before the deadline of 30 April 2016.

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<sup>1</sup> Consultation closed at 5.00 pm on 19 February 2016. Some submitters requested and were granted extensions until 24 February 2016. These submissions are included in the analysis.

## 2. Who responded to the consultation?

### 2.1 Numbers of submissions

In total, 278 submissions were received. The numbers of submissions received by sector are detailed in table 1.

**Table 1: The main sector interest of submitters**

Sector	Number	% of total
Agriculture	11	4
Business groups	8	3
Electricity	7	3
Forestry	47	17
Individual	103	37
Industrial processors	11	4
Iwi/Māori	9	3
Liquid fossil fuels (transport)	10	4
Local government	8	3
NGO and community groups	19	7
Research and tertiary organisation	7	3
Stationary energy (excluding electricity)	9	3
Waste	13	5
Wood processors and manufacturers	2	1
Other	14	5
<b>TOTAL</b>	<b>278</b>	

### 2.2 Types of submissions

Two hundred and forty-two submissions (87 per cent) were unique. The remaining 36 (13 per cent) were form submissions by the Morgan Foundation and largely completed by individuals.

Fifty-eight submissions (21 per cent) were received through the online submission tool, 217 (78 per cent) were emailed, and three (1 per cent) were written submissions, received by post.

## 3. Consultation responses

### 3.1 Key themes raised during consultation

#### The need for regulatory or policy certainty

This was the strongest theme, expressed across all sectors. Submitters and meeting attendees emphasised that continual and what they perceived to be *ad hoc* changes to the New Zealand Emissions Trading Scheme (NZ ETS) will result in uncertainty for long-term investment decisions.

“[T]he flood of overseas units has left a huge negative legacy and potential fiscal cost that will affect the ETS for many years to come. This review is playing catch up by finally acknowledging these issues, and looking to resolve them. While this is positive, the Government needs to ensure history’s mistakes are not repeated.” (Carbon Forest Services, 00081)

“There is a strong need to have certainty about the final form of the NZ ETS, its details and when these will occur (for example, inclusion of agriculture, a fixed price floor, an appropriate cap on the number of units that reduces over time) in order to send the right market signals.” (Auckland Council, 00019)

“Going forward, the ETS should not be amended, as has occurred in the past, with each new idea. This is poor policy making; it creates uncertainty, the very antithesis of what is needed, greatly reducing the effectiveness of this otherwise quite appropriate tool.” (Climate Change Iwi Leaders Group, 00180)

#### The relationship between the priority and other review matters

A number of submitters and meeting attendees stated that the design issues under review in the second stage will be impacted by the priority matters, or vice versa, and so should be considered together.

“Todd applauds the consultation process that is being undertaken in respect of the current review. However, as noted, Todd has concerns that the prioritisation of certain matters does not promote a robust and holistic reassessment of the NZ ETS and its priorities.” (Todd Energy, 00200)

“[D]ecisions made in regard to moving to full surrender obligations, and the inevitable price implications that will have, should not be made in isolation to addressing the broader issues that have been pushed out into the second submission.” (Methanex, 00137)

#### A view to the long term

Submitters emphasised the need for a long-term plan for how the NZ ETS will help New Zealand meet its international obligations. For many, this emphasised the need for clarity from the Government about the role of the NZ ETS in delivering emissions reductions, or how

New Zealand businesses, households and whānau can be protected from any disproportionate or undue costs. Some submitters suggested that this may be achieved through cross-party support, or establishing an independent climate change commission. Others connected it to the importance of an intergenerational or kaitiakitanga perspective.

“[A] Climate Commission should be established with the mandate to develop a long term strategy for achieving a zero-carbon economy. This strategy must take into account all the influences on carbon emissions, including the role played by agriculture, forestry and our land use options and behavioural changes that might shift demand and supply curves. We’re on a reducing carbon budget and we need a plan to be able to stick with it.” (Individual, 02016)

“The review should also include long-term economic factors... Many of the companies that we invest in are likely to face increased short-term costs if the government were to move to full surrender obligations. However, they face long-term risks from the status quo.” (Guardians of New Zealand Superannuation, 00077)

## Connection of the NZ ETS to other climate change policies

Submitters and meeting attendees stressed the importance of New Zealand’s main policy tool for reducing emissions being well-connected with Government’s other policies for climate change, including adaptation.

“Climate change is not an issue that can be considered in isolation. In developing climate change policy, the Government must recognise the connections with other areas of policy.” (Straterra, 00102)

“We suggest that the Government in consultation with business give more careful consideration to the overall mix of climate change related policies, the role of the NZ ETS including its desirable long-term design features, and its ability to deliver on the objectives expected of it. This conversation is already underway but is embryonic.” (Business New Zealand, 00131)

## Other factors that should be considered in the review

In submissions, the views above were most often expressed in response to the review’s first two questions, which asked the submitter for their views on the Government’s drivers for the review.

Despite broad agreement to the Government’s review drivers, a large number of submitters provided suggestions for other factors that the Government should be considering during this review. Some common suggestions included matters specifically outside the scope of the review.<sup>2</sup> These included:

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<sup>2</sup> As per the terms of reference for the review, the Government does not propose to make any recommendations on matters outside the scope of the review.

## **Surrender obligations for biological emissions from agriculture**

Many submitters criticised that the review excluded consideration of surrender obligations for agricultural emissions. Some linked this exclusion of agriculture from the NZ ETS to New Zealand's ability to meet its future emissions reduction targets and the impacts these costs will have on taxpayers and the wider economy.

"The ETS (alone or in combination with other Government-led actions) needs to enable New Zealand to meet our 2030 target for domestic emissions reductions without relying on international trading. As part of this plan, the ETS needs to include agriculture, if not now then from a clearly stated point in the future. Agriculture contributes a significant portion of New Zealand's overall emissions, so excluding it indefinitely will severely hamper efforts to meet our 2030 emissions target." (Individual, 02038)

"[Excluding agriculture] sends a signal to investors in productive land uses that agriculture will not face any costs and this artificially inflates the value of agricultural land over other productive uses such as forestry. By agriculture entering the ETS farmers will be encouraged to take action to mitigate emissions before international consumers inevitably demand that NZ farming improve its environmental performance." (Wood Council of New Zealand, 00116)

"... Te Rūnanga [o Ngāi Tahu] has consistently sought an entry date for agriculture to the scheme, to be accompanied by supporting mechanisms to encourage afforestation as the means of off-setting agricultural liabilities. Providing what is effectively a subsidy, lasting almost a century, to our biggest producers of carbon is not an approach consistent with kaitiakitanga principles." (Te Rūnanga o Ngāi Tahu, 00154)

## **Whether an emissions trading scheme is the most appropriate response to climate change for New Zealand**

Several submitters thought that the NZ ETS is the best tool to suit New Zealand's needs, but many others also stated that since the NZ ETS has not proven to be an effective tool in reducing emissions, it should be replaced by another mechanism, such as a carbon tax.

"The ETS has been an abject failure so far and I personally have little faith that it will ever be a robust mechanism for reducing greenhouse gasses. So far it has been pretty much a free ride for emitters who have been charging consumers ever since the scheme was introduced and then using free credits or low-priced foreign credits to pay for their emissions. A far better scheme would have been for a carbon tax which would have eliminated a lot of what has failed in the ETS." (Individual, 00159)

Submissions on the review's stage two (other matters), including questions one and two, closed on 30 April 2016. Full analysis of these questions will be included in the summary of submissions for stage two (other matters).

## 3.2 Moving to full surrender obligations

### Should the NZ ETS move to a full surrender obligation for the liquid fossil fuels, industrial processes, stationary energy and waste sectors? (Question 3)

The one-for-two surrender obligation allows participants from the liquid fossil fuels, industrial processes, stationary energy and waste sectors to surrender one unit for every two tonnes of emissions.

It was introduced in 2009 and was designed as a transitional measure, to moderate the initial impacts of the NZ ETS on businesses and households during the economic downturn in New Zealand.

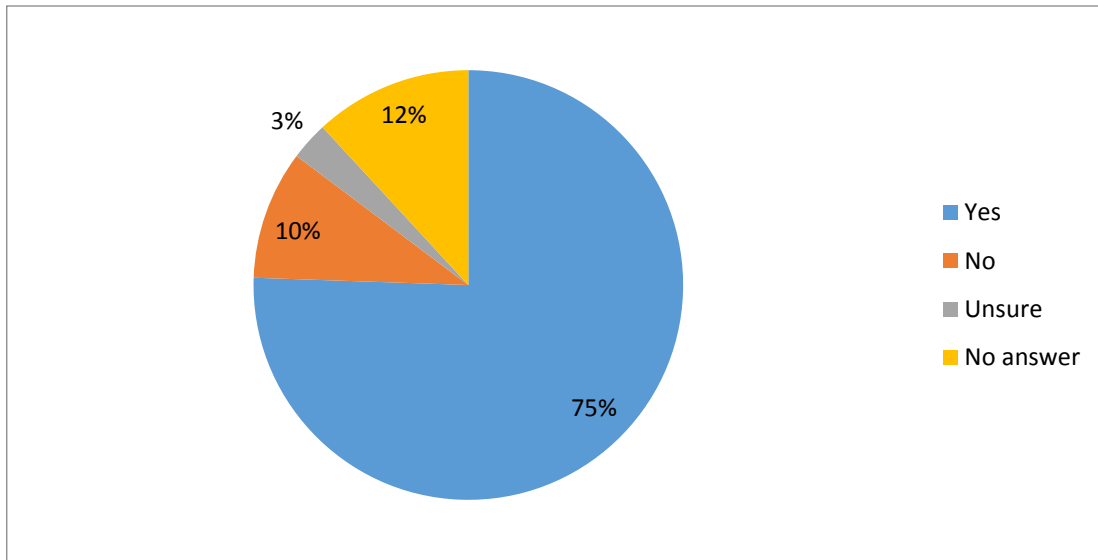
In total, 210 submissions (76 per cent) supported the NZ ETS moving to full surrender obligations for the liquid fossil fuels, industrial process, stationary energy and waste sectors. Twenty-seven (10 per cent) were against this, eight (3 per cent) were unsure, and 33 (12 per cent) did not answer.

The breakdown per sector is detailed in table 2 and illustrated in figure 1.

**Table 2: Stakeholder positions – 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	Did not answer	Total
Agriculture	4	6	1	0	11
Business groups	6	0	0	2	8
Electricity	7	0	0	0	7
Forestry	42	0	1	4	47
Individual	82	2	1	18	103
Industrial processors	4	6	1	0	11
Iwi/Māori	7	0	1	1	9
Liquid fossil fuels (transport)	7	0	1	2	10
Local government	7	0	0	1	8
NGO and community groups	16	0	0	3	19
Research and tertiary organisations	6	0	1	0	7
Stationary energy (excluding electricity)	2	6	0	1	9
Waste sector	5	7	1	0	13
Wood processors and manufacturers	2	0	0	0	2
Other	13	0	0	1	14
<b>TOTAL</b>	<b>210</b>	<b>27</b>	<b>8</b>	<b>35</b>	<b>278</b>

**Figure 1: Stakeholder positions – Should the NZ ETS move to a full surrender obligation for the liquid fossil fuels, industrial processes, stationary energy and waste sectors?**



### What impact will moving to full surrender obligations have on your business? (Question 4)

If the NZ ETS moved to a full surrender obligation, demand for units would double. Costs to NZ ETS participants would increase because:

1. the effective carbon price faced by non-forestry participants would double as a result of a doubling of their surrender obligations
2. New Zealand Unit (NZU) prices would rise more quickly than they would otherwise, because increased demand for units would use up the stockpile of banked NZUs more quickly.

Note: If the one-for-two surrender obligation is removed, the amount of free allocation provided to emissions intensive and trade exposed (EITE) activities will automatically be increased to correspond with the increased surrender obligations.

Stakeholders provided a range of comments and evidence demonstrating the impacts that moving to full surrender obligations will have on them or their businesses.

A large number pointed to the influence of the price of carbon on new forestry investment and a decrease in domestic emissions. Many emphasised, however, that stable or rising carbon prices are needed, in combination with regulatory certainty.

Another large section of submitters provided information on how they would be impacted by changes to energy prices, which would impact on their international or domestic competitiveness. Others stated any significant cost increases could be mitigated by their ability to pass costs onto consumers. Some noted that since the one-for-two obligation is a transitional measure, increased carbon prices were already factored into their planning, and

price increases beyond the current \$25 fixed price cap would be needed to support investment in low-emissions technologies on large scale.

Four organisations expressed concern as to the future viability of their business as a result of the possible changes to the NZ ETS. They commented that for EITE organisations, moving to full surrender obligations ahead of international competitors would put them at a distinct competitive disadvantage. They stated that since costs could not be passed on to end users, this would have significant impacts on their operating profit and the continued viability of their operations in New Zealand.

Many non-business and individual submitters acknowledged that with an NZU price of up to \$25, there would be very little financial impact on households, and many stated they expected little or no impact on them. Some submitters, however, noted the benefits that increasing prices would have through economy-wide low carbon investment and increased consumer choice.

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

There is now a strong rationale for participants from the liquid fossil fuels, industrial processes, stationary energy and waste sectors to take full responsibility for their emissions, as circumstances have changed. The NZ ETS has been in place since 2008, and most sectors have been in the scheme since 2010.

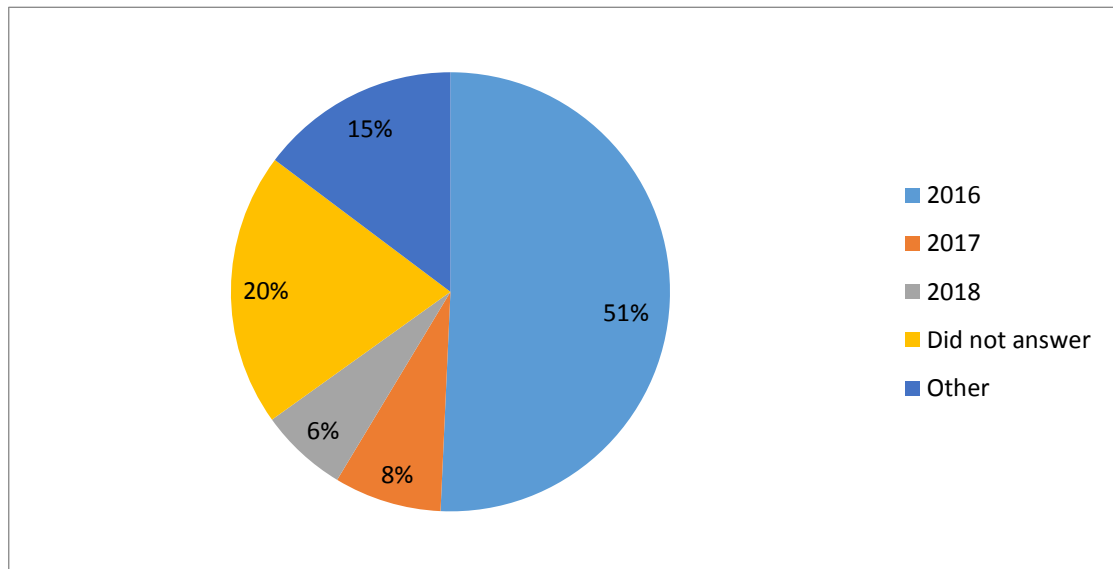
In total, 141 submissions (51 per cent) were in favour of implementation in 2016, 22 (8 per cent) in 2017, and 18 (6 per cent) in 2018. Forty-one (15 per cent) preferred another option and 56 (20 per cent) did not answer.

The breakdown per sector is detailed in table 3 and illustrated in figure 2. Further information on responses and rationale per sector can be found in section 4.

**Table 3: Stakeholder positions – If full surrender obligations are applied, when should this be implemented?**

	2016	2017	2018	Other	Did not answer	Total
Agriculture	0	1	1	4	5	11
Business groups	0	0	0	3	5	8
Electricity	3	1	0	3	0	7
Forestry	41	1	0	2	3	47
Individual	72	5	3	4	19	103
Industrial processors	0	1	1	8	1	11
Iwi/Māori	3	1	1	0	4	9
Liquid fossil fuels (transport)	2	3	1	2	2	10
Local government	1	2	0	1	4	8
NGO and community groups	13	1	1	0	4	19
Research and tertiary organisations	1	2	1	0	3	7
Stationary energy (excluding electricity)	0	0	2	5	2	9
Waste	0	2	6	5	0	13
Wood processors and manufacturers	0	0	0	2	0	2
Other	5	2	0	3	4	14
<b>TOTAL</b>	<b>141</b>	<b>22</b>	<b>18</b>	<b>41</b>	<b>56</b>	<b>278</b>

**Figure 2: Stakeholder positions – If full surrender obligations are applied, when should this be implemented?**



### 3.3 Managing the costs of moving to full surrender obligations

#### If the NZ ETS moves to full surrender obligations, should potential price shocks be managed? (Question 6)

If the liquid fossil fuels, industrial processes, stationary energy and waste sectors move to full surrender obligations, there will be increased costs to participants and the wider economy.

The Government wants to ensure the benefits from moving to a full surrender obligation are balanced with keeping the costs from this change manageable in the short term.

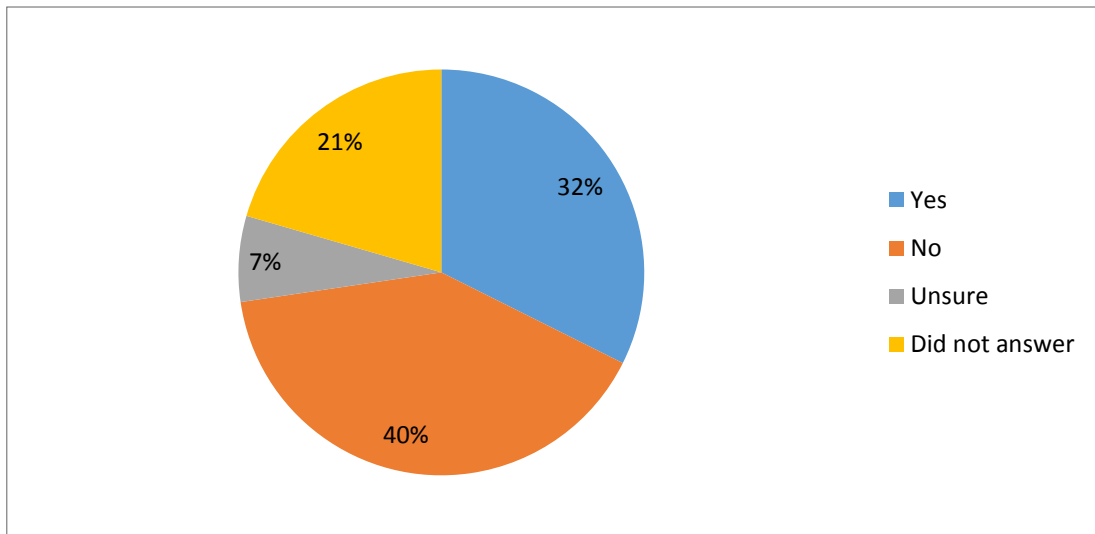
In total, 90 submissions (32 per cent) thought price shocks should be managed, 112 (40 per cent) did not, 19 (7 per cent) were unsure, and 57 (21 per cent) did not answer.

The breakdown per sector is detailed in table 4 and illustrated in figure 3. Further information on responses and rationale per sector can be found in section 4.

**Table 4: Stakeholder positions – If the NZ ETS moves to full surrender obligations, should price shocks be managed?**

	Yes	No	Unsure	Did not answer	Total
Agriculture	5	1	0	5	11
Business groups	3	1	0	4	8
Electricity	5	1	1	0	7
Forestry	12	27	5	3	47
Individual	14	61	6	22	103
Industrial processors	9	2	0	0	11
Iwi/Māori	1	3	2	3	9
Liquid fossil fuels (transport)	3	4	1	2	10
Local government	5	0	0	3	8
NGO and community groups	5	3	3	8	19
Research and tertiary organisations	2	3	0	2	7
Stationary energy (excluding electricity)	7	0	0	2	9
Waste	12	1	0	0	13
Wood processors and manufacturers	2	0	0	0	2
Other	5	5	1	3	14
<b>TOTAL</b>	<b>90</b>	<b>112</b>	<b>19</b>	<b>57</b>	<b>278</b>

**Figure 3: Stakeholder positions – If the NZ ETS moves to full surrender obligations, should price shocks be managed?**



### **If potential price shocks associated with moving to full surrender obligations should be managed how should this be done? (Question 7)**

Ninety submitters thought price shocks should be managed if one-for-two obligations were removed (including those that answered ‘yes with conditions’). Eighty-three of these submitters indicated a preferred method for how costs should be managed.

The most favoured option for managing costs was phasing the removal of the one-for-two obligations. Over half of these submitters (53 per cent, 44 of the 83 respondents) suggested a gradual move to full surrender obligations (ie, phasing out one-for-two obligations over time) without also lowering the fixed price option. Only around 6 per cent (5 of the 83 respondents) considered that it should be in combination with lowering the fixed price option.

Twenty-two submitters (27 per cent) considered price shocks should be managed solely through other measures. Other methods suggested included:

- introducing other measures to support vulnerable households
- implementing an auctioning mechanism
- providing greater policy clarity and regulatory certainty for participants.

“Meridian’s view is that any potential for price shocks can be managed by impacted parties by locking in now the implementation date for full surrender obligations – whether 2016 or beyond. This will assist affected parties to take steps to respond to the changes, for example through hedging. With an implementation date for 1 for 1 obligations that is set and signalled appropriately, there is no need for specific protections such as lowering the \$25 fixed price cap. In addition, reducing or maintaining (indefinitely) the fixed price cap is contrary to the recommendations of the 2011 ETS review panel and has potential to mute incentives for emission reduction/abatement efforts.” (Meridian Energy Limited, 00057)

## If the \$25 fixed price surrender option value should change, which should it change to and why? (Question 8)

Some submitters that responded to question 7 considered that the fixed price option value should be lowered to help manage the costs of moving to full surrender obligations. In response to question 8, some of these submitters provided information on their preferred lowered cap value.

“[T]here is no need to change the cap. However, if the full surrender obligations are implemented the price cap should halve. This would allow the scheme to be more aggressive up to the cap but still manage the maximum exposure of businesses to the current level.” (NZ Steel, 00044)

“Retaining the \$25 fixed price surrender option nonetheless also remains appropriate given the limited liquidity and lack of international connectedness of the current scheme. This would however mean the potential maximum carbon price would effectively be doubled due to the removal of the one for two surrender obligation. Lowering it to \$12.50 would be necessary to maintain equivalence with the current situation.” (Petroleum Exploration and Production Association of New Zealand, 00114)

Conversely, several submitters emphasised they considered there was little or no rationale to lower the fixed price option. They considered that lowering the value was unnecessary because a number of businesses have already planned for a maximum price of \$25, and there could be significant negative impacts on regulatory certainty and forestry investment.

“Any signal of a price reduction would be a major sign that again the government is not serious about forestry and further drive away any investment in new planting. As above, the maximum price should be lifted every year as a clear signal of the intent to drive change. This is a key point and any reduction in cap price would negate any other change made in terms of new forest investment.” (Forest Management Limited, 00024)

For those that agreed price shocks should be managed, many considered it should be done in combination with a price floor or a price corridor. Submitters preferred that the fixed price option be increased or removed over time, with many suggesting specific dollar values and timings for increase.

“[T]he Government could commit to setting an indicative price path in three blocks of three years each – giving an indicative price path for nine years ahead. The indicative price in each three-year block would best be expressed as a band (e.g, 2017–19: \$15–25/tonne; 2020–22: \$25–40/tonne; 2023–25: \$40–60/tonne) with the actual levels being set with reference to the carbon budgeting framework.” (Environment and Conservation Organisations of New Zealand, 00157)

“A ceiling price for carbon [should] be retained, but be complimented by a price floor, and a commitment made for both to rise over time. It is my view that a price ceiling should remain for now, while New Zealand does not have access to international carbon markets. In the same way as the carbon price fell very rapidly due to the sudden supply of very cheap carbon units, a rapid increase to a high price for carbon would be very destabilising. For the same reason – providing a stable environment for

business – a floor should be set on the price of a carbon unit. Over time, both the ceiling price and the floor price would need to be raised.” (Dr Jan Wright, Parliamentary Commissioner for the Environment, 00047)

## 4. Overview of submissions from stakeholder groups

This section provides further details on consultation responses for each sector, noting key themes raised.

### 4.1 Submissions from agriculture

Agriculture included submitters from the red meat sector, dairy and horticulture.

Number of submitters	Some key themes from submissions
11	<ul style="list-style-type: none"><li>• most opposed moving to full surrender obligations</li><li>• the majority did not support introducing full surrender obligations before 2019</li><li>• most supported managing potential price shocks if the one-for-two obligation is removed</li></ul>

#### Most opposed moving to full surrender obligations

Six submitters opposed introducing increased surrender obligations because of the impacts that increased fuel and energy costs will have on the sector, and a lack of policy certainty about future New Zealand Emissions Trading Scheme (NZ ETS) design settings. Four agreed the one-for-two obligation should be removed, with some stating that full surrender obligations should be introduced only when a clear supply management plan is articulated and policy certainty can be provided.

#### The majority of submitters did not support introducing full surrender obligations before 2019

Two submitters thought full surrender obligations could be implemented before 2019. The remaining four submitters that answered the question chose 'other time'. Some submitters did not give specific timeframes for implementation but instead suggested full surrender obligations should only be introduced when certain conditions are met, such as comparable international action or development of supply mechanisms.

#### Most supported managing potential price shocks if the one-for-two obligation is removed

Five of the six submitters that answered this question supported managing potential price shocks. Many expressed concern about increased energy and fuel costs as well as international competitiveness. Specific concern was also expressed that increased costs would put pressure on the sector and additional costs would most likely be passed through to farmers and producers rather than global consumers.

“Costs will fall on New Zealand producers and processors rather than be reflected in end price. The sector is heavily export dependent and operates in a highly competitive global environment. With limited scope to pass on cost increases to end consumers while remaining competitive, companies will be forced to recover these increases through a lower pay-out to farmer suppliers in the order of \$2 million to

\$20 million thereby putting further pressure on the sector as a whole” (Beef+Lamb New Zealand, Deer Industry New Zealand and Meat Industry Association, 00134)

## 4.2 Submissions from business groups

Business groups included businesses and industry groups representing businesses.

Number of submitters	Some key themes from submissions
8	<ul style="list-style-type: none"> <li>most submitters supported eventually moving to full surrender obligations, often with conditions</li> <li>submitters largely did not express a direct preference for timing</li> <li>many submitters thought potential price shocks should be managed if the one-for-two obligation is removed</li> </ul>

### Most submitters supported eventually moving to full surrender obligations, often with conditions

Six submitters supported moving to full surrender obligations. Some of these submitters, however, thought the one-for-two obligation should only be removed when certain conditions have been met to ensure New Zealand remains internationally competitive. Suggestions included removing the one-for-two obligation only when additional supply is confirmed, either through access to international markets and/or through domestic auctioning.

“[The] ETS should move to full surrender obligations, as part of a planned, transparent process to increase its effectiveness.” (New Zealand Green Building Council, 00086)

“The majority of SBC members agree that we will need to move to full surrender obligations at some point in the near future. Doing this will send a strong signal to business that government is serious about moving closer to an ‘ideal ETS’.” (Sustainable Business Council, 00111)

### Submitters largely did not express a direct preference for timing

Responses to the question about timing reflected the diverse concerns of the business sector about the impacts of full surrender obligations on them. As a result, submitters mainly discussed the conditions for removing the one-for-two obligation as criteria for the timing of removal. Among these, some indicated it should occur as soon as practical or, consistent with above, only when there is clarity about unit supply and clearly signalled plan for the NZ ETS.

### Many submitters thought potential price shocks should be managed if the one-for-two obligation is removed

Submitters emphasised that impacts of the removal of the one-for-two surrender obligation depended on the Government providing regulatory certainty.

Most submitters that addressed the relevant questions supported managing the costs of moving to full surrender obligations. Some submitters reiterated previous comments about certainty and supply. Others suggested that full surrender obligations should be phased over

time; or that retaining the fixed price option, but ratcheting it up over time or employing a price floor as well, would help manage costs.

**Other key themes**

There was some concern that the discussion document and proposals within it were ‘tinkering’ with NZ ETS design rather than encouraging a transition to a low carbon economy. These submitters emphasised the importance of the role of NZ ETS and its relationship with other policies, and suggested a wider conversation occur between business and Government on these issues.

“Opportunistic design changes aimed at delivering short-term price-focused outcomes will create uncertainty, especially for the export sector at a time of substantial on-going global economic fragility and end consumers, both of whom the transitional features were designed to protect.” (Business New Zealand, 00131)

**4.3 Submissions from the electricity sector**

Submitters from the electricity sector included electricity generators and retailers.

Number of submitters	Some key themes from submissions
7	<ul style="list-style-type: none"> <li>• strong support for moving to full surrender obligations</li> <li>• submitters were mixed about implementation dates, but many noted that early signalling of removing the one-for-two obligation was important</li> <li>• most submitters supported managing potential price shocks if the one-for-two obligation is removed</li> </ul>

**Strong support for moving to full surrender obligations**

All submitters supported a move to full surrender obligations, with the majority agreeing it was due, given the improvement in economic conditions since the last review. A majority of submitters also noted the importance of early signalling of any change and providing certainty about future supply settings before the one-for-two obligation is removed.

**Submitters were mixed about implementation dates, but many noted that early signalling of removing the one-for-two obligation was important**

Submitters were mixed on when full surrender obligations should be implemented. Four submitters, however, emphasised the importance of early signalling, for example recommending transparent processes with an appropriate lead time.

“Quickly implemented policy changes have the effect of unduly increasing price volatility within the New Zealand Carbon market which increase risk premiums and may lead to inefficiencies that are unsustainable in the long run.” (Contact Energy, 00143)

## Most submitters supported managing potential price shocks if the one-for-two obligation is removed

Some submitters noted that impacts would include increased costs passed through to consumers, but these were relatively small costs. One submitter noted that since the one-for-two obligation is a transitional measure, increased carbon prices were already factored into their planning.

Five of the seven submitters thought potential price shocks should be managed if the one-for-two obligation is removed, one disagreed and one was unsure. Of those that thought price shocks should be managed, there was a variety of recommendations for how. Suggestions included early signalling of change, gradually moving to full obligations, maintaining or lowering the fixed price option, or a combination of the above. Some submitters considered that price shocks to vulnerable households should be managed.

“We note from the work done for the Ministry for the Environment by NZIER that the price shocks appear to be relatively modest but will be of concern to the most vulnerable consumers for whom any price increases are significant. We consider this is most appropriately addressed through revenue recycling and/or adjustments to financial support via the social welfare system.” (Mighty River Power, 00152)

## 4.4 Submissions from the forestry sector

This sector included individual foresters as well as organisations representing foresters, such as forestry companies, forestry consultants and others.

Number of submitters	Some key themes from submissions
45	<ul style="list-style-type: none"><li>• strong support for moving to full surrender obligations</li><li>• strong support for implementing full surrender obligations immediately</li><li>• strong opposition to managing potential price shocks if the one-for-two obligation is removed</li></ul>

### Strong support for moving to full surrender obligations

Forty-two submitters supported moving to full surrender obligations. Those in support agreed because they considered that the one-for-two obligation is no longer necessary given the country’s current economic performance; the current settings are unequal between sectors; the costs of emissions need to rest solely with emitters; and emitters have had plenty of time to prepare for full surrender obligations.

### Strong support for implementing full surrender obligations immediately

Forty-one submitters considered that a move to full surrender obligations should be implemented in 2016, with many submitters stating that the one-for-two obligation should be removed ‘as soon as possible’. Many submitters stated that the one-for-two obligation was a transitional measure that has been in place for long enough.

**Strong opposition to managing potential price shocks if the one-for-two obligation is removed**

Submitters pointed to evidence of the influence of carbon prices on new forestry investment and linked this with the need for increased domestic abatement. Many in the sector suggested that potential price shocks should not be managed. Others questioned if there would be ‘price shocks’ associated with a move to full obligation considering the numbers of banked units.

Submitters emphasised that the cost management option of lowering the fixed price option would damage the forestry sector’s confidence in the scheme, and that stable or rising carbon prices are needed in combination with regulatory certainty.

“Price is important but the main key is belief by investors that that government policy shows clear intent to supporting the ETS into the future. If this is provided we strongly believe we will see increased rates of afforestation occur.” (Forest Management Limited, 00024)

**4.5 Submissions from individuals**

Individuals included people who submitted on their own behalf and/or in their personal capacity.

Number of submitters	Some key themes from submissions
103	<ul style="list-style-type: none"> <li>• strong support moving to full surrender obligations</li> <li>• the majority of submitters favoured moving to full surrender obligations in 2016</li> <li>• most considered that potential price shocks should not be managed if the one-for-two obligation is removed</li> </ul>

**Strong support moving to full surrender obligations**

Eighty-two of 103 submitters supported the move to full surrender obligations. Submitters stated that removing the one-for-two obligation is necessary to incentivise emissions reductions, increase responsibility by emitters for their emissions, and provide certainty through removing what was only ever intended as a transitional measure.

**The majority of submitters favoured moving to full surrender obligations in 2016**

A majority of those who supported moving to full surrender obligations favoured immediate implementation in 2016 (72 out 84). Eight of the remaining submitters favoured an implementation date in 2017 or 2018. These submitters often noted that a later date would allow businesses time to adjust to increased NZ ETS costs.

**Most considered that potential price shocks should not be managed if the one-for-two obligation is removed**

Submitters pointed to the small impacts upon households projected for carbon prices up to \$25, with many stating they expect little or no impact on them if the one-for-two obligation is removed. Some submitters, however, noted that higher carbon prices would bring associated benefits such as more businesses investing in low carbon technologies.

“Increased carbon prices would have minimal impact on me. The impact of the current carbon price on consumer petrol prices is so small as to be negligible compared to the fluctuations in fuel prices caused by other international factors. However, a higher price on carbon may help to incentivise low-carbon business models and activities, thus providing better alternatives for me as a consumer trying to avoid purchasing from high-emitting industries or businesses.” (Individual, 02038)

Sixty-one submitters considered that price shocks should not be managed if the one-for-two obligation is removed. Fourteen considered that price shocks should be managed, with only four agreeing that it should be through gradually moving to a full surrender obligation or lowering the fixed price option.

Four submitters considered that if the one-for-two obligation is removed, the Government should explore other measures to manage potential price shocks. Common suggestions were that the Government should be aware of, and plan for, the impacts that an increase in pass-through costs will have on other parts of the economy, particularly low-income households.

## 4.6 Submissions from industrial processors

Industrial processor submitters included some that are participants and receive a free allocation for their emissions intensive and trade exposed (EITE) activities. Submitters also included companies that are NZ ETS participants for importing synthetic greenhouse gases (SGGs).

Number of submitters	Some key themes from submissions
11	<ul style="list-style-type: none"> <li>most did not support moving to full surrender obligations</li> <li>the majority of submitters did not give a specific preferred year for implementation, but often felt full surrender obligations should be implemented at another time</li> <li>strong support for managing potential price shocks if the one-for-two obligation is removed</li> </ul>

### Most did not support moving to full surrender obligations

Most submitters (seven) did not support moving to full surrender obligations. These submitters were often concerned about the impacts of increased NZ ETS costs on businesses. Four submitters supported removing the one-for-two obligation. These submitters, however, were concerned about the impacts, timing and notice of implementation and often included specific conditions for when the one-for-two obligation should be removed.

One submitter supported moving to full surrender obligations before 2020, on the condition that the Paris Agreement was ratified.

### The majority of submitters considered full surrender obligations should be implemented after 2018 or at another time

Eight submitters considered that moving to full surrender obligations should occur after 2018 or at an unspecified later date. There was a strong preference for the move to be gradual, and some stated it should be conditional on providing certainty about future unit supply.

**Strong support for managing potential price shocks if the one-for-two obligation is removed**

Most submitters (nine) agreed that price shocks should be managed if the one-for-two obligation is removed. Submitters noted that increased carbon prices would directly impact upon their investment decisions. They also noted that many of the ‘low hanging fruit’ for emissions reductions had already been exhausted.

“Increased carbon prices will not lead to a linear reduction in emissions. Most ‘big ticket’ emissions reduction projects have already been identified and progressed.”  
(Evonik Peroxide, 00021)

Submitters suggested that price shocks could be managed through continuation of free allocation, gradual removal and/or by lowering the fixed price option. Submitters emphasised that if the one-for-two obligation was removed, it should be done in a way that allows participants and industry time to prepare, with sufficient lead-in time. Some submitters recommended against partial-year changes to obligations for administrative, planning and budgeting reasons.

**4.7 Submissions from iwi/Māori**

The iwi/Māori category consisted of groups representing Māori, iwi and hapū interests. They included organisations with significant interest and investments across the primary sector, such as forestry, agriculture and fishing.

Number of submitters	Some key themes from submissions
9	<ul style="list-style-type: none"> <li>• most submitters supported moving to full surrender obligations</li> <li>• the majority of submitters favoured moving to full surrender obligations in 2016</li> <li>• submitters were mixed over whether potential price shocks should be managed if the one-for-two obligation is removed</li> </ul>

**Most submitters supported moving to full surrender obligations**

Eight submitters supported increased surrender obligations because it will reduce emissions and increase the demand for carbon credits, incentivising afforestation. The remaining submitter considered that more information is needed to inform the discussion.

**The majority of submitters favoured moving to full surrender obligations in 2016**

Most of the submitters agreed that a move to full surrender obligations should happen immediately. While a majority noted the positive impacts on forestry, two submitters highlighted the need to balance increased pass-through costs to the agriculture interests of iwi. Others noted the importance of considering the impacts of any change on vulnerable households.

“Te Rūnanga are also conscious of the impact of climate change on the cost of living, particularly to economically vulnerable whānau. It is with this in mind that Te Rūnanga advocates for carbon costs to remain with emitters rather than being passed on to consumers.” (Te Rūnanga o Ngāi Tahu, 00154)

### **Submitters were mixed over whether potential price shocks should be managed if the one-for-two obligation is removed**

Three submitters did not think potential price shocks of removing the one-for-two obligation should be managed. Of the remaining submitters, two were unsure, one thought these costs should be managed and three did not address the question. The mixed responses reflected the mixed and multi-sector interests of iwi and Māori organisations. Those in support noted that increased demand and investment in forestry will have positive ‘flow-through’ impacts on iwi, hapū and whānau.

“A rise in demand for NZUs [New Zealand Units] will have an almost immediate impact in terms of the value of Iwi and Māori community held NZUs. In time this value (revenue) will be recycled back into Māori business, communities, local and regional governments and thereby having a positive impact on national GDP.” (Climate Change Iwi Leaders Group, 00180)

### **Other key themes**

The majority of submitters noted that the NZ ETS needs to recognise and support indigenous forests.

The majority of submitters were also concerned that the NZ ETS is not reducing emissions. They noted cultural practices are already threatened by climate change and they are concerned about additional impacts if emissions are not reduced.

“[M]any cultural practices and sources of mahinga kai are compromised by the changing environment. Our people witness first hand impacts and changes of habits of species such as titi and shellfish, influenced by ocean temperature changes. Climate change continues to have an impact on how our people can access resources and the availability of resources for cultural use and sustenance. A number of Ngāi Tahu marae are already contemplating the need to relocate due to rising sea level and accessibility issues related to that.” (Te Rūnanga o Ngāi Tahu, 00154)

## **4.8 Submissions from the liquid fossil fuels (transport) sector**

There were 10 submitters from the liquid fossil fuel (transport) sector. This included most NZ ETS participants from this sector, two major transport associations, and representatives of shipping and rail.

<b>Number of submitters</b>	<b>Some key themes from submissions</b>
10	<ul style="list-style-type: none"><li>• most submitters supported moving to full surrender obligations</li><li>• submitters were mixed about when full surrender obligations should be implemented</li><li>• submitters were mixed over whether potential price shocks should be managed if the one-for-two obligation is removed</li></ul>

### Most submitters supported moving to full surrender obligations

Seven submitters supported moving to full surrender obligations, one with the condition that there is more certainty of future supply sources. The other submitters were unsure or did not respond.

### Submitters were mixed about when full surrender obligations should be implemented

Despite majority agreement to moving to full surrender obligations, submitters had varied responses for when it should be implemented. Some submitters noted that action should be taken as early as practical, but also emphasised the need for a properly functioning market and regulatory certainty. A number of submitters recommended early signalling or sufficient lead time if the one-for-two obligation is removed.

### Submitters were mixed over whether potential price shocks should be managed if the one-for-two obligation is removed

Submitters noted they would experience limited impacts of increased prices, due to their ability to pass costs onto consumers. Some noted that, ideally, increased carbon prices will encourage investment in low-emission alternatives, but that the current maximum prices were likely not sufficient to support further large-scale investment in renewables.

“For the ETS to have any real impact on the choices vehicle owners make be it how far, how often or the choice of the next vehicle, there must be a price disincentive built into the pump price of transport fuels. However, the level of carbon price to achieve this change is very high and would adversely impact on the wider NZ economy.” (Motor Industry Association of New Zealand, 00090)

Submitters were mixed over whether potential price shocks should be managed. Those that thought price shocks should be managed noted that doing so could protect consumers from any sudden changes, with one submitter suggesting that price shocks could be managed by providing advance notice and regulatory certainty about the future of the NZ ETS including supply. Those that opposed managing the costs included submitters that considered the protection provided by the \$25 fixed price option was sufficient.

## 4.9 Submissions from local government

Submissions from local government included regional and district councils, and two local boards. Where local government submitters primarily represented waste interests, they have been included in that category.

Number of submitters	Some key themes from submissions
8	<ul style="list-style-type: none"><li>• strong support for moving to full surrender obligations</li><li>• submitters were mixed on the timing for moving to full surrender obligations</li><li>• the majority thought that potential price shocks should be managed if the one-for-two obligation is removed</li></ul>

### **Strong support for moving to full surrender obligations**

Seven submitters supported a move to full surrender obligations. Reasons included that the rationale for the transition measure was no longer relevant, and removing it will make emitters responsible for their emissions, thus incentivising afforestation and investment in low-emission technologies.

One submitter supported a move only on the basis that other countries are also committing to similar carbon-pricing regimes. A number also raised concerns about NZ ETS impacts on land use in their regions, including erosion-prone land.

### **Submitters were mixed on the timing for moving to full surrender obligations**

There were a range of opinions on the implementation date: one submitter supported a move to full obligations as soon as possible; two preferred a 2017 implementation date; and two suggested a three-year phase in, beginning in 2018. Another submitter did not suggest a specific year for implementation, but did note that “the longer the delay reducing emissions, the harder and more expensive it will be.” (Greater Wellington Regional Council, 00197)

### **The majority thought that potential price shocks should be managed if the one-for-two obligation is removed**

All submitters that responded (five) thought that potential price shocks should be managed through a gradual move to full obligations. The remaining three did not answer.

### **Other key themes**

Some submitters stated that greater regulatory certainty could allow them to plan better and invest in long-term measures to address the impacts of climate change on communities.

“Though fuel use in New Zealand has historically been relatively inelastic, it’s expected that a higher price on carbon would have some influence on people’s choice to walk, cycle or use public transport rather than travel by car. Increasing certainty about future policy settings in the ETS would also help to incentivise investment in decarbonising the economy, including investment in infrastructure for low carbon transport.” (Greater Wellington Regional Council, 00197)

## **4.10 Submissions from NGOs and community groups**

NGOs and community groups included organisations submitting on behalf of particular interest groups or sections of society.

Number of submitters	Some key themes from submissions
19	<ul style="list-style-type: none"><li>• strong support for moving to full surrender obligations</li><li>• the majority of submitters favoured moving to full surrender obligations in 2016 or 2017</li><li>• submitters were mixed on whether the Government should manage potential price shocks if the one-for-two obligation is removed</li></ul>

### Strong support for moving to full surrender obligations

No submitter in this category considered that the one-for-two surrender obligation should be retained. Submitters stated that removing the one-for-two obligation was necessary to incentivise emissions reductions, increase responsibility by emitters for their emissions, and provide certainty through ending the intended transitional measure.

“The ETS in its current form has been unsustainable and counter-productive in effectively stalling any action to reduce domestic emissions for almost a decade – and now is set to increase net emissions. Transitioning to full surrender obligations will help to remove this stumbling block and get New Zealand back on track to reducing net emissions.” (OraTaiao: The New Zealand Climate and Health Council, 00203)

### The majority of submitters favoured moving to full surrender obligations in 2016 or 2017

Consistent with the strong support for its removal, most (14 of 19) favoured implementation in 2016 or 2017.

### Submitters were mixed on whether the Government should manage potential price shocks if the one-for-two obligation is removed

Five submitters stated that potential price shocks should be managed, three did not and three were unsure. Several submitters considered that price shocks would either not occur considering the number of banked units, or that price variation should be expected and emitters should not be protected from the costs of their emissions.

Similar to individuals, many submitters considered that if the Government manages costs, it should implement measures that will protect low-income or vulnerable households from increased pass-through costs.

“[The] likely increase on ‘carbon-based’ goods and services [...] will disproportionately affect Pacific, New Zealand Māori, and other low-income and vulnerable households. However, not acting on reducing emissions is also going to impact severely on these populations.” (Moana Ola Pasifika Public Health Network, 00202)

## 4.11 Submissions from research and tertiary organisations

Research and tertiary organisations included researchers and academics across New Zealand institutions.

Number of submitters	Some key themes from submissions
7	<ul style="list-style-type: none"><li>• most submitters supported moving to full surrender obligations</li><li>• submitters were mixed over when full surrender obligations should be implemented</li><li>• submitters were mixed over whether potential price shocks should be managed if the one-for-two obligation is removed</li></ul>

### **Most submitters supported moving to full surrender obligations**

Six submitters supported increased surrender obligations, often because they considered moving to full surrender obligations was a necessary step in making the NZ ETS operate as designed and provide a price incentive for reducing emissions. Some noted that the move was overdue and should be implemented in combination with other changes.

“Moving to full surrender obligations will not make the ETS effective on its own, but it is a step in the right direction”. (Professor Euan G. Mason, School of Forestry, University of Canterbury, 00136)

### **Submitters were mixed over when moving to full surrender obligations should be implemented**

Submitters held a range of views on when the one-for-two obligation should be removed. One supported moving to full surrender obligations in 2016, two supported the move being in 2017, and one supported 2018. The remaining three submitters did not state a preference.

### **Submitters were mixed over whether potential price shocks should be managed if the one-for-two obligation is removed**

Some submitters thought that the costs of moving to full surrender obligations needed to be managed to support businesses in the transition, while others thought management of costs was unnecessary. Some submitters suggested the Government should consider price management measures that include a price floor alongside a price ceiling.

“Yes, it would be foolhardy to impose costs on the economy that industries and users are unable to respond to, particularly if a more optimum but slower pathway was possible with supporting interventions. An important part of the transition is to influence those who are making investment decisions now, without punishing those with sunk capital or who are unable to respond, or needlessly rewarding those who have made the transition. A rapid price movement punishes those with sunk capital and those who can't respond (which in turn creates needless social and economic costs), whereas targeting could avoid or reduce these costs of transition. Our proposal is that for the more difficult problems we should be incentivising research to aid the transition.” (National Energy Research Institute, 00040)

“Two times a small number is still a pretty small number. I don't really see a case for managing these ‘shocks’ given the uncertainty and volatility that businesses routinely manage in commodity prices, etc. There's a much stronger case for managing potential ‘shocks’ through floor and ceiling prices.” (Dave Frame, Victoria University of Wellington, 02000).

## **4.12 Submissions from the stationary energy sector (excluding electricity)**

The stationary energy sector includes a number of organisations, for example those with interests in coal and/or oil.

Number of submitters	Some key themes from submissions
9	<ul style="list-style-type: none"> <li>• most did not support moving to full surrender obligations</li> <li>• the majority of submitters favoured delaying moving to full surrender 2018 or when certain conditions are met</li> <li>• all submitters stated that potential price shocks should be managed if the one-for-two obligation is removed</li> </ul>

### **Most did not support moving to full surrender obligations**

Most submitters did not support moving to full surrender obligations at this time. Some submitters suggested that the one-for-two obligation should be removed only if certain conditions were met, including equivalent international efforts on climate change, access to international markets, the development and uptake of cost-effective, lower-carbon technologies in New Zealand, and full sector coverage of the NZ ETS.

“The conditions do not exist to support a move towards full surrender obligations and the lack of certainty in the international context adds to this.” (New Zealand Coal and Carbon Limited, 00094)

### **The majority of submitters favoured delaying moving to full surrender obligations to 2018 or when certain conditions are met**

Most submitters that provided an answer on when the one-for-two obligation should be removed recommended there be sufficient time for businesses to prepare for the removal. Two submitters thought the one-for-two obligation should not be removed before 1 January 2018, to allow time to adjust for the impact.

“Most gas supplied in New Zealand is produced under long term supply contracts. Therefore an increase in surrender obligations this year would be unlikely to incentivise any reduction in output, and in practice would function only as a new tax on the producer. An early indication of a future policy intention maximises policy stability and allows planning for the future” (New Zealand Oil & Gas, 00160)

### **All submitters stated that potential price shocks should be managed if the one-for-two obligation is removed**

Submitters stated that increased demand for NZUs would create increased costs for their business. Some noted that much of these costs could be passed on to consumers, affecting households and the wider economy. All submitters that addressed the relevant question considered that any potential price shocks should be managed if the one-for-two obligation is removed. A variety of measures were suggested, including lowering the fixed price option, phasing in full obligations, or linking full obligations to international market access or new technology.

“Given the lack of international connectedness and the risks of high volatility in the small and illiquid New Zealand market, it is important price shocks are managed. This should also assist in building confidence and therefore increasing active participation in the NZ ETS over time.” (Petroleum Exploration and Production Association of New Zealand, 00114)

## 4.13 Submissions from the waste sector

The waste category included landfill operators and local government.

Number of submitters	Some key themes from submissions
13	<ul style="list-style-type: none"><li>• most submitters did not support moving to full surrender obligations</li><li>• most submitters favoured moving to full surrender obligations in 2018</li><li>• strong support for managing potential price shocks if the one-for-two obligation is removed</li></ul>

### Most submitters did not support moving to full surrender obligations

Seven submitters did not support moving to full surrender obligations, five were supportive, and one was unsure. Three submitters stated that other sectors should be included in the NZ ETS before there is a move to full obligations.

“It is not appropriate that the waste sector subsidise other sectors especially when the waste sector has made investment, is performing well and does not get recognition of fossil fuel avoidance through renewable energy generation.” (Waste Management NZ Limited, 00129)

### Most submitters favoured moving to full surrender obligations in 2018

Most submitters favoured moving to full surrender obligations in 2017 or later, with most (six) choosing 2018. Several submitters noted that there needed to be advance warning of any change to allow time for them to adjust fees to account for increased NZ ETS costs.

### Strong support for managing potential price shocks if the one-for-two obligation is removed

Submitters noted that if the one-for-two obligation were removed, they could pass increased costs onto consumers. Three submitters noted, however, that increasing costs to consumers could impact upon their competitiveness.

Accordingly, a strong majority (12) agreed that the Government should manage the costs of moving to full surrender obligations. Ten submitters considered that this should be through gradual introduction of full obligations.

### Other key themes

Eight submitters noted that moving to full obligations was unlikely to impact on emissions from landfills, mainly because large landfills already have gas collection and destruction systems. Many also noted that increased prices to consumers could increase perverse incentives for illegal dumping.

Several submitters also provided views on the processes for determining unique emissions factors.

## 4.14 Submissions from wood processors and manufacturers

This sector included submissions from Wood Processor and Manufacturers New Zealand and Oji Fibre Solutions.

Number of submitters	Some key themes from submissions
2	<ul style="list-style-type: none"><li>• support for moving to full surrender obligations, subject to certain conditions</li><li>• submitters favoured phasing in full surrender obligations before 2020, subject to certain conditions</li><li>• support for managing potential price shocks if the one-for-two obligation is removed</li></ul>

### Support for moving to full surrender obligations, subject to certain conditions

Both submitters supported removing the one-for-two obligation, subject to ratification of the Paris Agreement.

### Submitters favoured phasing in full surrender obligations before 2020 subject to certain conditions

Both submitters suggest a phased approach, with a move to full surrender obligations by 2020. Both submitters prefer a phased approach to allow the Paris Agreement rules to be clarified, development of an additional supply mechanism (auctioning), and time for businesses to consider the expected impact in their budgeting.

Both submitters recommended against a mid-year implementation as it would create significant administrative burden without any significant additional emissions reduction benefits.

### Support for managing potential price shocks if the one-for-two obligation is removed

Both submitters recommend potential price shocks be managed. Submitters suggested a combination of phasing out one-for-two obligations, maintaining the \$25 fixed price option, and the introduction of an auctioning mechanism.

“In a closed domestic market the risk of volatile price movement is high. A combination of actions to manage price shocks and minimise carbon pricing uncertainty over the transition period is recommended.” (Oji Fibre Solutions, 00071)

## 4.15 Submissions from other groups

Other groups included market intermediaries, overseas interest groups, political parties and organisations with unspecified sector interests. The Parliamentary Commissioner for the Environment (PCE) also provided a submission.

Number of submitters	Some key themes from submissions
14	<ul style="list-style-type: none"><li>• strong support for moving to full surrender obligations</li><li>• the majority of submitters favoured moving to full surrender obligations in 2016 or 2017</li><li>• submitters were mixed over whether potential price shocks should be managed if the one-for-two obligation is removed</li></ul>

### Strong support for moving to full surrender obligations

All submitters supported moving to full surrender obligations, with many stating they are willing to pay the resulting increased costs to their business. Submitters saw the move as necessary, due to the transitional nature of the one-for-two surrender obligation and addressing the risks associated with the large number of banked NZUs.

“[Moving to full surrender obligations] will provide a clear next step in terms of business transitioning to a carbon constrained economy and provide more certainty to the market around the rules going forward. From Westpac’s interaction with a broad range of liable entities across the NZ economy, this move has been widely expected with many businesses already factoring such a change into their forecasts and planning, reducing any significant shock.” (Westpac New Zealand Limited, 00132)

### The majority of submitters favoured moving to full surrender obligations in 2016 or 2017

Seven submitters considered that full surrender obligations should be implemented in 2016 or 2017 to incentivise participants to reduce emissions, give businesses greater certainty of their obligations, and encourage the surrender of banked units. Several also stated that any change should be well signalled to participants and the carbon market.

### Submitters were mixed over whether price shocks should be managed if the one-for-two obligation is removed

Five submitters considered that price shocks should be managed, five disagreed, and the remainder were unsure or did not answer. Those that disagreed included some that did not think there would be ‘price shocks’ because there was sufficient supply in the market and/or market participants should expect a certain level of price variability.

Several submitters that thought potential price shocks should be managed suggested implementation of a price floor. Most submitters considered that, regardless of what measures are implemented, the \$25 price cap should be retained.

## Appendix 1: Consultation meetings

### Information and targeted consultation meetings

Stakeholders were invited to information and targeted consultation meetings. These meetings were arranged by sector. Meetings with low stakeholder interest were combined with other sessions.

Stakeholders were directly contacted by officials, and all New Zealand Emissions Trading Scheme (NZ ETS) participants were informed of targeted meetings through an Environmental Protection Authority newsletter. Invitees were encouraged to provide the Ministry with details of any parties interested in attending meetings so they could be invited also.

#### Information meetings

Date and location	Stakeholder group	Approx. number of attendees
14 December 2015 Wellington	Agriculture	8
15 December 2015 Wellington	Industry groups, energy users and retailers	17
	Forestry	9
	Waste	3
16 December 2015 Auckland	Industry groups, forestry, energy users and retailers	11
16 December 2015 Christchurch	Forestry	2

Information meetings provided an overview of the issues being considered in the review and advice on how to make a submission. Key themes raised in information meetings included:

- the release of the technical notes
- the review process and timeframes
- the scope of the review
- outcomes from the Paris Agreement
- the need for regulatory certainty
- supply management and auctioning
- New Zealand Unit (NZU) price collapse and future increases
- impacts of removing the one-for-two obligation
- managing costs
- forestry matters.

## Targeted consultation meetings

Date and location	Stakeholder group	Approx. number of attendees
2 February 2016 Wellington	Waste	4
3 February 2016 Wellington	Agriculture	7
4 February 2016 Wellington	Energy and industry	17
5 February 2016 Christchurch	Forestry	6
	Waste	2
9 February 2016 Auckland	Energy users and retailers	30
10 February 2016 Auckland	Waste	4
11 February 2016 Wellington	NGOs, research and tertiary organisations	8
12 February 2016 Wellington	Forestry	22

The targeted meetings provided information on the issues being considered in the review, and in particular the priority issues, to help attendees write their submissions. Key themes raised in targeted consultation meetings included:

- concerns about competitiveness
- use of international units
- price incentives for emissions reductions
- operational and financial impacts of removing the one-for-two obligation
- managing costs of moving to full surrender obligations
- pass-through costs and impacts on behaviour
- New Zealand's 2030 target
- business planning and the costs of emissions
- barriers to reducing emissions
- timeframes for decisions on priority matters
- supply, 'vintaging' NZUs and access to international markets
- status of agriculture in the NZ ETS
- need for regulatory certainty
- modelling the impacts of carbon prices
- changes to the fixed price option
- rationale for removing the one-for-two obligation
- status of forestry in the NZ ETS
- NZ ETS information needs
- managing banked units
- introducing an independent climate commission
- allocation.

## Regional hui

Regional hui were organised in collaboration with the Climate Change Iwi Leaders Group (CCILG) advisors. Meetings were publicised by CCILG members, by pānui to representative Māori, iwi and hapū organisations, and included in the Ministry's quarterly newsletter, Te Kōmiromiro.

Date and location	Region	Approx. number of attendees
19 January 2016 Tolaga Bay	Te Tai Rāwhiti	20
20 January 2016 Christchurch	Te Waipounamu: Ōtautahi	4
21 January 2016 Invercargill	Te Waipounamu: Waihōpai	4
27 January 2016 Kaikohe	Te Tai Tokerau	2
28 January 2016 Whanganui	Te Tai Hauāuru	25
29 January 2016 Rotorua	Waiāriki	23

The regional hui provided an opportunity to discuss the matters under review with Ministry staff, with a particular focus on the priority matters. Presentations were provided by CCILG and Ministry representatives. Attendees were provided information on the consultation process and how to make a submission.

Key issues raised included:

- impacts of climate change on vulnerable and/or coastal communities
- the benefits of recognising indigenous forests in the NZ ETS
- NZ ETS administration and implementation costs
- New Zealand's contribution to global emissions
- the broader implications of climate change and domestic policy
- the five iwi afforestation programme
- impacts of climate change on te ao Māori, cultural practices and food
- investing in pilot schemes to build resilient iwi/Māori communities
- better collaboration between government agencies
- better connection between central and local governments
- opportunities for engaging with iwi on climate change policy
- the role of the Iwi Leaders Group
- future investment decisions and kaitiakitanga
- role of the Resource Management Act in adaptation
- performance of the NZ ETS so far
- agriculture and the NZ ETS
- need for domestic emissions reductions and opportunities for forestry
- New Zealand's 2030 emissions reduction target

- the submissions process
- policy certainty is needed
- supply and access to international units
- reasons for removing the one-for-two obligation and its impacts
- a long-term view for the NZ ETS and its design
- action by other countries.

## Appendix 2: List of submitters

Name/organisation	Unique number
AB Lime	00029
Air New Zealand	00151
Allen, Elisabeth	00159
Anderson, C Patrick	00125
Anderson, Marlene	00110
Anonymous	02003
Anonymous	02005
Auckland Council	00019
Ballance Agrinutrients	00074
Ballantine, Trudy	00015
Barr, Hugh	00145
Bathurst Resources	00050
Beef+Lamb New Zealand, Deer Industry New Zealand and Meat Industry Association	00134
BetterWorld NZ	02014
Bioenergy Association	00070
Birchfield Coal Mines Limited	02051
Blakely Pacific Limited	00017
BOC	00155
Bradley, Francesca	02037
Brill, Barry	00174
Brown, Brendan	02010
Business Central	00147
Business New Zealand	00131
Cameron, Gordon	02007
Carbon Farm Limited	00121
Carbon Forest Services Limited	00081
Caritas Aotearoa New Zealand	00080
Chapman, Ralph (Victoria University, Wellington)	00156
Chevron New Zealand	00013
City Forests	00032
Clark, Ross	00113
Climate Change Iwi Leaders Group	00180

Name/organisation	Unique number
Climate Justice Taranaki Inc.	00120
CNI Iwi Holdings Limited	03006
Contact Energy	00143
Corbett-Davies, Joseph	02034
Cown, David	02055
Craigmore Forestry Limited	00105
Dairy Companies Association of New Zealand	00146
Dairy NZ	00076
Daly, Sharon	00014
De Lu, Dirk	00026
DeVantier, Lyndon	00117
Downing, Zella	00150
Earthwater Environmental Consulting	02006
Edwards, Graeme	00011
Elwell-Sutton, Paul	00008
Employers & Manufacturers Association	00098
Engineers for Social Responsibility	00025
Environment and Conservation Organisations of New Zealand	00157
Environmental Defence Society	00065
EnviroNZ	00149
Evonik Peroxide	00021
Fairclough, Pete	02039
Farrell, Nicholas Brian	02031
Federated Farmers of New Zealand	00115
Federation of Maori Authorities	00140
Fitzsimons, Jeanette	00030
Fletcher Building Limited	00051
Flightworks	00108
Fonterra Co-operative Group	00144
Forest Management Limited	00024

Name/organisation	Unique number
Forestry, Marginal Land and Carbon Consultancy Services	00109
Frame, Dave (Victoria University Wellington)	02000
Fursdon, Sonia	02019
Futures Committee of the Religious Society of Friends (Quakers) of Aotearoa New Zealand	00037
Geddes, Patrick	02035
Generation Zero	00198
Genesis Energy	00053
Gibbons Holdings Limited	00130
Gilmore, Shannon	02043
Graeme, Basil and Anne	00164
Graeme, Kate	02053
Graymont	00048
Greater Wellington Regional Council	00197
Green Party of Aotearoa New Zealand	00124
Guardians of New Zealand Superannuation	00077
Gull New Zealand Limited	03009
Gunn, Professor Alistair Jan	02002
Hearle, Kevin	00023
Heffman, Doug	00045
Henderson, Neil	00118
HG Leach & Co. Limited	02015
Holcim (New Zealand)	00038
Horizons Regional Council	00027
Horticulture New Zealand, Vegetables New Zealand Inc. and Tomatoes New Zealand	03004
Hyson, Michael	00005
Inglis, Murray	00031
Investor Group on Climate Change	00201
Jenkin, Rosalee	02050
Johnston, George	02048

Name/organisation	Unique number
Jones, Philip	02021
JTL Carbon Farming Consultancy Limited	02024
Kahui, Jean	00100
Keith, Suze	02016
Kim, Victoria	02032
KiwiRail	02029
Lake Taupo Forest Trust and the Lake Rotoaira Forest Trust	00139
Lansdowne Forestry Limited and Fraser Forest Partnership	03001
Laurie Forestry Limited	02020
Lees-Green, Rachel	02038
Lindsay, Catherine	00001
Livesey, Chris	00016
Macey, Adrian (Victoria University, Wellington)	00046
MacLennan, Anne	00208
Main, Nicholas	00078
Mapp, Jennifer	00170
Margaree Consultants Inc	02004
Margules Groome Consulting	02017
Marlborough District Council	00010
Manks, Jeremy	00087
Marquardt, Maurice	02022
Mason, Professor Euan G.	00136
Maxted, Suzanne	02012
McClintock, Murray	02046
McEwen, Andrew	00184
Meads, Sarah	00187
Meridian Energy Limited	00057
Methanex New Zealand Limited	00137
Mighty River Power	00152
Moana Ola Pasifika Public Health Network	00202
Moleta, Nick	02044
Morgan Foundation	00093

Name/organisation	Unique number
Morgan Foundation (form submission x 36)	
Mortimer Forestry Management	00004
Motor Industry Association of New Zealand	00090
Motu Economic and Public Policy Research	00158
MRCagney Pty Limited	00099
National Council of Women New Zealand	00042
National Energy Research Institute	00040
New Zealand Automobile Association Incorporated	00082
New Zealand Carbon Farming Group	00069
New Zealand Coal and Carbon Limited	00094
New Zealand Council of Trade Unions Te Kauae Kaimahi	00153
New Zealand Farm Forestry Association	00022
New Zealand Forest Owners Association	00039
New Zealand Green Building Council	00086
New Zealand Institute of Forestry	00083
New Zealand Labour Party	00103
New Zealand Native Forests Reforestation Trust	03000
New Zealand Nurses Organisation	00181
New Zealand Oil and Gas Limited	00160
New Zealand Shipping Federation	00101
New Zealand Steel	00044
New Zealand Wind Energy Association	00052
New Zealand Youth Delegation	00205
Ngāti Hine Forestry Trust	00066
Northland Regional Landfill Partnership	02042
Northland Waste	00112
Nortona Limited	03003

Name/organisation	Unique number
O'Connor, Katie	00141
Ogle Consulting Limited	00041
Oji Fibre Solutions	00071
Oliver, Jared	02057
Olorenshaw, Peter	02025
Hastings District Council (Omarunui Landfill)	00127
OraTaiao: The New Zealand Climate and Health Council	00203
Origin	00089
Otago Regional Council	03010
Owhaoko B&D Trust	02054
Pacific Aluminium	00122
Parker, John	02033
Parliamentary Commissioner for the Environment	00047
Pastoral Farming – Climate Research	00072
Paterson, Matthew	00058
Penwarden, Rosemary	00209
Permanent Forests New Zealand Limited	00054
Petroleum Exploration and Production Association	00114
PF Olsen	00006
Phillips, Brent	02047
Pioneer Energy	00133
Pivac, Jack	02018
Pivac, Steve	00096
Poole, Barry (Kakaho Bay Limited)	00035
Pugmire, Sue	00063
Pukaki Forestry Limited	00097
Rameka Forest Restoration Charitable Trust	00091
Rangitikei District Council	00007
Refining NZ	00148
Roberts, Martin	02028
Robertson, Jodie	02045

Name/organisation	Unique number
Robson Holdings Limited	02009
Rotorua Lakes Council	00075
Rushton, Emily	02058
Sage Partners Limited	02008
Schwartfeger, Luke	02040
Scion (New Zealand Forest Research Institute)	00186
Senanyake, Pubudu	02041
Sharp, Sarah	02049
Shearer, Ian	02026
Sheha, Anver	02027
Shell New Zealand	00085
Shirley, James	02059
Springford, Owen	00020
Stanton, Dave and Nikki	00002
Stinson, Chris	02036
Straterra	00102
Sustainability Council of New Zealand	00204
Sustainable Business Council	00111
Sustainable Initiatives Aotearoa	02023
Taranaki Energy Watch Inc	00142
Taumano Limited	00172
Taupo District Council	00061
Tauranga Carbon Reduction Group	00067
Taylor, George	00043
Te Rūnanga o Ngāi Tahu	00154
Te Rūnanga o Ngāti Apa	03011
Tegel Foods Limited	00185
Temperzone	03005

Name/organisation	Unique number
Tewhiti, Terry	02013
The Properties of Hauhungaroa 1 C Incorporation	02011
Thorn, Therese	00003
Todd Corporation	00200
Toop, Martin	00064
Transwaste Canterbury Limited	02052
Trustpower	00088
Tunakino Forestry Limited	03002
Te Tumu Paeroa	00095
Victoria University of Wellington Students Association	00207
Waiheke Local Board	00211
Waikato Regional Council	03007
Waitemata Local Board	00210
Walker, Neil	00009
Warren Forestry Limited	00092
Waste Management New Zealand Limited	00129
Wellington City Council	00084
Wendekreisen Travel Limited	00012
Westland Milk Products	03008
Westpac New Zealand Limited	00132
Whangarei District Council	00163
Woburn Investments Limited	00126
Wood Council of New Zealand	00116
Wood Processors and Manufacturers of New Zealand	00119
Woodrow, Neil	02056
WWF New Zealand	00028
Z Energy Limited	00079

Organisations/individuals who have requested that their submissions be withheld are not included within this list. The principles contained within their submissions have however been included within this document.

## References

Ministry for the Environment. 2016. *The New Zealand Emissions Trading Scheme Evaluation Report 2016*. Wellington: Ministry for the Environment.

New Zealand Institute of Economic Research. 2015. *Economic Impacts of Removing NZ ETS Transitional Measures*. Prepared for the Ministry for the Environment by the New Zealand Institute of Economic Research. Wellington: Ministry for the Environment. Retrieved from [www.mfe.govt.nz/publications/climate-change/economic-impacts-removing-nz-ets-transitional-measures](http://www.mfe.govt.nz/publications/climate-change/economic-impacts-removing-nz-ets-transitional-measures).

Manley B. 2016. *Afforestation Responses to Carbon Price Changes and Market Certainties*. Prepared for the Ministry for Primary Industries by the University of Canterbury. Wellington: Ministry for Primary Industries. Retrieved from [www.mfe.govt.nz/publications/climate-change/afforestation-responses-carbon-price-changes-and-market-certainties](http://www.mfe.govt.nz/publications/climate-change/afforestation-responses-carbon-price-changes-and-market-certainties).