

ETS Review Consultation
Ministry for the Environment
PO Box 10362
Wellington 6143

11th May 2012

Dear Sir/Madam

CONSULTATION ON THE GOVERNMENT'S PROPOSED CHANGES TO THE ETS

We are writing to make a submission on the Government's proposed changes to the ETS as announced by Minister's David Carter, Tim Groser, and Nathan Guy on the 11th of April 2012.

By way of background the Carbon Farming Group (CFG) is an independent not for profit organisation, which provides information to the rural sector on climate change. The CFG has been running for four years through dedicated funding from The Tindall Foundation. The CFG operates around the website www.carbonfarming.org.nz. We prepare regular newsletters, present at farm field days and have prepared a number of two page information sheets which are designed to be read over a cup of tea. Our communications are targeted at the agricultural community throughout the country. Farmers and other stakeholders are able to ask questions via email or 0800 number.

Carbon Farming Group's profile has steadily increased over the last four years. We have built a reputation as a credible independent source of rural climate change information. When a significant related event is covered by the general media, our web sessions increase accordingly. We believe our stakeholders seek out the CFG to provide an impartial "rational" viewpoint of topical issues. It is from this background that we prepared our submission, based on feedback from our stakeholders, and interpretation of their generalised views.

Our submission is based on answering the 4 questions you have posed.

1. What do you think of the overall package of amendments the Government is proposing to make to the ETS as outlined in the consultation document?

Explanations on each point are below.

- ***Phase out the 'transition measures' more gradually from 2013 to 2015 by accepting the Panel's recommendation to phase out the 'one for two' measure in three equal steps.***
- ***Maintain the \$25 fixed price option until at least 2015 rather than accepting the Panel's recommendation to increase the fixed price by \$5 each year.***

Both of these measures are to ensure that emitters have certainty in the price of carbon of at most \$25 per unit, and when combined with the one-for-two deal this equates to a maximum obligation

of \$12.50 per unit. Currently, with a price of carbon at \$6.60 emitters are paying \$3.30 per unit. There are no such price certainty mechanisms for forest owners; we would suggest that this is inequitable. It would seem sensible to either let these measures phase out as per current legislation or if you wish to extend these measures, introduce similar mechanisms for foresters such as a price floor.

- ***Introduce more explicit powers to enable auctioning of NZUs within an overall cap subject to further consultation on the detailed settings.***

The way this was presented at the ETS consultation meeting made the concept seem extremely unfavourable to forest owners. It appears as though the crown will firstly exclude forest credits up to an unknown cap, then let forestry fight over the scraps along with international credits. It was not made clear where the Government would source the “extra NZU’s” from. This is a concern. Would they be purchased from offshore or simply created? It was also unclear what would happen when the allocations to industry and agriculture are reduced, would the cap be reduced or would the Government source/make up more NZU’s?

It is our opinion, that there are far too many uncertainties to even consider this as a viable option. Therefore, it should be removed from consideration until further work is done, and only progressed if the concept is proven to be beneficial for all ETS participants.

- ***Provide a power for appropriate quantitative restrictions on the use of international units subject to further consultation on details.***

This option has merit but would there be international pressure to implement equivalent restrictions on the export of units?

- ***Provide more flexibility to convert land to its highest value use by allowing for the 'offsetting' of deforestation on pre-1990 forest land, and consistent with the international flexible land-use rules agreed in Durban.***

Allowing offsetting is a good option.

- ***In light of the introduction of pre-1990 forest 'offsetting', which will significantly reduce deforestation liabilities under the ETS, review the number of compensatory NZUs provided to pre-1990 forest landowners.***

There is no point reviewing the number of compensatory NZU’s as the outcome will be predictable – do not change the current allocations due to offsetting costs and ongoing Pre-1990 liabilities.

- ***Provide for a power to delay the entry of emissions from animal livestock and fertiliser use for up to three years if certain criteria are not met, following a review in 2014.***

This delay may conveniently suit some farmers and lobby groups, but the majority of farmers who we have spoken to, don’t believe the current ETS rules are too much of a burden. In our presentation to the ETS Review Committee last year, we calculated the impact of the current ETS legislation on farm production at a price of \$20 per NZU. This is shown on the table below.

Cost of ETS on kg of product in 2011 (Prices from Market Insight and Fonterra, NZU \$20)

Current Price	ETS 2015	ETS 2050
Kg MS - \$7.50	\$0.01, 0.2%	\$0.05, 0.7%
Kg Lamb - \$6.70	\$0.05, 0.7%	\$0.20, 3.0%
Kg Beef - \$4.60	\$0.04, 0.8%	\$0.15, 3.3%

By comparison in 2011 there was a \$0.06 (1.4%) product inspection and \$0.01 (0.3%) Meat and Wool levy per kg of beef.

With the current price of an NZU at \$6.60 the price obligations are significantly less. Any further delays will put the ETS completely out of the minds of farmers.

In our opinion, if the current legislated costs are adequately communicated to the farming public, there will be no further need to delay the introduction of farming into the ETS.

- **Provide for a power to extend, if necessary, the fixed price option beyond 2015 and align it with any price ceiling in Australia if we link with the Australian scheme.**

If the government wants to align itself with the Australian scheme it should also provide for a price floor which is also included in the Australian scheme. This is explained by the Australian government below (<http://www.cleanenergyfuture.gov.au/international-linking/>):

“A price floor will mean that the carbon price cannot fall any lower than a specified price in the first three years of the flexible price period. The floor price will be \$15.00 in 2015-16, \$16.00 in 2016-17 and \$17.05 in 2017-18. This is designed to reduce the risk of sharp downward movements in domestic or international permit prices, which could undermine long-term investment in clean technologies.”

2. Should the Government adjust the level of compensation to pre-1990 forest landowners in light of the introduction of offsetting?

No, and here's why:

There are costs in converting forest into another land use. When Selwyn Plantation Board was converting forest land to pasture in 2007 it cost them \$5000 per hectare. In addition, to establish a forest elsewhere you may need to purchase land which could cost anywhere from \$1500 to \$3500 per hectare. To establish radiata pine it could cost around \$1500 per hectare. Therefore, the total cost for converting forest into pasture and implement offsetting could be around \$9,000 per hectare. This new forest will also be classified as a Pre-1990 forest, and therefore will be subject to the same deforestation liabilities as current Pre-1990 forests.

Introducing offsetting is not letting owners of Pre-1990 forests off the hook, it provides an alternative if their land is valuable enough to convert to another land use.

It is our opinion that only a small number of landowners of the estimated 1million hectares of Pre-1990 forest, will take up this offsetting option.

3. *If the Government was to adjust the level of compensation, which of the three options for adjusting the second tranche of allocation, as outlined in this document, do you prefer and why?*
- a. *a full removal of the second tranche of pre-1990 compensation for all eligible landowners*
 - b. *a reduction of the second tranche of pre-1990 compensation for all eligible landowners*
 - c. *a removal of the second tranche of pre-1990 compensation only for those landowners who take up offsetting.*

We prefer none of these options.

4. *If a reduction of the second tranche is your preferred option (option 3b) what do you consider the most desirable way to do this and why?*

We don't believe a reduction in the second tranche is a good option.

Please do not hesitate in contacting us if you have any further questions regarding this submission.

Best regards,

Clayton Wallwork
Trustee