Sustainable Business Network

Submission on Reforming the NZ Emissions Trading Scheme

28 February 2020

The provisional emissions budget

Do you agree with the proposal to set a provisional emissions budget of 354 Mt CO2-e for the 2021 –25 period? If not, why not? Please include your views on: using a straight-line approach towards the 2050 target, and the considerations that were included in proposing the provisional emissions budget.

No, we do not agree. The proposed straight-line approach to 2050 ignores reality and the Climate Change Response (Zero Carbon) Amendment Act. UNEP and IPCC recommendations are for emissions to be cut by 55% by 2030, in order to have a 66% probability of limiting global warming to 1.5°C.

The UNEP Emissions Gap Report 2019 states:

"The emissions gap is large. In 2030, annual emissions need to be 15 GtCO2e lower than current unconditional NDCs imply for the 2°C goal, and 32 GtCO2e lower for the 1.5°C goal."

Putting that into percentages, it means reducing global emissions by an additional 25% by 2030 to have a 66% probability of limiting warming to 2°C, or by an additional 53% above and beyond the current NDCs to limit warming to 1.5°C.

The stated purpose of the Climate Change Response (Zero Carbon) Amendment Act is to:

"...provide a framework by which New Zealand can develop and implement clear and stable climate change policies that contribute to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5° Celsius above pre-industrial levels".

That is very clear, yet the proposed 2021-25 emissions budget requires a huge change in trajectory in 2025 (at great cost to the NZ economy) to get anywhere near that goal.

The proposed 2021-25 budget would be unlikely to even meet NZ's Paris commitment of 601Mt for the decade (net 2030 emissions to be at least 30% below 2005 gross emissions levels) without using international credits, as it would allow a residual budget of only 247 Mt CO2e for 2026-30. Our understanding is that international credits are to be a last resort, not an active policy measure, so it is inappropriate to plan an emissions budget that will require international credits.

NZ's Paris target is consistent with a 66% chance of 3°C warming, which means there would be a significant chance of even more than 3°C warming. This proposed 2021-25 emissions budget would set us even further off track, as it does not even align with our Paris target and would lead to significantly more than 3°C warming.

	Target	NZ Net Emissions Budget
'Zero Carbon' Act	1.5 degrees limit	
UNEP Report	1.5 degrees (66% probability)	296 Mt budget for 2021-2030*
NZ Paris Target	3+ degrees (66% probability)	601 Mt budget for 2021-30
Proposed Budget	Well over 3 degrees	354 Mt budget for 2021-25

*Based on 55% reduction using MfE estimated 2020 net emissions

The provisional budget must be brought into line with the primary goal of the Climate Change Response (Zero Carbon) Amendment Act, and thereby set NZ on track to meet and exceed its 2030 Paris target domestically.

The expectation of many businesses and individuals around NZ has been that the Act would lead to a faster response and steeper emissions reduction pathways than required by NZ's Paris target. Increasingly, people have realised that only meeting our Paris target will not be enough to 'play our part' in keeping warming below 1.5 or even degrees. Many NZ businesses are, therefore, proposing to reduce their net emissions by more than the Paris target, and some are even planning to reach net zero emissions by 2030, or earlier.

The government's proposed emissions budget for the next five years goes in the opposite direction. It does not even align with our Paris target, let alone go further. NZ's projected gross emissions over the period were forecast as 405.32 Mt, and the MfE spreadsheet indicates only a 2% reduction of gross emissions to 397.77Mt under the proposed budget.

The proposal seems to indicate an extreme shift in direction in 2025 that would likely damage the NZ economy and destabilize the policy consensus that has been established. To be consistent with our Paris target will require emissions to be reduced to 247 Mt for the 2026-30 period. An even bigger reduction is required to align with the stated target of limiting warming to 1.5°C, with even greater impacts on the NZ economy.

Moreover, the Act sets a target for biogenic methane to be reduced by 10% by 2030, which amounts to reductions of 33 Mt over the decade. If only one-third of that amount is reduced during the first half of the decade (i.e. if reductions are scaled up over time), it means 11 Mt of methane will be removed over that 5-year budget. However even that amount of emissions reductions implies only tiny reductions in carbon dioxide and nitrous oxide over the five years to 2025. Theoretically, gross carbon dioxide emissions could even increase slightly and NZ would still meet this proposed emissions budget, which seems crazy!

If achieving the Paris target using only domestic emissions reductions and domestic offsetting is the primary goal, the related budgets in the MfE spreadsheet make more sense:

- 306 Mt for 2021-25 (requiring 52 Mt reductions)
- 296 Mt for 2026-30 (requiring 40 Mt reductions)

This pathway takes account of the time needed to scale up some mitigation efforts, while also allowing for the fact that there are many mitigation measures, totalling more than 52 Mt that could be rolled out right now at net economic benefit to NZ. Additionally, this scenario allows NZ to ramp up our 2030 target to align with the 1.5° target in the Zero Carbon Act.

NZ needs to reduce its emissions by far more than NZ's Paris target. The proposed emissions budget can be changed by the Climate Change Commission, which may recommend a smaller budget for 2022-25. However, it is important to send a clear signal of intention through this provisional 2021-25 budget.

The UNEP Emissions Gap Report 2019 states the cost of delay:

"The implications of postponing adequate climate action are clear from the past decade of UNEP Emissions Gap Reports. The data underlying the gap assessment indicate that had serious climate action begun in 2010, the emissions reductions required per year to meet the emissions levels in 2030 consistent with the 2°C and 1.5°C scenarios would only have been 0.7 per cent and 3.3 per cent per year on average. However, since this did not happen, the required cuts in emissions are now 2.7 per cent per year from 2020 to 2030 for the 2°C goal and 7.6 per cent per year on average for the 1.5°C goal." "By just 2025 the cut needed [for 1.5°C] will steepen to 15.5 per cent each year. Every day we delay, the more extreme, difficult and expensive the cuts become."

In summary, SBN supports a significantly smaller budget than that proposed. The 2021-25 (and 2026-30) budget needs to clearly set us on a pathway to significantly lower net emissions than both the proposed emissions budget and the Paris budget of 601 Mt.

The science-based target needed to meet the purpose of the Act, and thereby "contribute to the global effort" to limit warming of no more than 1.5 degrees, is to cut net emissions by 55% by 2030. This equates to an average cut of 7.6% per year, and an estimated net emissions budget for the decade from 2021-30 of only 296 Mt. The 2021-25 emissions budget needs to align with that target or move strongly in that direction.

Unit supply settings

Do you agree with the proposal to address the NZ ETS unit stockpile by reducing the annual volume of NZUs available for auction? If not, why not?

Yes

Do you agree with 27 million NZUs being removed from auction volume between 2021-25? If not, why not?

Yes

Do you agree with the steps and calculations taken to reach the proposed annual auction volumes?

Yes

Do you support the proposal to auction 80 million NZUs over the 2021–25 period plus 2 million NZUs for auctioning trial in 2020? If not, why not? Please include your views on the process for adjusting auction volumes.

No, because we do not support the proposed emissions budget.

Price controls

Do you agree with the proposal to set an auction reserve price floor at $20 for 2020–25? If not, why not?

Yes

Do you agree with the proposal to increase the fixed price option to $35 for obligations arising from activities over 2020?

Yes

Do you agree with the proposal to set the price ceiling trigger of the cost containment reserve at $50 for the 2020–25 period? If not, why not?

No. $50 is too low.

Do you agree with the proposed annual cost containment reserve volumes to be released if the price ceiling trigger is hit? If not, why not?

No. There should not be a cost containment reserve volume (no release of additional NZU units) or, as a minimum, very tight controls on such a release.

The reserve volume release mechanism allows an additional volume of CO2 to be emitted if the price of carbon happens to hit the trigger price. That is merely a reflection of carbon pricing and global carbon markets, and does nothing to ensure that CO2 emissions meet the emissions budget. In fact, this mechanism could result in the need to purchase international credits, when otherwise the emissions reductions could be controlled domestically by more tightly managing the ETS volumes.

Do you have any further questions?

We have spoken to an MfE staff member about possible inconsistencies in the figures contained in two MfE spreadsheets. One of these spreadsheets was used to help formulate this submission and to supply information to other parties.

MfE staff will get back to us about this matter, so at their suggestion, we would like the opportunity to change this submission if any inaccuracies were present in either of the supplied spreadsheets.