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## OraTaiao's submission to NZ ETS 2015/16 Review - Priority Issues

### A: Summary

This submission introduces OraTaiao, describes the basis for our submission, and attaches two previous related submissions, then responds to the first eight questions of the ETS 2015/16 Priority Issues Review.

Our two main points are:

1. NZ needs an **overall plan** to get to a zero emissions economy around three decades from now, where the ETS is one tool amongst a suite of emissions reductions policies and programmes.
2. The cost-benefit analysis underpinning the ETS review needs to **include the benefits of action** – including health co-benefits which can be experienced relatively soon.

### B: Who we are

OraTaiao: The New Zealand Climate and Health Council (OraTaiao, The Council) is an incorporated society of over 420 health professional members who understand that climate change is fundamentally a threat to human wellbeing and are concerned by this, but also understand that well-designed climate action can bring more immediate benefits to health and fairness.

Within its membership, OraTaiao has some of the world's leading climate-health experts, and is consolidating linkages with health bodies and other climate-health organisations in New Zealand and internationally.

### C: Submission basis

OraTaiao base our submission on the following:

- The world needs to get greenhouse gas emissions down to zero by 2050 to contribute to world not exceeding 1.5°C warming (moral target); NZ should do so sooner as one of the more developed countries with high historical emissions

- NZ has agreed to reduce our greenhouse gas emissions 30% below 2005 levels / 11% below 1990 levels by 2030 (short term target) and will be expected to increase ambition over time.
- Well-designed emissions reduction policies can give substantial cost effective health gains in the shorter term additional to longer term reduction of climate threats to our health and wellbeing.
- Failure to achieve global greenhouse gas emissions reductions and consequent climate change will bring health damage and costs
- Uncontrolled climate change has the potential to increase health inequities
- The impact of greenhouse gas emissions reduction policies on health equity and other equity domains will depend on the design on the policy
- The current government mechanisms to achieve greenhouse gas emissions reductions are:
  - (i) ETS and
  - (ii) hope that research will offer technological solutions to agricultural emissions
- Economic modelling should follow good practice (as outlined by the NZ Treasury) and consider all societal costs and benefits  
<http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis>

#### **D: Relevant previous submissions**

We have attached two previous submissions for more background and context:

- Appendix of OraTaiao’s 3 June 2015 submission on NZ INDC (which includes the immediate health benefits of well-designed climate action) and
- OraTaiao’s 11 May 2012 submission on “Updating the New Zealand Emissions Trading Scheme: A consultation document”

In that ETS submission, we reiterated our recommendations made with other NGOs during the NGO consultation by the ETS 2011 Review Panel on 7 March 2011, that New Zealand’s ETS must:

- provide clearer emissions reduction quantity targets
- take the price cap off and remove the 2 for 1 rule to let the price signal rise
- extend coverage to all sectors and remove concessions, particularly for farming
- let alternative abatement methods blossom
- place limit on credits bought and sold in the system internationally
- change from an intensity based allocation to a capped absolute system.

Five years later, the urgency to fix NZ’s ETS is even greater – and backed by MfE evidence that the ETS has failed to deliver.

## E: ETS Priority Issues Review questions

### 1. Do you agree with the drivers for the review?

**Mostly no.**

OraTaiao agrees with the drivers to **increase certainty about future policy settings** and **(better) manage banked units** (also refer Q.5 answer - re freezing free allocations).

We believe NZ must urgently prepare for a much more emissions-constrained future with a **particular focus on the long-living gases including carbon dioxide.**

The ETS must not only 'improve performance against its objectives' – in fact the ETS must, at a minimum, **meet** the statutory objectives to help NZ meet international obligations and (rapidly) reduce net emissions.

However the **ETS's statutory objectives are inadequate** and probably explain why the ETS has failed to make a difference to our emissions. Fundamentally, the ETS is a 'cap and trade' tool – with a missing cap on overall emissions. NZ's ETS urgently needs its cap.

Basically, the design intent of any ETS is to internalise climate costs so that emitters bear the full consequences, via a price signal, of their emitting decisions. This is intended to ensure that emitters change their behaviour, thereby averting damaging climate changes which inter alia threaten human health and wellbeing. In other words, **the ETS corrects market failure by internalising the costly externalities of global climate destabilisation** – aka 'polluter pays' – so that emitters make healthier decisions.

The price signal that fairly represents the cost of emissions is a price which restricts future emissions below a certain budget limit. **That budget limit, at the most, is the atmospheric space** that the vast majority of international climate scientists currently understand that we have left for emissions.

That's if we want a two-thirds chance of limiting global warming to 2°C[2]. As health professionals we note that **two-thirds** is far from the levels of safety usually expected in public health, let alone climate changes which are potentially catastrophic, lasting centuries or more. So from our perspective, the **global emissions budget is even more restricted** to safeguard 2°C - and yet more so with the 1.5°C limit which better protects **global** health and wellbeing, including our Pacific neighbours and family.

So the **statutory objectives** of the ETS need to reflect reality – that means putting **a real and decreasing cap on NZ's net emissions from 2016 onwards**, which is regularly reviewed against global atmospheric budget limits and how much NZ must reduce emissions to ensure that we are understood as a strong climate protector and good global citizen. This decreasing cap would be part of NZ's Climate Plan (refer Question 2).

As well as the obvious human rights violations of continuing to emit excessive climate-damaging emissions, NZ is a small open economy with exports that depend on stable climate, ocean and global market conditions. Climate changes within NZ during the lifetimes

of most of us alive today will be hard enough, let alone the risks of being a 'life-boat' in a climate-destabilised world.

**NZ urgently needs even greater global cooperation to rapidly reduce emissions in time** – this means seeing ourselves from the perspective of the most vulnerable nations and responding with an ETS that is designed to be an ETS - not locking high emitters into business-as-usual behaviour, stifling innovation and leaving a legacy of high emissions infrastructure as currently.

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

### *(i) Developing an overall NZ Climate Plan*

We need an **overall plan** for NZ to have a zero emissions economy in almost three decades from now, based on known technology and with milestones on the way - including our 2030 target.

This is the **context** for our ETS - the ETS must be one tool amongst a suite of emissions reductions policies and programmes for urgent public consultation and development.

The 2050 Climate plan must also include:

- (i) fair climate finance for developing nations to reach their sustainable development goals that's **additional** to current aid,
- (ii) fair global adaptation finance for the loss and damage in developing nations that we have helped cause through our high emissions development, and
- (iii) adequate NZ adaptation finance that ensures that our most vulnerable households do not disproportionately bear the costs of climate changes within NZ.

For greater economic certainty, this NZ climate plan needs to have **cross-party support** to become enacted - with an **independent agency to monitor and publicly report on milestones** to 2050.

### *(ii) Adequate cost benefit analysis to inform the ETS review - and the NZ Climate Plans*

There needs to be more emphasis on the benefits of reducing greenhouse gas emissions, rather than a blind focus on the potential short-term costs to current emissions-intensive industries. **Benefits to health are particularly important**, especially for those that are inequitably harmed by climate change.

Lack of action on greenhouse gas emissions has adverse health consequences in both the short and long term. The costs of inaction and the benefits of action need to be incorporated into the models and reported transparently. We refer to the NZ Treasury's guidance that economic modelling should consider all societal costs and benefits: <http://www.treasury.govt.nz/publications/guidance/planning/costbenefitanalysis>

Understanding climate health connections is growing, including within NZ. The Lancet Commission has described climate change as a global medical emergency - and potentially

the greatest global health opportunity this century  
[press.thelancet.com/Climate2Commission.pdf](http://press.thelancet.com/Climate2Commission.pdf).

**Relevant NZ-based research includes:**

- Modelling and valuing the co-benefits of investing in cycling infrastructure in Auckland <http://ehp.niehs.nih.gov/1307250/>; Similar cost-benefit ratios are likely in other cities in NZ
- Similar modelling for a mode shift to cycling for the whole of New Zealand, including equity impacts  
[http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=PubMed&dopt=Citation&list\\_uids=21299701](http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=PubMed&dopt=Citation&list_uids=21299701)
- Climate and health co-benefits of home heating and insulation (Howden-Chapman, P., & Preval, N. (2014). Cobenefits of insulating houses: Research evidence and policy implications. In Wellbeing: A complete reference guide (Vol. II): Wellbeing and the Environment. (pp. 607-625) doi: 10.1002/9781118539415 <<http://dx.doi.org/10.1002/9781118539415>>);
- Co-benefits in changing our diets in NZ  
<http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0059648>

***(iii) All gases, all sectors***

The emissions from agriculture should also be included in the ETS review (and NZ Climate Plan), rather than simply hoping for strategies for emission reductions to materialise. As agriculture generates around half of NZ's climate-damaging emissions, there should be more incentives to reduce these emissions.

NZ research suggests that significant reductions in agricultural emissions are already possible right now (Dewes 2015) - and this coincides with a dairy downturn where farmers are looking to diversify and reduce their expensive inputs, thereby reducing dairying intensity and emissions.

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

**Yes – overdue and urgent.**

Note we outline our reasons for full surrender obligations and the inclusion of the agricultural sector in 2016 under question 5.

Moving to full surrender obligations for all sectors is an opportunity to reduce greenhouse gas emissions.

**4. What impact will moving to full surrender obligations have on you or your business? Please include specific examples or evidence of the impacts on you or your business of: a) increased carbon prices, including actions to reduce emissions and future investment decisions. Please comment on effects that may occur at carbon prices ranging from \$5 to \$50, including any evidence of actions taken previously when carbon prices were higher**

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

In general, we expect that allowing emitters to bear the full costs of emissions, is likely to accelerate emissions reductions in the health sector.

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

**2016**

**This is urgent** – we can't afford a heavily subsidised ETS continuing to distort emitting behaviour. We need to catch up with better lower emission infrastructure that will reduce emissions, future-proof NZ and promote health - including immediate health co-benefits. Adequate economic analysis needs to incorporate these health benefits over the short and longer term, and include innovation to future-proof NZ.

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 NZ back on track to reducing net emissions.

The ETS has to link to global reality – **the NZ government is ultimately unable to shield NZ from the need to rapidly reduce emissions, innovate and invest in lower emissions infrastructure.**

We cannot afford to continue to subsidise high emitters through the '1 for 2' scheme. Moving to full surrender obligations will prevent taxpayers bearing high emissions subsidy costs and will incentivise changes from business-as-usual thinking.

**Likely changes were signalled five years ago** with the 2011 Independent Panel Review - there are no surprises here. This is the best time to act when emissions prices are low - and to include agriculture now when the immediate benefits of diversification and reducing input costs are becoming more obvious.

Moving to full surrender obligations now, at a time where emissions prices are low, will have a modest impact both on the economy and at the industry level. The transition period of easing industries into being more emissions-aware is over and it is time to become truly committed to our international obligation of reducing greenhouse gas emissions.

NZ especially needs to **ensure that emissions prices rise solidly above \$15 this year** so that widespread forest planting can confidently resume. Although NZ's Climate Plan must drive gross emission reductions domestically, increased forestry is likely to continue to be important for some time for net emissions, especially with the looming wall of wood to counteract in the 2020s.

**A freeze on free allocations** may be necessary from now on till the emissions price rises above the \$15 floor. Freezing free allocations will also help dispose of previous gains from NZ using cheap dubious international credits to meet obligations. This may help admittance

into international emissions trading markets. We may need access to international markets subject to the costs of buying future international credits.

Overall, OraTaiao concludes that, as NZ needs to use all policy tools to reduce greenhouse gas emissions as far and as rapidly as possible, the sooner widespread changes are implemented the better.

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

**Yes**

A higher price on emissions is likely to disproportionately affect households with less income and assets. However, this is not a justification for preventing the ETS from internalising emissions costs as our research (2014 Bennett et al) shows clearly that NZ's most vulnerable households will also bear the costs of climate changes first and worst. For fairness domestically, as well as globally, NZ needs to urgently fix the ETS.

It is likely that the benefits of reducing emissions and preventing further climate change will outweigh the costs to these low income households. To ensure that the costs to low socioeconomic status households are small and inequities are not increased, **we need climate policies and programmes so that low income households are at least equally able to quickly reduce their emissions.**

Measures may include focus on public transport efficiency, accessibility, and affordability; widespread affordable car share access; insulation and affordable clean energy for healthier homes; better access to healthier more plant-based food; and other incentives for households to adopt lower emissions lifestyles.

**These measures can be 'win-win'** by both addressing immediate health concerns and enabling emissions reductions, and setting NZ on an equitable low emissions pathway. This is a **much more efficient use of taxpayer money** than subsidising high emitting sectors such as agriculture. This is because health sector savings are generated, the costs of excess emissions are reduced, and NZ moves towards a lower emissions economy.

Well-designed tax relief for vulnerable households may also be appropriate in the shorter term, if there are delays in low emissions climate policies taking full effect and reaching everyone.

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

**Option d)**

NZ needs to quickly move to full surrender obligation, that is, remove the 'two-for-one' provision in 2016.

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

The \$25 fixed price surrender option acts as a ceiling on ETS emission prices, when the whole point of an ETS is to internalise emitting costs. **NZ needs emitters to bear the costs of their emissions decisions** so they reduce emitting behaviour and invest in lower emission infrastructure. Continuing high emissions investment seriously reduces our future options.

The **\$25 fixed price surrender option is also difficult to justify on 'stability' grounds** when the Intergovernmental Panel on Climate Change (IPCC) modelling cited in the discussion document estimates average carbon prices will need to be in the range of around \$90-\$178 per tonne over the 2020s to meet the globally agreed 2°C limit. The \$90-\$178 range will be even higher for greater certainty than 'two-thirds' of keeping to 2°C - and preferably staying within 1.5°C of warming.

So with NZ facing a price hike in 4-14 years to at least 12-25 times the 2015 price of around \$7 (effectively \$3.50 under 'two-for-one'), we cannot afford to continue the \$25 price ceiling. Currently, the US EPA use a social cost of carbon of around NZD\$60 (central estimate) - although IPCC indicates this underestimates costs.

**If there is any stepping up** (rather than outright removal) of the \$25 price ceiling, we suggest that this is at least based on the upper bounds of the latest IPCC modelling, is updated as IPCC updates modelling, and preferably links to much greater certainty of limiting warming to 2°C, and preferably 1.5°C. This is the reality NZ must prepare for.

### References cited

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[1] NZ has a particular interest in 1.5°C because this is the limit that our Pacific family and neighbours need for survival, and it improves the odds of limiting global warming to 2°C.

[2] Our planet, just like the human body, has a fairly narrow range of temperature, for human health and well-being. Beyond 2°C (and possibly sooner) risks tipping the world into feedback loops that mean increasingly dangerous warming is inevitable.