



NZ Climate & Health Council

www.orataiao.org.nz

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OraTaiao's submission to the *Improvements to the NZ Emissions Trading Scheme: Consultation Document 2018*

A: Summary

This submission introduces OraTaiao: The New Zealand Climate and Health Council, describes the basis for our submission, and responds in general terms to the consultation document.

We support the government's intention to act with urgency and improve the ETS. We are, however, concerned by the highly technical nature of the consultation documents. We consider that currently, input is severely constrained from those who will bear not only the impacts of climate change, but also the impacts of climate change mitigation and adaptation policies. The ETS is complex, but because of the far-reaching implications for New Zealanders, it's essential that every effort is made to widen this discussion. We consider it essential that there is a clear statement of the principles upon which the ETS is based, and that this is developed with due democratic process.

Our greatest concerns are firstly, that the ETS continues to fail to deliver reductions in greenhouse gas emissions because not all sectors are included, and/or because there is a weak pricing mechanism and/or there is no "sinking lid" on the number of units being auctioned. Secondly, we are concerned that the ETS will increase social and health inequities – this issue can be mitigated through good recycling of revenue to support a low-carbon transition for low-income, Māori and Pacific households. Thirdly, we are concerned about corruption in the ETS process, through the purchasing of overseas credits.

However, any further delays in creating a real price on emissions cannot be justified by regressive impacts on lower income households. The most vulnerable households in NZ will and are being hit 'first and worst' by climate changes¹. This is a global pattern of unfairness that demands urgent emissions reductions to limit warming to 1.5°C. The ETS is arguably the most important tool we have to become Aotearoa Net Zero (all emissions) by 2040 at the latest.

Our top ten priorities, as previously iterated are:

1. We support the intention to have a "coordinated, transparent and predictable ETS unit supply framework. Additionally, the framework should be consistent with achieving NZ's fair share obligations under the Paris Agreement; prioritise wellbeing and social and health equity; and centralise the Crown meeting its obligations under Te Tiriti o Waitangi – including ensuring that the value of past Treaty settlements is upheld and maintained, either

¹ Bennett H, Jones R, Keating G, Woodward A, Hales S, Metcalfe S. Health and equity impacts of climate change in Aotearoa-New Zealand, and health gains from climate action. N Z Med J. 2014 Nov 28;127(1406):16-31. <https://www.nzma.org.nz/journal/read-the-journal/all-issues/2010-2019/2014/vol-127-no-1406/6366>

through design of ETS mechanisms (including Forestry) or through fair and just compensation

2. Global ambition has accelerated, therefore New Zealand must prepare for a zero net emissions future, playing our part in limiting warming to 1.5°C by becoming Aotearoa Net Zero (all emissions) by 2040. Global reduction delays and emerging science (eg. tipping points) may hasten this deadline. The priority is reducing net emissions – and the faster we move, the greater the gains for climate stability and our economic and social resilience.
3. Most emissions reductions need to be within NZ – to future-proof our economy, plus ‘supplementarity’. Even if access to international markets changes, excluding international credits may be important over the 2020s to allow NZ’s infrastructure and other investment to catch up in an emissions-constrained world. There are other mechanisms available to NZ to support international emissions reductions, such as finance and sharing research, especially for “developing” nations.
4. High emissions infrastructure increases NZ’s vulnerability – including our taxpayer-funded health services which already face heavy costs from locked-in climate changes ahead. The ETS must drive net zero infrastructure investment decisions – we can’t afford further white elephants. We strongly recommend that the government mandate “shadow pricing” for central and local government investment decisions. We note that support is starting to grow amongst health NGOs for Aotearoa’s net zero health sector by 2030. Healthy people depend on a healthy climate.
5. Although we appreciate agriculture entry is being currently considered by the interim Climate Commission, we reiterate our previous submissions that the ETS must cover all sectors and all gases – agriculture absence, free allocations and ‘2 for 1’ currently excludes much of NZ’s economy. The ETS needs to drive equitable change across the entire economy.
6. A clearly signalled ‘Sinking Lid’ on the number of units auctioned is needed, in order to stimulate zero/low emissions investment and widespread behaviour change. This needs to be accompanied by a mechanism to ensure that ETS prices are maintained at a minimum and increased over time.
7. Complement ETS with policies to support a healthy fair transition by low income households, using unit auctions revenue to achieve this.
8. Any further delays in a real price on emissions cannot be justified by regressive impacts, as NZ’s most vulnerable households will and are being hit ‘first and worst’ by climate changes
9. NZ’s ETS needs an urgent clean up of credibility – climate changes are too serious a threat to our health and wellbeing to waste money by cheating with worthless international credits
10. Public education is needed now for widespread understanding of both climate changes and the immediate and future benefits from rapidly reducing emissions

We reiterate from our previous ‘Priority Issues’ submission, that:

1. NZ needs an **overall plan** to get to a zero emissions economy around two decades from now, where the ETS is one tool amongst a suite of emissions reductions policies.
2. The cost-benefit analysis underpinning the ETS review needs to **include realistic benefits of action** – including health co-benefits, which can be experienced relatively soon. We consider the Productivity Commission and Vivid Economics modelling to be flawed and too conservative in their assumptions, particularly around mode shift in the transport sector.

B: About Us

OraTaiao: The New Zealand Climate and Health Council (OraTaiao, The Council) is an incorporated society of over 650 health professional members calling for urgent and fair climate action – with real health gains now and for our future.

We know that climate changes fundamentally threaten human health and wellbeing – and that well-designed climate action can mean greater health and fairness in both the short and longer term.

Our work includes encouraging DHBs to become more sustainable businesses, thereby helping reduce climate health risk and free up resources for better patient care. Action groups and sustainability advisers have been established in many NZ DHBs.

Within its membership, OraTaiao has some of the world's leading climate-health experts, and is linked with health bodies and other climate-health organisations in New Zealand and internationally. See more at the OraTaiao website, www.orataiao.org.nz.

C: Submission basis

OraTaiao bases our submission on the following:

- Health gains now: Well-designed emissions reduction policies can give substantial cost-effective gains for health and health equity in the shorter term – additional to longer term reduction of climate threats to our health and wellbeing.
- Health threats: Failure to achieve global greenhouse gas emissions reductions and consequent climate change will bring increasing health damage and costs
- Inequity: Uncontrolled climate change has the potential to increase social and health inequities
- Policy design: The impact of greenhouse gas emissions reduction policies on health equity and other equity domains will depend on the design on the policy
- Better modelling needed: 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>
- Inaction to date: The current government mechanisms to achieve greenhouse gas emissions reductions are confined to:
 - (i) the ETS (where the Ministry for the Environment reports no reductions to date) and
 - (ii) hope that research will offer technological solutions to agricultural emissions
- Acceleration of global ambition: In 2015 the world committed to strengthen the climate change response “in context of sustainable development efforts to eradicate poverty” to hold global warming to “well below 2°C”, and “pursue efforts” to limit the increase to 1.5°C². The world also agreed to “global peaking of greenhouse gas emissions as soon as possible”, “recognising that peaking will take longer for developing country parties” and to “undertake rapid reductions thereafter in accordance with the best available science” so that the world reaches net zero emissions in the second half of this century³
- Pressure to increase domestic reductions: NZ has agreed to reduce our greenhouse gas emissions 30% below 2005 levels / 11% below 1990 levels by 2030 (short term target) and will

² Article 2: 1. (a) “recognising that this would significantly reduce the impacts and risks of climate change”

³ Article 4: 1. And noting that the UN’s climate science panel says by 2070 to avoid dangerous warming.

be expected to increase ambition over time. NZ is amongst the highest per capita emitters and has one of the least ambitious pledges despite the expectation for developed nations to lead. Kyoto's 'supplementarity' principle expects emissions trading to be secondary to reductions within NZ. Currently, global pledges add up to at least 2.7°C warming, adding to pressure for greater reductions.

D: Answers to specific questions

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

We consider the following issues important:

- How well we are meeting our fair share obligations under the Paris Agreement
- New evidence from the IPCC about climate science that change those obligations (for example, our growing understanding about the role of methane, tipping points and our need for more urgent action)
- Secondarily, the social and health equity impacts of the **manner** in which units are supplied, including making progressive choices about **how** and **when** units are allocated to ensure support for low-income, Māori and Pacific people to access the building blocks of wellbeing (education, employment, social connection, food, shelter, housing, culture and participation, etc.) by low-emissions means, without this affecting the overall speed and end goal of emissions reductions under the ETS

Question 6: Do you think the government should use the proceeds gained from the auctioning of NZUs for specific purposes? If so, what should those purposes be?

Yes, we think it is vital that the proceeds be hypothecated towards targeted mitigation and adaptation policies and investments that address social and health inequities as a result of climate change itself and climate change policies. We recognise that this will, by design be a shrinking pool of money, and therefore only part of the necessary investments the government must make.

Questions 7-11: re Price Ceilings

7. Do you agree with the proposal to replace the \$25 fixed priced option with a cost containment reserve price ceiling implemented through the auctioning mechanism?
8. How do you think the price level and number of units in the cost containment reserve should be managed over time?
9. What actions should occur if the price ceiling is struck?
10. Do you agree with the proposal to review the price ceiling if another significant event occurs (such as a decision to link the NZ ETS with another carbon market)
11. Do you agree that the \$25 FPO may not be appropriate for the short term, and may need to be adjusted before 2020?

Our concern is to ensure prices are high enough to immediately incentivise investment decisions and research that rapidly move us to Aotearoa Net Zero by 2040 at the latest. The government must ensure that the ETS pricing sends a clear, consistent message that emissions will continue to become more expensive until net zero emissions are achieved. There is no future in fossil fuels and the sooner these disappear, the safer we are. High emitting industries are not part of NZ's future. Therefore, the focus should be on price floors, rather than any price ceilings.

Questions 12 and 13: re International Units

12. Which mode of purchase for international units (direct or indirect) would be the best approach for the NZ ETS, acknowledging that there are other significant factors that will influence this decision?

13. If NZ ETS participants are able to purchase and surrender international units directly, do you think that there is justification for varying the percentage of allowable international units by participant type?

We would like to see access to international units under the control of the NZ government, which may include no use of international units (if these are indeed available to NZ) over the 2020s and beyond, until we have the infrastructure and industry we need in NZ for our net zero emissions future.

Questions 14 and 15: How do you think decisions of a phase-down of industrial allocation should be made? Which factors should the decision-maker take into account?

An upfront decision to phase-down industrial allocations must be made immediately in keeping with the urgent need for rapid emissions reductions by all sectors.

The following factors should be taken into account, in the following order of priority:

- The changing climate science as interpreted by the IPCC
- NZ's international obligations
- NZ's emissions budgets, which should be based on the above
- The social and health equity implications and Treaty-related impacts should influence the order and timing but not the overall speed and end goal of phase-down

Questions 19 and 20: Do you think that there would be benefits from publishing individual emissions data reported by NZ ETS participants? Do you think cases of non-compliance should be published?

Yes to both these questions. Emitters ought to be accountable to the NZ public, as we will all bear the costs of excess atmospheric emissions, especially those of us who are already vulnerable.

Questions 22-26: re Non-compliance

22. Do you agree with the proposal to introduce strict liability infringement offences for low-level non-compliance?

23. What are your views on the levels of the proposed fines?

24. Has the excess emissions penalty for failing to surrender or repay units by the due date caused issues for you?

25. Should the excess emissions penalty for failing to surrender or repay units by the due date be changed?

26. What option do you see as most appropriate for the excess emissions penalty?

We consider there should be significant penalties for non-compliance proportional to the degree of offence – which will increase with ETS maturity and as misunderstandings are less likely. With minor non-compliance initially, a warning may be appropriate.

Questions 28 and 30: Purchasers of coal etc.

28. Should large purchasers of coal, natural gas or obligation fuels have the ability to opt-in for only a portion of their obligations?

30. Do you agree with the proposal that all coal sold or used from a stockpile be reported, regardless of whether the participant meets the threshold for coal importing or mining in the year the coal was sold or used?

We know that 80% of existing reserves must now not be burnt. NZ is especially well-placed to end our fossil fuel addiction – instead growing better health, jobs and economic energy independence from 100% renewable energy. We have very little excuse for continued purchase of coal, gas and other obligation fuels. We therefore argue that there should be now partial opt-in for these fuels, and we agree that all coal used from a stockpile should be reported.

E: Conclusion: Operation of ETS – easy, fair and accessible for everyone

We believe that overall the ETS should be simple to engage with, so that the ETS potential for emissions reductions across NZ is maximised. We would like the ETS to be easy for small emissions reductions to be recognised. We want the focus and innovative energy of NZ businesses to be on reducing emissions, growing jobs and future resilience – not trying to understand the ETS. We would like the government to explore the potential for information technology to make entry and participation easy.

We have made multiple submissions and provided much in depth information to previous ETS review consultations. As we recently submitted on the Zero Carbon Bill, NZ's climate action must be fast, fair, firm and Tiriti-founded.

We thank you for considering this written submission. We would be grateful for any opportunity to present orally on this submission.



Alex Macmillan

Co-Convenor, OraTaiao: The New Zealand Climate and Health Council

Attachments:

1. OraTaiao's April 2016 submission on 'ETS Review Other Issues'
2. OraTaiao's February 2016 submission on 'ETS Priority Issues'
3. OraTaiao's 2012 submission 'Updating the New Zealand Emissions Trading Scheme: A consultation document'
4. Dhar et al 'Carbon pricing in NZ: implications for public health' NZ Medical Journal 2009