

Submission

To the

Ministry for the Environment

On

“Consultation on Proposed Regulations Restricting the Use of HFC-23 and N₂O CERs in the NZ ETS (September 2011)”

INTRODUCTION

1. Straterra Inc was formed in 2008 to be a collective voice for the New Zealand resource sector. Our membership represents 84% by value of New Zealand minerals production (excluding oil & gas, and geothermal), as well as exploration, research, service and support. Straterra works closely with the petroleum sector, and has links to the geothermal sector.
2. The resource sector makes a significant contribution to the New Zealand economy. Oil, gas, coal, gold, aggregates and other minerals contributed \$2.15 billion to GDP in 2008, compared to the wine industry (\$0.45bn), and tourism (\$6.66bn). Resource exports in 2009 earned \$3.6bn (8.2% of total goods exports) while dairy in that year was \$10.0bn, and overseas tourism, \$9.3bn. In 2009 there were 6800 people employed directly in mining, and 8000, indirectly, flowing from the economic activity of the 6800. The median wage for a mining employee was \$57,320 in 2008, compared to the New Zealand median of \$33,530.
3. Resource potential in minerals has been identified for gold+silver, coal, lignite, ironsands, rock phosphate, and seabed massive sulphide deposits of base and precious metals.
4. Properly managed and encouraged, the New Zealand minerals sector's contribution to the national economy could triple or quadruple. In this context, Straterra has an interest in climate change issues, both New Zealand's domestic policy, and New Zealand's approach to the international negotiations.
5. Straterra welcomes the opportunity to submit on the discussion paper.

EXECUTIVE SUMMARY

6. The proposal to ban in New Zealand specified industrial gas Certified Emissions Reductions is premature. No analysis has been done of the European Union's wider motives in this respect, or on the implications of the EU's decision, internationally or on New Zealand.
7. More work is needed before considering the appropriateness of a ban. For example, unilateral decisions taken in respect of the Clean Development Mechanism could damage New Zealand's hard-earned reputation as an "honest broker" in the international climate change negotiations, and impinge on our ability to negotiate outcomes we are seeking on other climate change issues, at Durban and beyond.
8. If the Government is concerned about the environmental integrity and effectiveness of the New Zealand Emissions Trading Scheme, there are surely other avenues that could be pursued, e.g. using elements of the NZ ETS Review Panel's report as a guide.

RECOMMENDATIONS

9. Straterra recommends that the Government:
 - a) Analyse more fully the implications of a domestic ban on CFC-23 and N₂O CERs, on New Zealand businesses, and on New Zealand's reputation and approach in relation to the international climate change negotiations, before taking any decisions or actions; and
 - b) Explore alternative ways of achieving reputational and effectiveness outcomes for the NZ ETS.

DISCUSSION

10. The Government is proposing to ban international CERs obtained from HFC-23 and N₂O gas destruction projects, through the Clean Development Mechanism (CDM), from 1 January 2012, or 1 January 2013, or some other date.
11. The logic advanced in the discussion document is that these CERs are deemed by the EU to fail a test of additionality, namely that plants are, or have been built in developing countries to be then shut down. In other words, these CERs are being created in a cynical way, with no benefits for global climate.

12. The EU intends to ban these CERs from 30 April 2013, ostensibly to maintain the environmental integrity of the EU ETS. As a consequence, a significant source of purchase of industrial gas CERs could disappear, leading to a drop in the price of these units, in turn, potentially depressing the price of carbon in New Zealand.
13. The Government's concerns are mainly twofold: a reputational risk to the NZETS, from questionable environmental integrity of industrial gas CERs; and that the overall effectiveness of the ETS is being compromised, with New Zealand companies "stockpiling" cheap CERs.
14. That assessment is fine, as far as it goes, however, there is more to the issue than presented in the discussion document.
15. Possibly, the EU wishes to raise the price of carbon within their ETS to improve the cost-effectiveness of renewable energy projects. The EU might use higher carbon prices to drive the next round of emissions reductions in former Eastern bloc countries. Banning a controversial category of CER would achieve these aims.
16. On a different tack, we understand that the majority of the controversial CERs are generated in China. Perhaps, the EU is seeking to pressure China in some way, in the context of the international negotiations on climate change issues.
17. Regardless of the EU's motives, at issue is that the EU is acting unilaterally, to an extent arbitrarily, and outside of United Nations processes. This has implications for New Zealand's foreign policy and international relations if we blindly copy the EU.
18. For example, the UN is seeking to improve the workings of the CDM. The EU decision – and any New Zealand decision to follow suit - could be interpreted as undermining that work. In effect, New Zealand would be taking an early and negative position on the CDM, instead of working within the system, which could impede our ability to negotiate effectively on other issues.
19. If the EU decision has consequences for China, then New Zealand's following suit could affect our nation's relationship with China, including our free trade agreement. Did the Ministry for the Environment consult the Ministry of Foreign Affairs and Trade in preparing the discussion document? If so, it would have been interesting to read the MFAT opinion.
20. If the Government does decide to follow the EU, businesses will be tempted to believe the Government will make changes to the NZ ETS whenever the EU does anything, regardless of the merits of its actions. That would increase uncertainty in the NZ ETS, with implications for New Zealand's attractiveness for investment.

21. Then there are the impacts on carbon prices to consider, and the implications for companies with forward contracts for CERs. We note that the Business New Zealand submission comments extensively on this aspect, and support the arguments made.
22. Despite the lack of analysis presented in the discussion document, New Zealanders have been presented options of dates from which industrial gas CERs would be banned in New Zealand. This is premature.
23. It is difficult to avoid the supposition that this discussion document was rushed, unnecessarily so, because the 1 January 2012 date seems unrealistically close, and noting that the EU ban would enter into force in May 2013, and that any scheme in Australia would not enter into force any earlier than 2015.

CONCLUSIONS

24. Straterra believes there are potential dangers for New Zealand in banning industrial gas CERs, regardless of when such a ban would enter into force. The Government is urged to consider the issues raised in this submission carefully before taking any decisions or actions.