

# Submission for the ETS Review

September 2018, Wiremu Thomson

I am grateful for the opportunity to make a submission on the ETS.

Summary of comments and answered questions:

1. Exclude exports
2. Include imports
3. Have an expiry date on ETS units
4. A high, accurate, effective emissions price, and revenue given back via a UBI
5. Agricultural short-lived emissions should face a similar price to long-lived emissions
6. Only indirect international trading
7. Government's levers
8. Transition subsidies aside from UBI probably not needed
9. Five years notice creates risk for the Government and could be too long
10. ETS units sold on NZX

Question 3: Single-round, sealed bid, uniform pricing?

Question 6: Should the Government use the proceeds gained from auctioning of NZUs for specific purposes?

Question 12: Which mode of purchase for international units would be the best approach?

Question 14: How do you think decisions on a phase-down of industrial allocation should be made?

## Comments

### 1. Exclude exports

I would like exports to be excluded from the ETS so as to not unfairly disadvantage exporters competing with companies not facing an emissions price. However I feel this should be done at the per export level rather than a free allocation industry wide. Free allocations give the same benefit to everyone in the industry regardless of how much they export, and thus gives a greater benefit to those that do not export as much. For example, a business that primarily sells domestically would receive too many free units because of another possibly much larger business that has to compete overseas, which not only costs the Government money in unnecessary handouts, but also makes it harder for the exporter to compete with the mostly domestic company.

### 2. Include imports

I would like imports to be included in the ETS as a border adjustment tax or some other name so as to not unfairly disadvantage NZ businesses competing with imported products.

### 3. Have an expiry date on ETS units

I would like an expiry date on ETS units of say 1-3 years, so as to discourage speculation and not leave the government significantly out of pocket. Given emissions must decrease over time, and businesses only alternative to units may be to decrease production, and the wide range in predictions of an emissions price; I would expect the price to ultimately be significantly higher than what the Government is initially selling them for. Therefore it would be useful to have an expiry date as this would discourage investors from buying more than they need and driving up prices, and would also decrease the Government's loss from

transferring control of emissions to the private sector at too cheap a price. The Government could provide a floor price that they are prepared to buy units back at to reduce risk to investors and not cause unnecessary waste, e.g. if the Government sells emissions at a reserve price of \$100, they could offer to buy units nearing expiry for \$80 because the Government feels that the reduced emissions are worth at least that much.

This would allow the government to more easily make changes to the scheme without affecting existing property rights, reduce the risk of the government selling units at bargain prices for the private sector to take all the rewards from, and maintains a flow of units into the market. Without an expiry date, the government may find that it has issued too many units to be able to supply a healthy level to the market or be unable to sign up to new international commitments without great financial cost due to having to buy the units back at a much higher price.

I guess foresters could choose when to convert the units they earn into saleable ones with an expiry, so that their forestry units don't expire. If foresters sell their units they are probably committing the land to permanent forestry as the price would likely increase so it would be costly to harvest, and they are also taking on the liability of paying money back due to adverse weather events.

#### 4. A high, accurate, effective emissions price, and revenue given back via a UBI

I would like the emissions price to be set at an accurate level of say \$80-100 a tonne. The effect of this on businesses and households should be reduced by distributing the revenue (minus funding for emission reduction projects) back to everyone as a Universal Basic Income (though a lower income for children). The UBI would be set by deciding what the emissions per person should be and multiplying it by the emissions price. This would allow people to cope with the increased costs of an emissions price while making them aware of the actual cost of the emissions. The expected emissions per person would reduce over time as ambition and technology advances. The higher emissions price and UBI would fairly remunerate people for their efforts to reduce emissions due to the UBI paying them for more emissions than they caused. As part of this, existing emissions units would not be able to be used, and the owners would have to be compensated, as there is no way something that may have cost them as little as a few dollars is then worth \$80-100 a tonne.

#### 5. Agricultural short-lived emissions should face a similar price to long-lived emissions

Agricultural short-lived emissions do not necessarily have to face the same emissions price but should at least face a price in a similar ballpark to long-lived emissions due to both types doing equivalent damage and the urgency of mitigation to avoid risking irreversible climate change, and people would be paid back via the UBI for their expected emissions anyway.

#### 6. Only indirect international trading

I would like only indirect international trading of ETS units at least for the foreseeable future due to how the poor implementation and lack of oversight of direct trading gutted the ETS in the past.

## 7. Government's levers

The government should be able to set the emissions reserve price and the expected emissions budget per person a year in advance. The government could also set an emissions supply cap for an auction two to five years in advance, but it is probably better initially to not have a cap and see what reductions can be achieved by setting an emissions price at an accurate level. A high emissions price would be enough for businesses to think about without having to decide on a strategy for auctions as well.

## 8. Transition subsidies aside from UBI probably not needed

Given most emissions from agriculture would be exempt as they are exported to countries lacking a substantial emissions price, and consumers would still be able to purchase the same amount of products domestically because of the UBI, there would likely be no need for transition subsidies. However, it may be appropriate to pay agricultural exporters an amount per export to cover emissions costs that are harder to exempt such as farmers typically living further away from densely populated areas (thus higher costs due to increased transport, and farm asset construction material, travel expenses).

## 9. Five years notice creates risk for the Government and could be too long

Regarding the in-principle decision for a five year rolling period for supply, five years notice may create a risk to the Government if the Government ever wanted to sign up to an international emissions price, because the international price may be higher than what the Government receives at auction.

## 10. ETS units sold on NZX

Regarding secondary market information issues, I would have thought ETS units of a given type (e.g. long-lived gas ETS unit expiring in 2020) could be bought or sold on the NZX, which would record a lot of information about trades taking place.

## Answers to Questions

### Question 3: Single-round, sealed bid, uniform pricing?

If you don't have an expiry date on units then I would only support discriminatory pricing, because otherwise it seems there would be little disincentive against cornering the market. For example, a big player would bid as high as they could afford knowing they would only pay what everyone else pays and thus could sell on the secondary market at that price, but also have the opportunity to sell some at a higher price (even do their own auctions in place of the Government) or bank them similar to land in the expectation that they will be worth a lot more one day. The Government may not mind the private sector making a profit out of taking on more control of the market liquidity/efficiency work, but it means that businesses/consumers could be paying more than they need to for a core part of their business.

### Question 6: Should the Government use the proceeds gained from auctioning of NZUs for specific purposes?

As mentioned in point 4 above, the proceeds should be used for a Universal Basic Income (and funding emission reduction projects) as this allows a higher emissions price to be set, without taking too much disposable income out of peoples wallets.

Question 12: Which mode of purchase for international units would be the best approach?

As mentioned in point 6 above, only indirect trading for the foreseeable future.

Question 14: How do you think decisions on a phase-down of industrial allocation should be made?

Just get rid of industrial allocation and replace it with per export exemptions and possibly per export money credits if exemptions alone don't account for the increased cost of an emissions price. I imagine the returns exporters file to the Government would be similar to UK Value Added Tax returns. Exporters, e.g. Fonterra, would file a return to the Government with appropriate documentation showing the goods had been exported and would receive a rebate for it equivalent to the increased cost imposed by an emissions price.