

19 February 2016



Submission

to the

Ministry for the Environment

on

Emissions Trading Scheme Evaluation 2016

The strategy of buying and selling “carbon credits” can lead to a new form of speculation which would not help reduce the emission of polluting gases worldwide. This system seems to provide a quick and easy solution under the guise of a certain commitment to the environment, but in no way does it allow for the radical change which present circumstances require. Rather, it may simply become a ploy which permits maintaining the excessive consumption of some countries and sectors.

Pope Francis, Laudato Si’, #171

Summary of main points

- Reducing our carbon emissions requires our immediate and urgent action. We need to consider all possible tools and instruments, including market instruments. However, Pope Francis raises valid and significant concerns about carbon credit schemes becoming a form of speculation which permits continued excessive consumption.
- The Emissions Trading Scheme (ETS) must reduce our emissions in fact and not just on paper – as a result of this scheme there must be a reduction in the actual amount of carbon released into the atmosphere.
- The ETS alone will not be sufficient to reduce emissions. We need to consider all other options including public education and campaigns; laws and regulations which restrict or prohibit particular activities; changes to farming and business practice; and positive incentives and support for investment in renewable energy.
- There needs to be thorough economic assessment of the impact of any changes to the ETS on the poorest households in Aotearoa New Zealand.
- Measures which artificially lower the price for carbon emitters, including the “one for two surrender” and the \$25 fixed price surrender should be removed.
- The review should consider how agricultural emissions can be reduced.

Introduction

1. Caritas Aotearoa New Zealand is the Catholic agency for justice, peace and development. We are mandated by the New Zealand Catholic Bishops Conference to undertake advocacy, education, development and humanitarian programmes in Aotearoa New Zealand, the Pacific, Asia, Africa and the Middle East.
2. Through our humanitarian and development work, we are eye-witnesses to the impact of climate change and other environmental deterioration experienced by communities throughout Oceania. We advocate for environmental justice that prioritises the needs of the poorest and most vulnerable members of our international community, as well as future generations whose ability to live on a habitable planet is increasingly at risk from climate change.
3. Our work is informed by Catholic social teaching which provides a robust ethical framework to consider this and other complex social questions. The New Zealand Catholic Bishops Conference and Pope Francis have spoken about the urgent need to address the intertwined crises of poverty and environmental degradation which unfairly impact on the poor and vulnerable.
4. Catholic social teaching principles particularly relevant to climate change matters are:
 - **Stewardship:** We are responsible for caring for and protecting the gifts God has given us, including the natural environment, which is a gift for all humanity to share in.
 - **Solidarity:** We are members of one human family, and look out for the wellbeing of others, including future generations.
 - **Preferential protection for the poor and vulnerable:** We need to put the needs of poor and vulnerable people in our world as the priority in public decisions.
 - **The universal destination of goods:** The earth and all it produces is intended for every person. We are responsible for using resources wisely, so that all people in the world and future generations can live in dignity.

Climate change – a global humanitarian crisis

4. Climate change is an issue requiring our immediate and urgent attention. It is one of the most pressing issues affecting the wellbeing of people in our region, which is being disproportionately affected by the impact of rising global temperatures: resulting in increasingly severe weather emergencies, sea level rise and coastal erosion, and loss of food and water supplies. These and other impacts on Pacific communities are outlined in our recent reports *Small yet strong: Voices from Oceania on the Environment* and *Caring for our common home: Caritas state of the environment report for Oceania 2015*.
5. We all need to find ways to reduce our carbon emissions. As our Caritas Oceania partners said last year, this is a matter of life and death for people in the Pacific. Responding requires the commitment and practical action of the entire global community; by central and local government; and by communities, farmers, businesses, organisations, families and all of us as individuals. The global collective will expressed in the Paris Agreement on climate change now needs to be translated into effective national action.

6. We recognise that the costs of reducing emissions are current, immediate and quantifiable, while the benefits of reducing our emissions are less certain, distant and hard to assess. However, although the costs of moving to a low-carbon future are high, the costs of inaction are even higher. All New Zealanders understand the impact that the Christchurch earthquakes have had on our national economy, but less attention is being paid to the increasing impact of severe weather emergencies – which resulted in New Zealand insurance claims alone of \$200 million between January 2014 and June 2015. Without action to combat and reduce the impact of climate change, our country and region will experience a series of escalating weather-related emergencies which will eclipse the economic impact of the Christchurch earthquakes.

Opportunities and limitations of carbon credits and other market tools to reduce emissions

7. The discussion about the suitability and effectiveness of the Emissions Trading Scheme (ETS) as one of the tools available to the Government to reduce our national emissions is a significant question. Reducing our emissions requires all the tools and instruments available. This includes market instruments which ensure the cost of externalities are included in the price of carbon, alongside a range of other measures such as public education and campaigns; laws and regulations that restrict or prohibit specific activities; changes to farming and business practice; and positive incentives and support for investment in renewable energy.
8. Catholic social teaching neither completely opposes market tools nor puts all our faith in them. We recognise the market provides instruments which can be used for good or for evil, depending on the motivations of the people who implement them (cf *Caritas in Veritate* #36). However, there are collective needs that cannot be satisfied by market mechanisms. Saint John Paul II warned back in 1991 about developing an “idolatry of the market” which in itself is insufficient to protect common goods like the natural environment (cf *Centesimus Annus* #40).
9. Pope Francis in his encyclical last year, *Laudato Si’: on care for our common home*, specifically addressed carbon trading schemes such as the ETS: “The strategy of buying and selling ‘carbon credits’ can lead to a new form of speculation which would not help reduce the emission of polluting gases worldwide. This system seems to provide a quick and easy solution under the guise of a certain commitment to the environment, but in no way does it allow for the radical change which present circumstances require. Rather, it may simply become a ploy which permits maintaining the excessive consumption of some countries and sectors.”
10. While not ruling out carbon trading, Pope Francis does highlight its limitations. The experience and implementation of the New Zealand ETS for its first seven years illustrates exactly his reasons for doubt. The government’s own evaluation of the ETS¹ concludes that only forestry achieved actual emissions reductions as a result of the ETS in the first Kyoto Commitment period of 2008-12 (CP1). In the final year of that period, these reductions equated to only 0.2% of New Zealand’s net emissions for the year. The report also found that, “because of the low

¹ Ministry for the Environment, 2016: *The New Zealand Emissions Trading Scheme Evaluation 2016*, February 2016, pp 21-22.

carbon price over most of CP1, the NZ ETS has not significantly influenced domestic emissions or business decisions.” (p 5). Even if we have managed to meet our international obligations in the Kyoto Protocol, we have not certainly not met the “spirit of the law”, nor one of the two primary objectives of the ETS – to reduce our net greenhouse gas emissions.

11. Our evaluation of the Emissions Trading Scheme and any other market or State mechanism intended to reduce emissions must be considered from the viewpoint of the following principles:

- Our use of the Emissions Trading Scheme must be carefully scrutinised to ensure that it does not become a form of speculation or a ploy which maintains our current levels of consumption, as Pope Francis warns.
- Emissions must be reduced in actuality, not just in theory. They must follow the spirit and not just the letter of the law – it is of no benefit to New Zealanders and our neighbours in the Pacific if carbon emissions are achieved on paper but have no impact on global temperatures. As a result of this scheme there must be a reduction in the actual amount of carbon released into the atmosphere.
- We need to ensure a just transition – we need to consider the impact on the poor and vulnerable in Aotearoa New Zealand, and to ensure that the costs of our transition to a low-carbon future is not borne only by particular sectors, communities or individuals, but are shared in a socially just way across society.
- Our use of emissions trading, carbon credits, carbon taxes and any other market instruments must be ethical – if we become aware that credits have been provided or obtained fraudulently, we must not depend on them for meeting our global commitments to reducing emissions.
- The Emissions Trading Scheme will not in itself be sufficient to reduce our carbon emissions. All other tools and instruments available to us to reduce emissions must be considered and used.

Focus on achieving real emissions reduction

12. The NZ ETS objectives are twofold, to:

- assist New Zealand to meet its international obligations under the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol (the Protocol);
- reduce New Zealand’s net emissions of those gases to below business-as-usual levels.

In our opinion, the ETS has been overly focused on achieving the first goal, though valid questions are being raised about the legitimacy of some of the units traded. The Paris Agreement has signalled stronger control of international carbon trading, and the extent to which countries can use international carbon trading to achieve their emissions target is currently uncertain post-Paris.

13. The ETS needs to be changed in whatever ways will help reduce emissions as quickly as possible. We need to have at the forefront of our minds, the human and long-term costs of inaction or

not enough climate action, rather than emphasising the financial costs to our country and businesses.

Assessment of the impact on poor

14. Economic assessment of the ETS must be done to ensure that any changes to the Emissions Trading Scheme do not detrimentally affect New Zealand's poorest households. Costs must be shared more fairly, so that any detrimental effects of the transition we are making to a low carbon future are not left to fall on specific sectors, or vulnerable communities or individuals.

Specific measures for emitters

15. The government needs to remove as soon as possible measures which artificially lower the carbon price for emitters. Polluters are not paying "their fair share", undermining one of the two main objectives of the scheme. With regard to the specific priority issues identified in the review, we recommend the following.
16. The NZ ETS should move to full surrender obligations for participants from liquid fossil fuels, industrial processes, stationary energy and waste sectors as soon as possible – this should happen this year. The current "one-for-two surrender" obligation means emitters effectively pay half price for the carbon they emit. The one-for-two surrender was only meant to be transitional to deal with the 2009 global financial crisis, and the last ETS review recommended that it be phased out by 2015. There should not have to be further consultation to see if it should be extended.
17. With regard to the \$25 fixed price surrender option, this should be removed as soon as possible, either immediately or in a gradual way to manage costs, as recommended by the 2011 Review Panel. However, consideration of the impact of costs should place a higher priority on costs to ordinary people, especially the poorest, rather than financial costs to businesses (see paragraph 14 above). We need to move a position where polluters are paying the real costs – in financial terms – of their impacts.

Exclusion of agriculture from scheme

18. The review is specifically excluded from reconsidering the current exclusion of agricultural emissions from the scheme. We believe this is wrong and misguided. Agricultural emissions make up almost half of New Zealand's total emissions. New Zealand needs to face up to its obligations and not wait for "viable and practical technologies". There are other ways of doing agriculture that can reduce emissions, while providing other environmental and social benefits without necessarily reducing productivity.
19. For example, we are aware of research by agribusiness consultant and veterinarian, Alison Dewes² that indicates New Zealand dairy farms could achieve a 30 percent reduction in total

² Alison Dewes, January 2016: "Reducing Greenhouse Gases from the Agricultural Sector", presentation at Institute for Governance and Policy Studies seminar, "The Paris Agreement on Climate Change: How New Zealand can up its game", 27 January 2016.

greenhouse gas emissions while increasing profits through changes in farming practices based on optimised, highly productive, well-fed, but fewer stock. Her integrated approach would also result in improvements to water quality.

20. The government needs to consider all options available to reduce carbon emissions, including those from agriculture. We need to implement whatever changes are possible now, and not depend only on the hope of future technological fixes.

Conclusion

21. The Emissions Trading Scheme alone will not be sufficient to ensure that New Zealand contributes towards the goal in the Paris Agreement of keeping temperature rises below 1.5 percent. The ETS and any other mechanism used by the government must be carefully scrutinised to ensure it is best structured to meet its goal. But we need to ensure that every possible option and instrument is used to move towards a low-carbon future. A viable future for our children and coming generations depends on the actions we are taking today.