

Guardians of New Zealand Superannuation (GNZS) response to the New Zealand (NZ) Emissions Trading Scheme (ETS) Review 2015/16: Priority Issues.

Introduction

We welcome the opportunity to comment on the New Zealand (NZ) Emissions Trading Scheme (ETS) Review 2015/16: Priority Issues. The NZ ETS is the cornerstone of NZ's climate change policy and a principal tool towards meeting its international obligations.

We support a well-functioning policy framework that delivers certainty for companies and investors and provides a robust price signal to help manage climate change risks.

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

The Government sees four key drivers for reviewing the New Zealand Emissions Trading Scheme (NZ ETS):

- improving performance of the NZ ETS against its objectives
- preparing for a more carbon-constrained future
- increasing certainty about future policy settings
- managing banked emissions units.

A. Yes. We agree that these should be the key drivers but the factors referred to in our answer to Q2 below are also important.

Q 2: What other factors should the Government be considering in this NZ ETS review?

A.

- The review should also include long-term economic factors. As a long-term investor we analyse the New Zealand and global markets over the long-term, including the impacts of climate change. All parties need to consider a) the long-term risks of delaying full carbon price exposure, and b) the long-term economic benefits to the New Zealand economy of properly pricing carbon and being prepared for a low-carbon future. Many of the companies that we invest in are likely to face increased short-term costs if the government were to move to full surrender obligations. However, they face long-term risks from the status quo. Moreover, other companies that we invest in potentially benefit from greater policy certainty and durability and the stronger incentive to pursue innovative low-carbon alternatives.
- In addressing the short-term impacts, the consultation document may also consider the competitive advantages that an even playing field confer to those firms that have already invested in mitigation solutions over the previous decade, and the material cost savings for firms from investment in energy efficiency.

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- Under “Other issues”, the review of “addressing barriers to uptake of low emissions technologies” should include how to encourage investment in a range of low-carbon solutions and adaptation measures including infrastructure. Whether New Zealand’s existing low-carbon electricity system can be leveraged as a competitive economic advantage could also form part of the review.

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

A. Yes.

- We support the development of efficient carbon pricing in NZ and internationally. A move to a full surrender obligation for the liquid fossil fuels, industrial processes, stationary energy and waste sectors, under the NZ ETS, is consistent with that.
- Currently, climate change is a negative externality where prices do not reflect the full cost of producing a product or service. Internalising the carbon costs helps with the proper pricing of risks, so that market valuations of assets are less exposed to the uncertainty or unpredictability of future regulation.

For a long-term institutional investor, moving now to proper pricing of carbon risk is likely to deliver winners and losers within our portfolio, and winners and losers across different time horizons. Market forces including carbon pricing will drive transition of products or services in impacted sectors.

- On the other hand, unchecked climate change, or a delayed or poorly managed transition, poses a systemic risk to the global economy, increasing the risk of lower company and portfolio returns over the longer-term.
- Stable and economically meaningful carbon pricing will help reduce long-term portfolio risks and increase certainty around investment in low-carbon alternatives.

Submission Details:

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