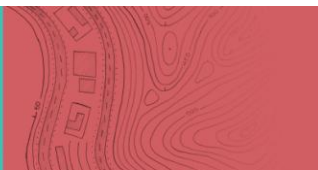


Clear price signals for a transition to low emissions

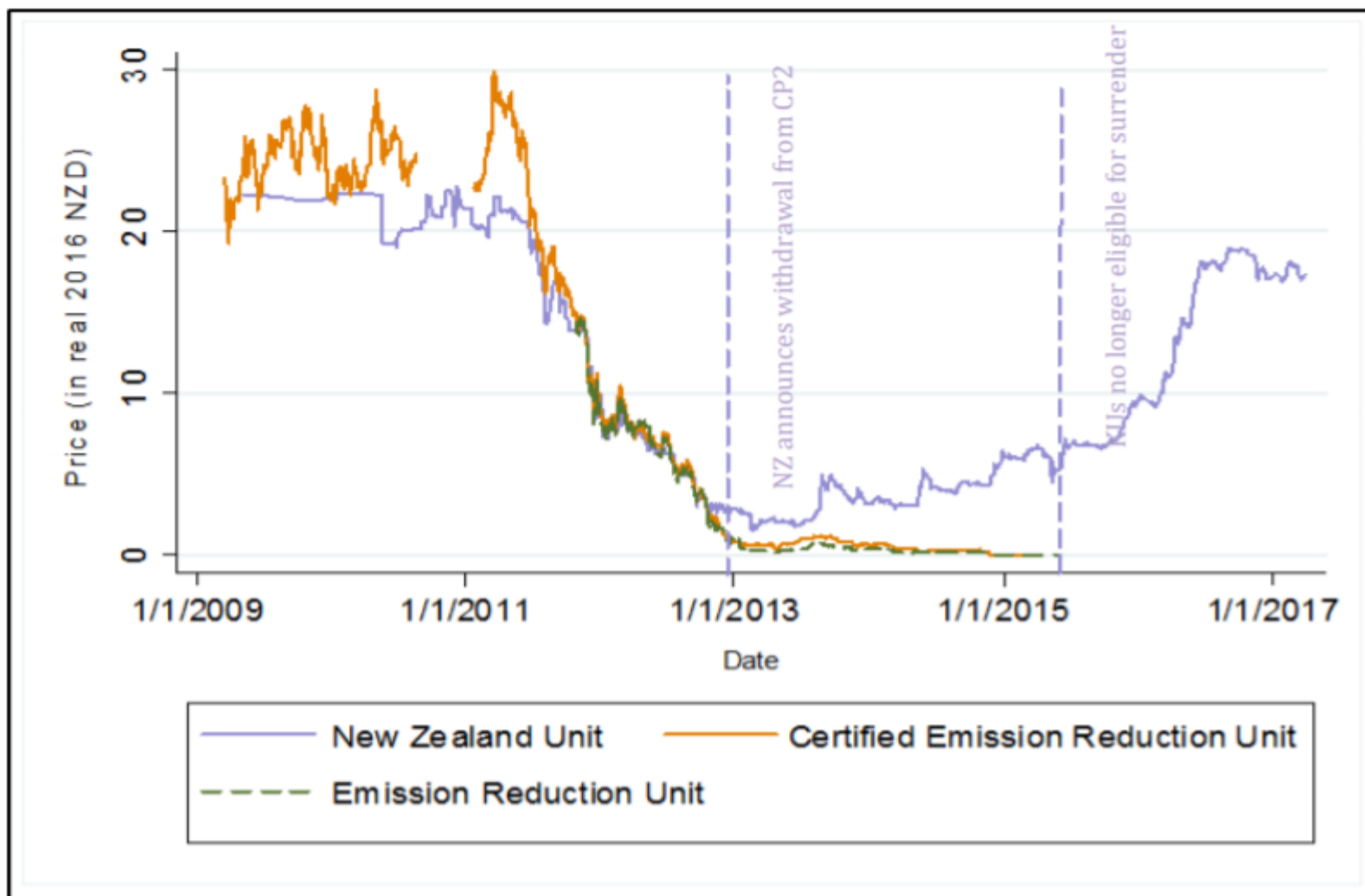
Climate Change and Business Conference
Auckland, October 2017

Suzi Kerr, Motu Economic and Public Policy
Research and Victoria University



ETS linking is risky – especially for the small

Uncertainty on unit supply and price has hindered low-emission investment



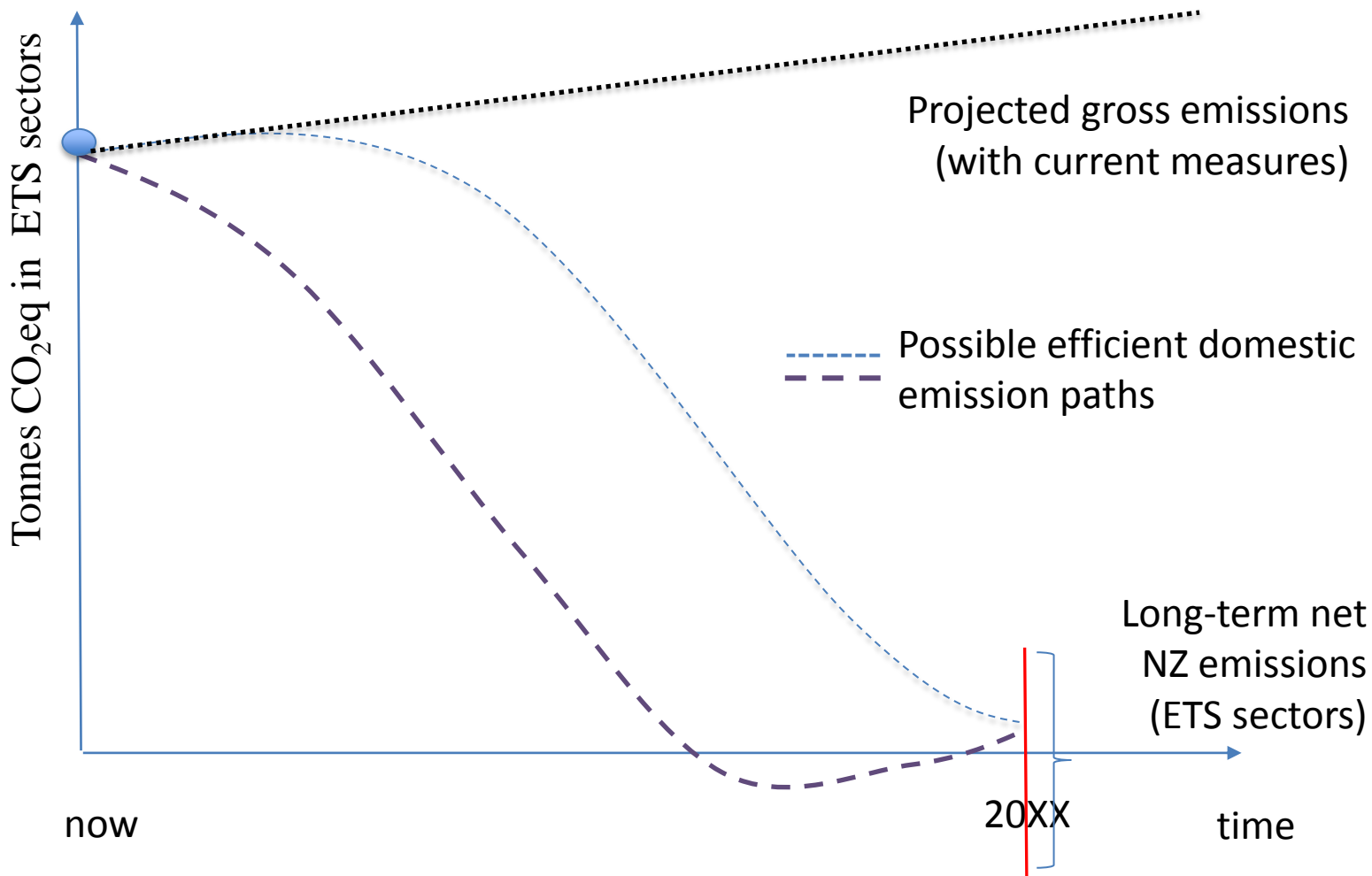
Context

Emissions pricing enables low-emission investments and activities to compete

The Paris Agreement creates a new context for both domestic action and global carbon markets

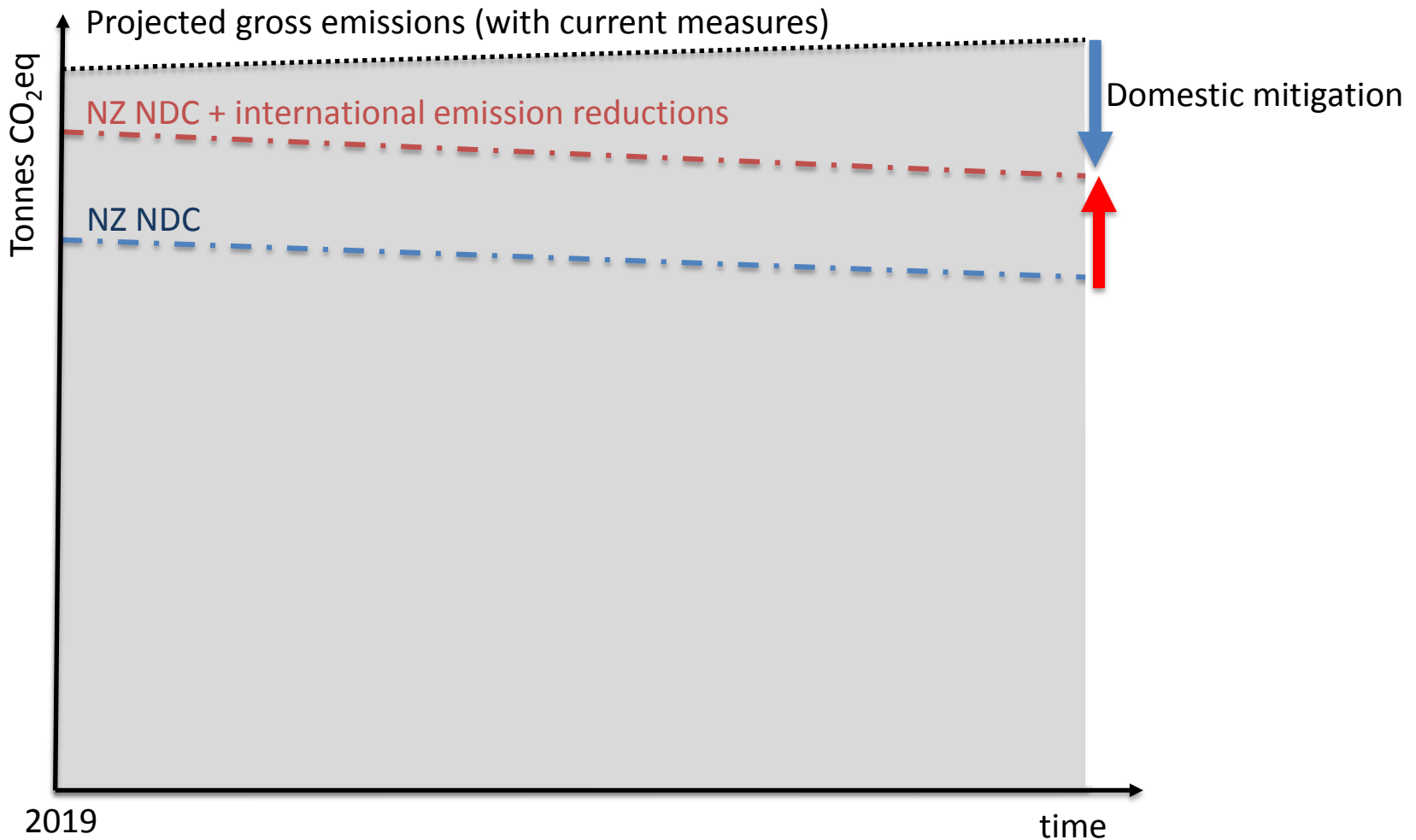


What is an efficient emissions path for NZ?



Align the Cap with targets

Not drawn to scale



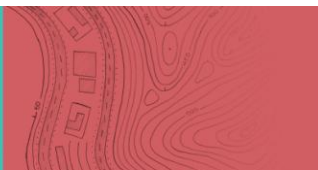
International emission reductions

1. We need them – and they are part of our global contribution
2. We can't buy them from the UN mechanism or through ETS linkage – yet – and may not want to even if we can
3. Government should control the amount of international emission reductions; unlimited linkage implies
 - loss of control of price; and
 - loss of control over domestic decarbonisation
4. Conclusion: Purchasing should be led by government (the only option now), and any future purchase-and-surrender by ETS participants should be limited and not affect total supply

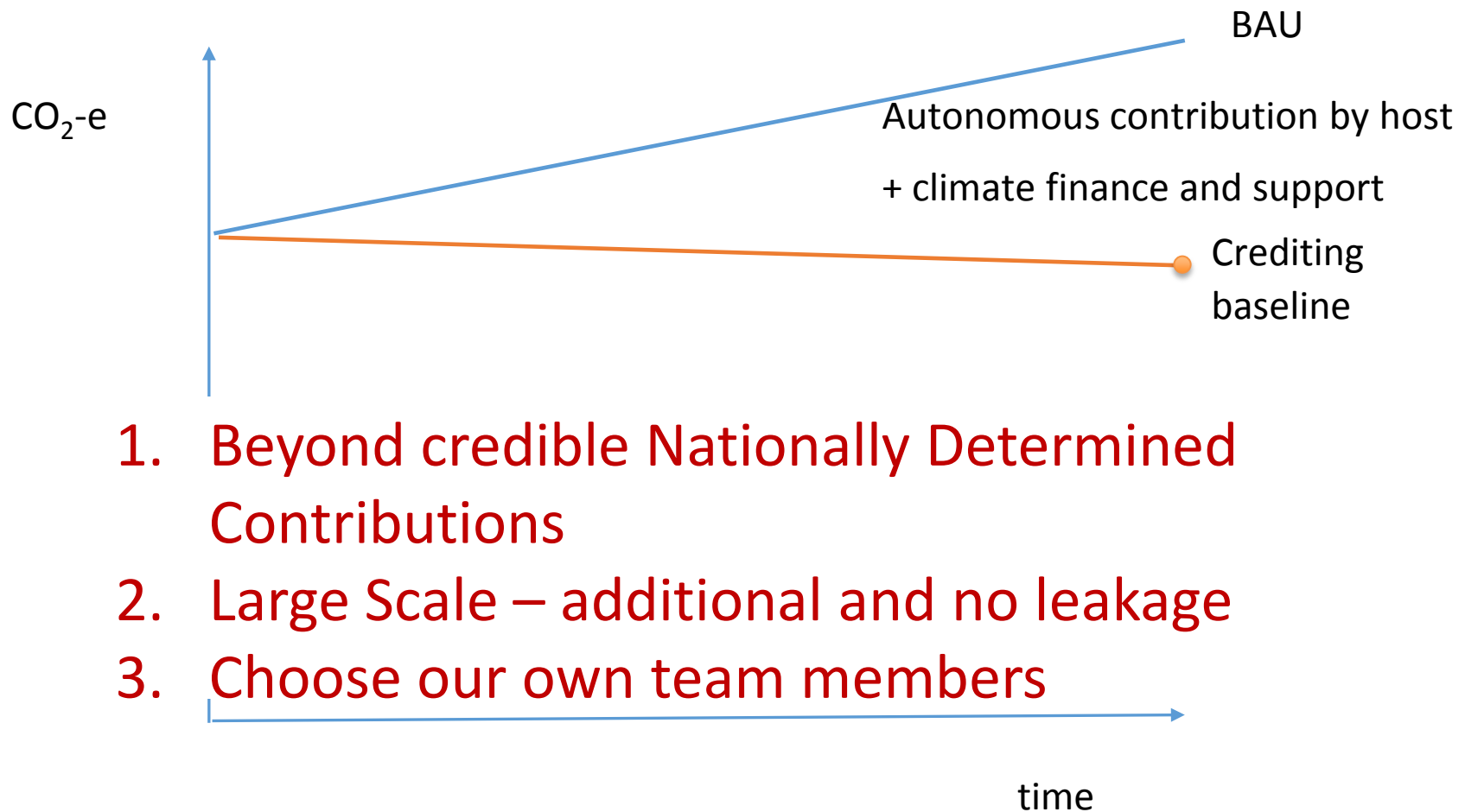


'Climate Teams'

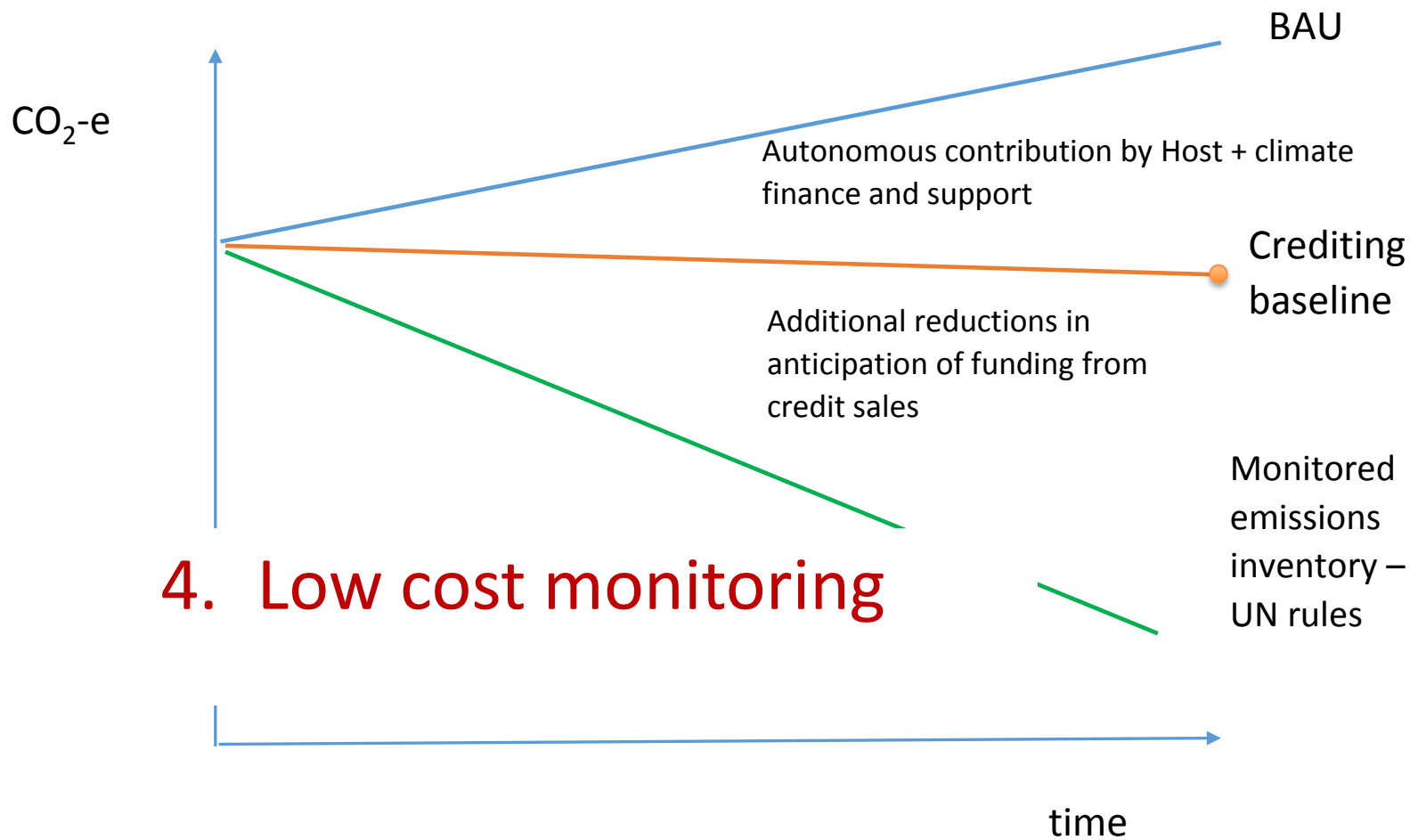
- working together to accelerate others' low emission transitions



Climate team model



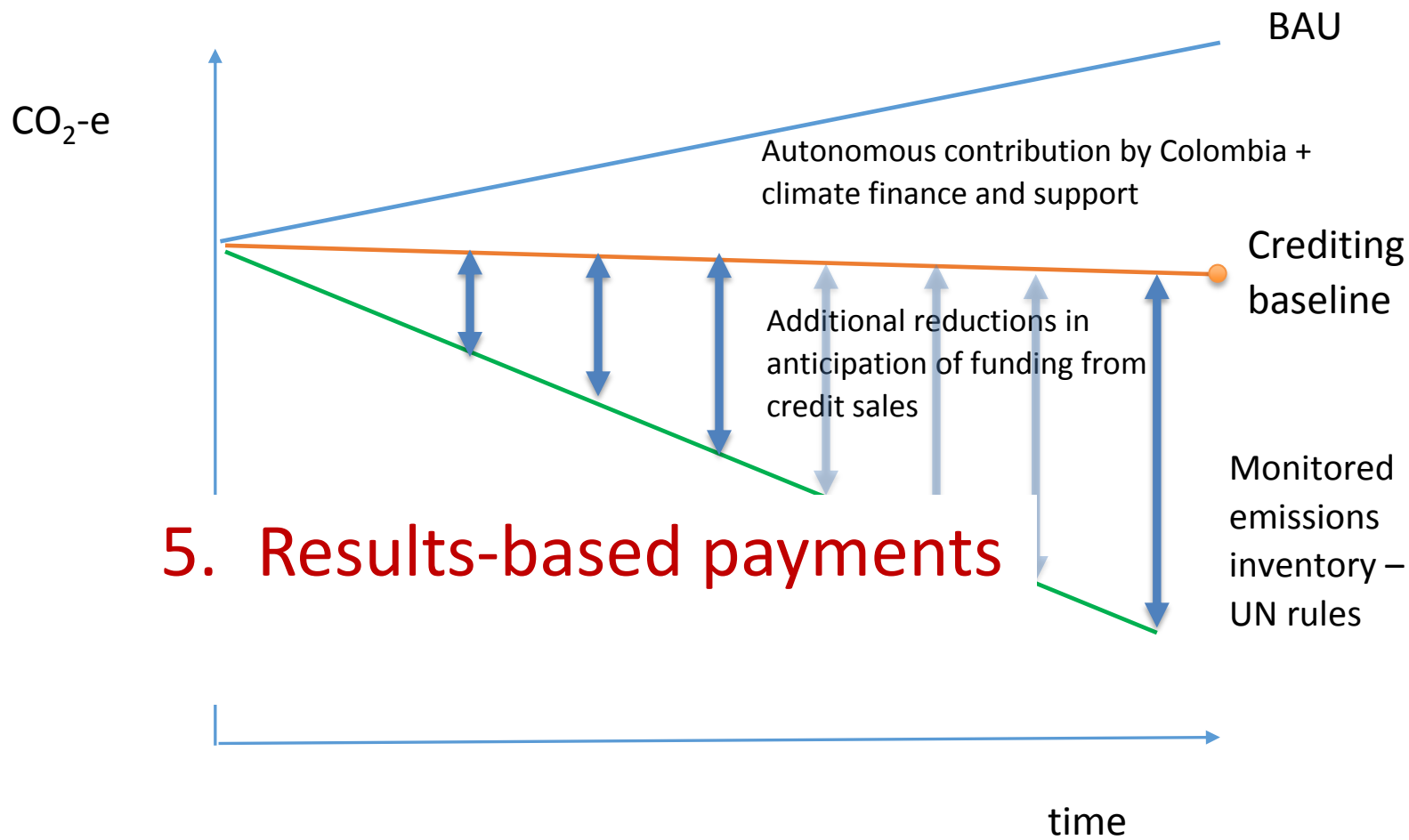
Climate team model



4. Low cost monitoring



Climate team model



Climate team

1. Agree on a crediting baseline – at least as ambitious as NDC
2. Use ‘climate finance’ strategically to help host country reach NDC
3. Agree on a minimum credit price – to protect the host

The investor is required to pay at least this amount

4. Agree on a maximum credit price – to protect the investor against high international prices

The host may not sell to others unless the investor agrees

5. Agree on a level of funding committed in advance by the investor

Once this is spent on credits, the contract ends

6. Complement contract with aligned finance and expertise

Aligns incentives of all with low emissions transition



Managing supply and prices

Environmental effectiveness

Domestic decarbonisation

Global contribution

Policy and price predictability

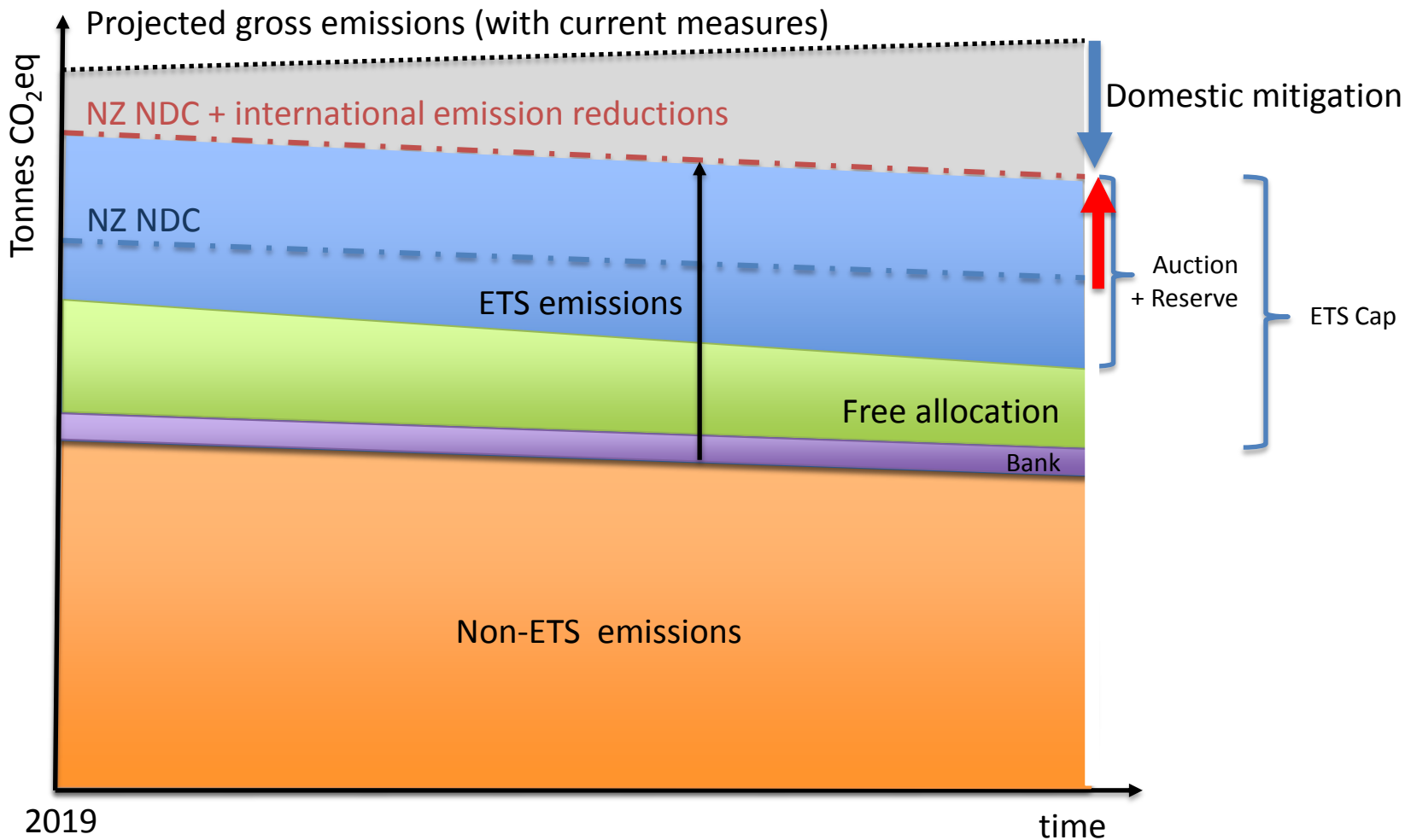
Efficient and cost-effective transition

Balance between certainty and flexibility



Align the Cap with targets

Not drawn to scale



Core proposal

1. The **NZUs** enter the market through auctioning, free allocation, removals, and banking
2. Government manages ETS supply through an annual **Cap** on auctioning and free allocation with a **Unit Reserve**
3. The market sets the price with **Price Band** safeguards, managed through the Unit Reserve
4. The Cap and Price Band are set in advance for 5 years, extended by 1 year each year, and guided by 10-year **Cap and Price Band Trajectories**; review is triggered when the Unit Reserve nears depletion or by a *force majeure* event
5. An **independent body** provides advice to government on ETS supply and price



Key messages

NZ's pathway to meet long-term targets needs to strategically balance domestic decarbonisation and international emission reductions.

Purchasing international emission reductions needs to be managed by government – both quality and quantity.

The NZ market needs clear and predictable price signals for domestic decarbonisation.

These proposed changes align with the existing legislative framework.

