



EMISSIONS TRADING SCHEME

BACKGROUND PAPER 7: CLIMATE CHANGE/EMISSIONS TRADING SCHEME (prepared by Sacha McMeeking, Ngai Tahu)

Introduction

Climate Change is one of the most challenging global issues of the contemporary era. The international community recognised in the early 1990s that the climate system was changing, with potentially devastating results for environmental, human and economic well being, and that a co-ordinated global response was needed urgently. The result was agreement to the United Nations Framework Convention on Climate Change (the Convention) and slightly later, the Kyoto Protocol. The Convention sets a high level framework for international collaboration efforts to tackle the challenges posed by climate change through sharing information, developing strategies together and the like. The Kyoto Protocol builds on the Convention by setting binding targets for developed countries to reduce their greenhouse gas (GHG) emissions to an average of five per cent against 1990 levels by 2012 and imposing liabilities if those targets are not met.

New Zealand sought to implement a national system to give effect to the Kyoto Protocol through the Emissions Trading Scheme (ETS). However, this has not been a simple undertaking as:

- The former government enacted an ETS at the end of its term, which was contentious because it was rushed through and created retrospective obligations (people became liable from January 2009, but the legislation was not passed until September 2009). There were also strong opinions that the balance between different sectors was inequitable;
- The current government enacted a new ETS in November 2010. This ETS is also contentious because it was seen to be rushed as well and there were similarly, strong concerns about whether the balance between different sectors was equitable and more so, capable of delivering reduced carbon emissions;
- New Zealand's carbon emissions have not reduced from 1990 levels, rather, they have continued to increase; and
- The global framework is uncertain. The Kyoto Protocol created obligations for the period between 2008- 2012 (known as the first commitment period), however, the nature and extent of state obligations after 2012 are still being negotiated within a contested international environment that is seeing a philosophical and practical tussle between developed and developing nations. It was hoped that the Copenhagen conference of the parties would provide some direction, but it largely did not.

The Iwi Leaders Group on Climate Change was established in October 2007 to support Iwi, hapū and Māori land owners to participate in the policy development preceding the two ETS's, engage with the Crown on the shaping of the schemes, and, more recently, support participation in New Zealand's delegations to the international negotiations. This paper provides an overview of:

- The potential impact of climate change and the ETS on Iwi and Māori;
- The work of the Iwi Leaders Group to date; and
- Next Steps.

Impact of climate change and the ETS on Iwi and Māori

Climate Change

Climate change has the prospect of affecting Iwi and Māori to potentially the same extent as colonization, and in disturbingly similar ways. As global warming occurs, the landscape will change and our relationship and interactions with our territories will necessarily change with flow on effects on the revitalization and retention of mātauranga Māori. For example, consider the flow on effects of the two readily foreseeable scenarios;

- Global warming will lead to the salination of rivers, which will affect the fish species and wider ecology of water ways – this will impact on our customary practices pertaining to awa in manifold ways; or
- Carbon pricing and oil reserves may impact on the ability of our people to travel from their place of residence to marae, wāhi tapu and/or mahinga kai.

There appears to be a growing awareness of the impact of climate change over the next 30-70 years amongst Māori and wider communities, however, it is difficult to identify how to best respond to a climate change. It is likely that Iwi and Māori will need to consider two inter-related strategies across our whānau, hapū, Iwi and commercial spheres:

- Adaptation – learning how to adapt to climate change so that we can be more resilient to our current climate, less susceptible to the impacts of future climate change and in a position to take advantage of opportunities.
- Reduction – committing to reducing carbon emissions in daily and commercial activities, identifying ways to take carbon out of the environment and developing green technologies.

Emissions Trading Scheme

The emissions trading schemes were one part of New Zealand’s response to climate change. Both the former and current scheme were designed to incentivise commercial operators to reduce their carbon emissions. The scheme operates by the government imposing liabilities on certain carbon emitting activities (e.g. cutting down a tree or methane production from agriculture) and rewarding activities that take carbon out of the environment (e.g. planting a tree because trees take up carbon). The liabilities and rewards are dealt with in a new form of currency- a ‘carbon credit’ (known as an NZU, standing for New Zealand Unit). Emitters pay for their emissions through surrendering carbon credits, and those taking carbon out of the environment earn carbon credits. Because there is a new currency, in the form of the NZU, the scheme also creates a ‘carbon market’, and people have the ability to buy and sell NZU’s essentially in the same way as the stock market operates.

The scheme aims to reduce carbon emissions by imposing liabilities on emitters according to how much carbon they emit, and are required to surrender one NZU for each tonne of carbon released into the atmosphere. However, there are some exceptions to this rule during the transitional period while sectors progressively enter the scheme and incur liabilities.

The scheme includes the major emitting sectors, and each is progressively transitioned into the scheme as set out in the table below:

Sector	Voluntary reporting	Mandatory reporting	Full obligations
Forestry	-	-	1 January 2008
Transport fuels	-	1 January 2010	1 July 2010
Electricity production	-	1 January 2010	1 July 2010
Industrial processes	-	1 January 2010	1 July 2010
Synthetic gases	1 January 2011	1 January 2012	1 January 2013
Waste	1 January 2011	1 January 2012	1 January 2013
Agriculture	1 January 2011	1 January 2012	1 January 2015

The sectors are transitioned into the scheme by receiving an initial allocation of NZUs and some industries also face a reduced liability for a specified period.

The scheme is politically contentious for a number of reasons, including;

- *Market mechanism* – the scheme uses a market model of being able to reduce their emissions and trade carbon to cover their liabilities. Some consider that the market provides the most flexible and efficient way for commercial operators to manage their carbon emissions and liabilities. However, there are some who think that market mechanisms are too flexible and allow emitters to trade their way out of reducing their emissions, which does not help abate climate change. Some also object to carbon credits which they see as amounting to a property right in pollution.
- *Equity between sectors* – the time of entry and amount of free allocation was hotly contested through both rounds of developing the scheme, with each sector asserting they faced too hard a burden under the schemes. The rationale for the free allocation was either that; the sector was trade exposed, in that international competitors did not face carbon liabilities/costs because only a few other states have enacted schemes and/or the allocation was to compensate for loss of value of an asset, for example, forestry land now has a lesser value than prior to the scheme because the liability for deforestation has negatively impacted on land value.
- *Costs on tax payers* – New Zealand will face an international liability if our Kyoto targets are not met. The emissions trading scheme will reduce our liability to the extent that it reduces carbon emissions and promotes taking carbon out of the environment. However, if the scheme is not successful, our national liability will be higher and the tax payer will inevitably pick up the short fall.
- *Household impacts* – the scheme is also likely to impact on every household because emitters are likely to pass on costs to consumers/householders were they consider it is possible/appropriate. There are a range of estimates about how much cost increase householders will experience.

Impact of the ETS on Iwi and Māori

The scheme impacts on Māori in environmental, economic and social ways, both positively and negatively including:

- *Environmental Impacts* – as discussed above, the scheme aims to contribute to better environmental outcomes but in an indirect way. This creates risks for sustainability as climate change continues, but also leadership opportunities for Iwi and Māori;
- *Economic Impacts* – Iwi and Māori assets are concentrated in the primary sectors (agriculture, forestry and fishing) which fall within the scheme and will therefore experience liabilities under the scheme. In the agricultural sector, Iwi and Māori are at risk of facing higher liabilities because the free allocation is likely to be

measured according to productivity at a specified historical date, but because Iwi and Māori farms were typically under-productive at that time and likely to have improved over the intervening period and continue to do so until entry date. In the forestry sector, Iwi and Māori are in the unique position of being able to obtain forest land from the Crown through Treaty Settlements. However, this class of tree (in existence before 1990) faces deforestation liabilities, so Iwi and Māori are at risk of being locked into forestry in perpetuity even where the land has higher and better use. In the fisheries sector, Iwi are in a unique position because the assets derive largely from a Treaty settlement. Iwi and Māori are also exposed through our participation in tourism which will be impacted by the increase in fuel costs and global tourism patterns in response to climate change.

- *Social Impacts* – Iwi and Māori will also be significantly impacted by any transfer of costs to consumers and householders because we are disproportionately represented in the lower socio-economic classes.

Iwi Leaders Group

The Iwi Leaders Group on Climate Change was established in October 2007 and since then has worked on the following:

- *Iwi and Māori Understanding of the ETS* – the ILG has convened a number of regional and national hui since 2007 to discuss the ETS at policy and legislative stages.
- *Advocacy with the Crown* – the ILG has engaged with the policy and legislative processes, including presenting submissions on both Bills and meeting with Ministers to discuss providing for the rights and expectations of Iwi and hapū. In respect of the current scheme, the ILG also worked collaboratively with the Māori Party;
- *Support for Iwi and Māori with Specific Interests* – the ILG has also supported Iwi and Māori land owners with specific interests under the scheme to have their unique situation addressed by the Crown. This included the five Iwi who were uniquely affected by the scheme eroding the value of Settlement assets arising from the Crown knowing at the time forestry assets were transferred that the scheme was imminent but not disclosing the impact of it on the value of their assets.

The ILG has sought to uphold the following principles as paramount considerations in any response to climate change:

- a. *Kaitiakitanga* – as a principle embedded in our traditions that is fundamental to our approaches to human interactions with the environment;
- b. *Intergenerationalism* – recognising that Iwi have inextricable links to our ancestral lands and view responses to climate change within an intergenerational framework that considers the implications of change as at 100 years into the future and according to the legacy we will leave future generations.
- c. *Iwi economic interests* – recognising that Iwi and Māori span concurrently across most if not all the key sectors of the economy, with particular concentration in the primary sector including major interests in forestry, agriculture, fishing, and increasingly in the energy sector. Noting that many Iwi and Māori assets have been artificially locked into underdevelopment, we place priority on equitable economic outcomes from responses to climate change that do not disadvantage the situation of Iwi and Māori assets and development aspirations.
- d. *Equitable outcomes* – being wedded to protecting the situation of our vulnerable whānau, who are disproportionately represented in all measurable social indices and therefore particularly exposed to the transfer of costs as a result of responses to climate change.

The tangible outcomes that the ILG sought included:

- *Whānau* – to reduce the costs experienced by whānau;
- *Forestry* – to find and secure ways for Iwi and Māori to not be locked into forestry so as to preserve the development choice our people have a right to;
- *Agriculture* – to find and secure ways for Iwi and Māori agriculture to not be disproportionately impacted on by the scheme;
- *Fisheries* – to secure allocation for the fisheries sector that was of benefit to Iwi and Māori;
- *Research* – to get commitments to research targeted and response to Iwi and Māori interests;

- Wider policy context – to drive for more comprehensive policy change that supports environmental sustainability; and
- Specific accommodation for Iwi and Māori organizations in a unique situation.

Under the first scheme, the ILG secured the following commitments from government;

- That government would pursue offsetting in the international negotiations – off-setting is a way of preserving development choice in respect of forestry. Off-setting means that deforestation liabilities do not have to be paid if replanting occurs on a an alternative site (currently, the international community will only recognise planting if it happens on the same site). And, if secure internationally would implement it in the domestic framework;
- The creation of a trust to manage, on trust, the carbon credits allocated to forestry lands that will be transferred at a future date in Treaty Settlements.

Under the current scheme, working closely with the Māori Party, the following outcomes were achieved:

- Treaty clause –inserted into the legislation to provide for guaranteed Iwi and Māori participation in future reviews of the scheme;
- Commitment to progressing a Crown- Iwi afforestation partnership. This partnership would see the Crown and Iwi investing in the regeneration and planting of trees on Crown land so as to accrue carbon credits. It is intended to be a double dividend investment that delivers both economic and environmental outcomes, the latter through increasing national biodiversity. The partnership also has the potential to provide for zero cost land use change for forestry owners if it is structured in a particular way.
- Commitment to research targeted and responsive to Māori agricultural needs to support the reduction of carbon emissions and uptake of complimentary/enabling technology;
- Fisheries sector allocation of carbon credits to quota owners so as to provide maximum benefit to Iwi asset holders;
- Commitment to continued membership in the state delegation to international negotiations;
- Commitment to ongoing engagement with Iwi and hapū; and
- Specific accommodation of five Iwi uniquely affected by the scheme to an amount commensurate with their loss.

Next Steps

The next steps in respect of the ETS include:

- Progressing the work on the Crown-Iwi afforestation partnership – there have been a number of hui across the country on this partnership that secured majority support (in principle and on a conditional basis). The next step is to progress the technical work and convene further regional hui, and perhaps discuss the issue again at a national hui. The key work that is ongoing at present is on; suitable terms for the partnership, developing an entity that reflects the collective nature of the partnership and the distinct rights of mana whenua over their rohe, identifying prospective sites for regeneration and planting and refining the economic modeling work; and
- Considering further collective work on climate change related policy, specifically including research that supports environmentally sustainable commercialism.

Below is an overview of the Crown-Iwi afforestation partnership.

Crown- Iwi Afforestation Partnership

The Crown- Iwi afforestation partnership is designed to be a public-private partnership in environmental infrastructure. The business of the partnership is in the regeneration and planting of trees, both indigenous and exotic, and the commercial value comes from accruing and trading carbon credits. It can be called 'environmental infrastructure' because we need trees to be planted as a nation for both environmental reasons and to reduce our international liabilities under the Kyoto Protocol.

At a high level, the benefits to Iwi are likely to include:

- Provides for values aligned investment opportunity that will secure environmental outcomes;
- Provides for Iwi to expand the control that can be exercised over their ancestral landscape;
- Provides for multi-iwi commercial collaboration that supports drive for kotahitanga;
- Regional and labour force development could be supported/facilitated in the form of supply contracts with regional nurseries and the like

At a high level, the benefits to the Crown are likely to include:

- National and environmental good through the direct outputs of afforestation including;
 - Contributions toward Kyoto targets
 - Biodiversity, water quality, conservation and amenity values;
- Supports policy development in respect of Crown-Iwi commercial partnerships
- Iwi partners are safer, more strategic alliances than the private sector in environmental matters because of high strategic alignment and accountability to the ultimate environmental good.

The value proposition for the partnership depends on the type of species planted, because each species has a different rate for taking up carbon, and also on the value of carbon credits over time. At a high level however, the partnership could have a very positive yield that exceeds the standard ROI's that Iwi and Māori asset classes are experiencing currently.

Modeling work on the yield has been completed and presented to the regional hui in late 2009 and will be presented to the national hui on the 4th February 2009. The Iwi that have indicated initial support (in principle and conditional) include:

IWI/HAPU

A. Te Wai Pounamu/Tauihu

1. Ngai Tahu
2. Tainui – Taranaki (4 Iwi)
3. Kurahaupo (3 Iwi)

CONTACT PERSON

Mark Solomon/Sacha McMeeking
Roma Hippolite/Sharon Gemmell
Richard Bradley/John Patterson

B. Tairāwhiti

4. Ngati Kahungunu
5. Ngati Pahauwera
6. Ngai Tamanuhiri
7. Te Aitanga a Mahaki
8. Nga Ariki Kaiputahi
9. Rongowhakaata
10. Ngati Porou

Ngahiwi Tomoana/Morry Black
Tureiti Moxon/Grant Powell
Dawn Pomana
John Ruru
Owen Lloyd
Stan Pardoe/Ronald Nepe
Dr Apirana Mahuika/Selwyn Parata

C. Mataatua

11. Ngati Awa	Sir Harawira Gardiner/Jeremy Gardiner
12. Ngati Tuwharetoa ki Kawerau	Anthony Olsen
13. Ngati Manawa	Maramena Vercoe/Kani Edwards
14. Ngati Whare	James Carlson/Bronco Carlson
15. Ngati Ranginui	Lisa Gardiner

D. Te Arawa/Tuwharetoa

16. Tapuika	George Skudder/Pia Callaghan
17. Ngati Whakaue (including ki Maketu)	Tupara Morrison/Jason Rogers
18. Ngati Rangitihia	Graham Pryor
19. Te Pumautanga o Te Arawa	Eru George/Wallace Haumaha/Rawiri Te Whare ☒ Ngati Pikia; Ngati Tarawhai; Ngati Rongomai ☒ Ngati Kea/Tuara; Tuhourangi/Ngati Wahiao ☒ Ngati Tahu/Ngati Whaoa.
20. Ngati Tuwharetoa	Ariki Tumu Te Heuheu/George Asher

E. Hauauru

21. Ngati Rangia	Che Wilson/Debbie Te Riaki
22. Te Atihaunui a Paparangi	Sir Archie Taiaroa/Nancy Tuaine
23. Ngati Apa	Adrian Rurawhe/Toko Kapea
24. Nga Rauru	Esther Tinirau
25. Ngati Mutunga	Jamie Tuuta
26. Ngati Maniapoto	Tiwha Bell/Keith Ikin/Weo Magg
27. Rereahu	Piripi/Crown
28. Waikato – Tainui	Tukuroirangi Morgan/Tim Manukau
29. Ngati Koroki Kahukura	Karaitiana Tamatea/Steven Wilson
30. Raukawa	George Rangitutia/Chris McKenzie/S Clair
31. Hauraki Iwi	Toko Renata/Harry Mikaere
32. Ngati Kauwhata	Sir Taihakurei Durie/Dennis Emery

F. Taitokerau

33. Ngapuhi	Sonny Tau/George Riley/Will Wilson
34. Ngati Hine	Pita Tipene
35. Ngati Wai	Haydn Edmonds
36. Te Uri o Hau	Rawson Wright