

Submission by



to the

## **Ministry for the Environment**

on the

## **Proposed changes to New Zealand Emission Trading Scheme (ETS) and synthetic greenhouse gas levy (SGG) regulations 2021**

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## **INTRODUCTION**

1. BusinessNZ and BEC<sup>1</sup> welcome the opportunity to provide feedback on the consultation document *Proposed changes to New Zealand Emission Trading Scheme (ETS) and synthetic greenhouse gas levy (SGG) regulations 2021*.
2. We support the objective of transitioning New Zealand and the global economy to a net zero emissions future. We agree that global emissions should be reduced and stress that business will play a significant role in achieving this aim. We should use the least cost pathway to achieve net zero emissions.
3. As a trading country, we are conscious of New Zealand's need to show to the world that we are keeping pace with the decarbonisation pathways of our trading partners. However, we also need to recognise that if other countries do not play their part, our international competitiveness is at risk. Our carbon reduction goals should be fair and transparent.
4. The ETS is a powerful market tool that involves placing reliance primarily on policy instruments that act at the system level. We appreciate that for the ETS to be effective will require adjustments over time. However, we have some concerns with the current proposed changes which we wish to address.
5. First and foremost, we are calling for a cautionary approach to taking any policy decisions before the final advice from the Climate Change Commission (CCC) is available. Proposing any changes to the ETS before the release of the CCC's final advice would be challenging and would undermine the CCC's consultation process.
6. The following submission will provide the Ministry with some general comments on the proposed update of unit limit and auction price control settings. On balance, it will capture the broad view of the business community. However, there will be members of that community with different views. They will provide their own submissions on the proposed changes in the document.

## **SUMMARY OF RECOMMENDATIONS**

7. As outlined in this and previous submissions, BusinessNZ and BEC's general position is that:
  - Policy decisions on the pace of emissions reduction must be based on a good understanding of the trade-offs between emissions benefits and business costs.
  - Settings for determining price bands must be reasonably transparent to enable market participants to form expectations around price paths.
  - Issues of accessing international units must be addressed with urgency given the expected level of abatement, and to provide confidence that the Cost Containment Reserve (CCR) will be an effective.

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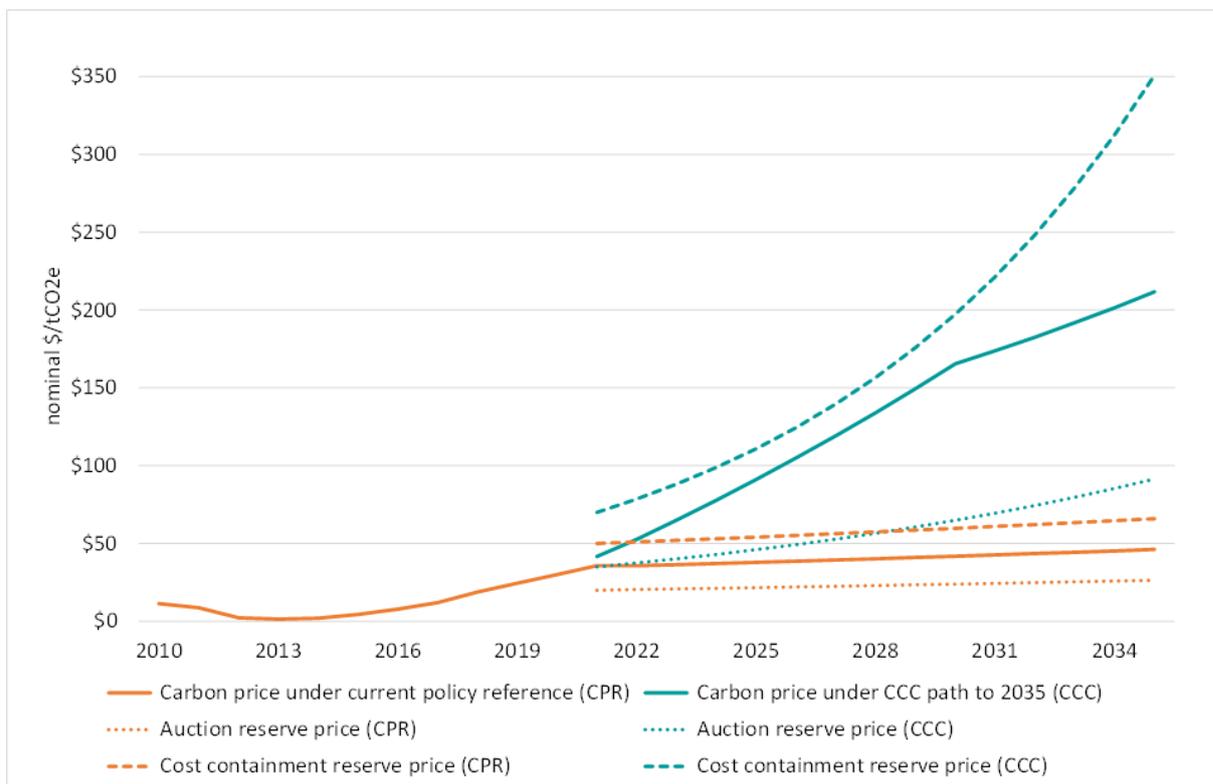
<sup>1</sup> Background information on BusinessNZ and BEC is attached as Appendix One.

- Further framework development is required.
- A cautionary approach on policy decisions is warranted before the CCC’s final advice is released.

## GENERAL COMMENTS

### CCR adjustments

- We appreciate that the ETS must be adjusted over time so it can continue to be a powerful market tool. However, the carbon price must be in line with the economy’s ability to respond and materially consistent with New Zealand international trading partners/competitors. There is a risk that if the carbon price goes ahead of New Zealand’s ability to respond, carbon emissions will not be offset but instead, additional costs will be added to business/consumer bills with limited opportunity for mitigation. There need to be sufficient safety valves in place.
- Therefore, we have some concerns with the Ministry’s proposed approach to the carbon price. Based on the Climate Change Commission’s Draft Advice, the Ministry is proposing to lift the auction floor price from a \$20 floor to \$30 from 1/1/2022 and subsequently increase it by 5% plus 2% inflation per annum. The Ministry also proposes to lift the cost containment reserve (CCR) trigger price from \$50 to \$70 from 1/1/2022 and subsequently increase it by 10% plus 2% inflation per annum.
- The Ministry proposes that the parameters used in carbon auctions, the auction reserve price, and the cost containment reserve, be adjusted significantly as shown in 1 below.
- Figure 1: Current and proposed ETS Auction Reserve prices and Cost Containment reserve prices:



12. As we have already seen with the introduction of the cost containment reserve, the above is likely to become a self-fulfilling prophecy. The CCC has signalled its view of the long-term abatement costs and the near-term carbon price.
13. We are not sure why cost impacts have been reported for households but not business. The Ministry states<sup>2</sup>:

*Treasury conducted a previous analysis, which we discussed in our initial analysis of the CCR trigger price impacts (Reforming the New Zealand Emissions Trading Scheme: Proposed settings, December 2019). The analysis assessed the impact of higher emissions prices on short-term household spending. It showed that a rise from \$50 to \$75 would increase low-income household spending by \$2 per week, and \$4.10 per week for high-income households. This was based on 100 per cent pass-through of emissions prices, and an assumption that households did not adjust their consumption to rising emissions prices.*

14. Not enough attention is given to emitters with hard to abate emissions and consumers who are caught between costs going up and the ability to respond to price signals. The proposed approach to the ETS raises several issues.
15. New Zealand's energy intensive companies are typically much greener than their international competitors due to the high percentage of renewable energy in our electricity system. If these energy intensive industries such as steel, aluminium, pulp and paper, cement etc., move offshore or close, those products will be made somewhere else in a less climate friendly way. We are concerned about the risk of carbon leakage and our businesses being able to maintain their competitiveness internationally, particularly those firms that are energy intensive and trade exposed.
16. Large energy users are amongst our biggest employers in terms of staff numbers, are our highest payers and are very important to the business ecosystem due to the number of their suppliers and the use of their products downstream in local supply chains. A concerted effort must be made to calibrate the speed and stringency of New Zealand's actions with those taken by our trade-competitors to ensure the country is taking a global role in decarbonisation, rather than moving the problem off-shore.
17. A better understanding is also required of how businesses with no direct surrender obligations respond to different price signals. There is a real risk that withholding volumes from auctions will result in an artificial shortage of units in the market (relative to the expected supply underpinning the ETS budgets). Consequently, NZU prices could rise to a level that would unnecessarily trigger the CCR.

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<sup>2</sup> [proposedchangestoNZETSandSGGlevyregulations2021.pdf \(environment.govt.nz\)](#) page 21

### Better consideration of an international market for carbon required

18. The international market for carbon units is still a work in progress under Part 6 of the Paris Agreement. While a system of unit quality assurance is being developed, it makes sense to limit the use of international credits in the short term. However, it is unclear how the CCR volumes will be backed up over the medium term without access to this market.
19. Dispelling the uncertainty around the quality of international units is the more pressing matter – businesses will not be willing to purchase units if there is any doubt about their ability to subsequently surrender them (regardless of a quantitative limit). To dispel this uncertainty, government should pre-identify which units businesses could surrender post-purchase, and publish this list (by way of a 'white list'). We suggest that getting this process underway should be a high priority and urge the Government to accelerate its work of identifying options for accessing international carbon markets (with safeguards on integrity). We also need the Government to provide more clarity on how CCR volumes will be sourced if access to international markets is delayed.

### Further framework development required

20. In reviewing the ETS, it would be desirable to consider the current barriers to carbon capture and storage ("CCS") caused by specific ETS rules. CCS is a 'removal activity' under the Climate Change Response Act. That means the removing entity (i.e., an operator of a suitable geological formation) could receive one ETS credit for every tonne of CO<sub>2</sub> removed and stored. However, that only applies where the capture and storage is related to a given operator's activities. So, if an operator were to store carbon on behalf of a third party, then that operator could not currently claim ETS credits.
21. The framework should be amended so that an entity performing CCS can receive ETS credits, regardless of whether or not that entity was the source of the CO<sub>2</sub>. This issue and other barriers to CCS are covered in detail in *Carbon Capture and Storage: Designing the Legal and Regulatory Framework for New Zealand*<sup>3</sup>.

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<sup>3</sup> [Carbon.pdf \(waikato.ac.nz\)](http://Carbon.pdf(waikato.ac.nz))

## Appendix One - Background information on BusinessNZ and BEC



BusinessNZ is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Employers Otago Southland](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises promoting affordable, sustainable and secure energy
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).



The [BusinessNZ Energy Council \(BEC\)](#) is a group of New Zealand's peak energy sector organisations taking a leading role in creating a sustainable energy future. BEC is a division of BusinessNZ, New Zealand's largest business advocacy group. BEC is a member of the [World Energy Council \(WEC\)](#). BEC members are a cross-section of leading energy sector businesses, government and research organisations. Together with its members BEC is shaping the energy agenda for New Zealand.

Our vision is to support New Zealand's economic wellbeing through the active promotion of the sustainable development and use of energy, domestically and globally. With that goal in mind, BEC is shaping the debate through leadership, influence and advocacy.