



Talking points for CAB-35: NZ ETS and SGG Levy Regulation Changes 2021 - Consultation report back

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| Date Submitted: | 29 July 2021 | Tracking #: BRF-403 | |
| Security Level | In-Confidence | MfE Priority: | Not Urgent |

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| | Action sought: | Response by: |
| Hon James SHAW, Minister of Climate Change | Read before ENV meeting on 5 August | N/A |

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| Actions for Minister's Office Staff | Return the signed report to MfE. |
| Number of appendices and attachments Nil | N/A |

Key contacts

| Position | Name | Cell phone | 1st contact |
|---------------------|----------------|------------|-------------|
| Principal Author | Dave Hodson | | |
| Responsible Manager | Scott Gulliver | s 9(2)(a) | ✓ |
| Director | Lisa Daniell | | |

Talking points for CAB-35: NZ ETS and SGG Levy Regulation Changes 2021 - Consultation report back

1. This briefing provides you with talking points for the Cabinet paper: *NZ ETS and SGG Levy Regulation Changes 2021 - Consultation report back*.
2. The talking points are outlined below:
 - Although some of the regulatory changes are more substantive and extensive than in previous years, most of the recommendations are straightforward and well supported.
 - The proposed updates to NZ ETS auction price controls and, to a lesser extent, unit limit settings, have been somewhat contentious among both stakeholders and agencies.
 - The regulatory changes required to be gazetted by 30 September to take effect by 1 January 2022 are prioritised. Other changes will occur later in 2021 or during 2022.
3. Additional points you may wish to draw on:
 - Concerns raised about unit limit and price control settings updates:
 - i. possible NZU market price increases resulting from increasing the cost containment reserve trigger price, and fears this may result in increased levels of afforestation and increased costs for NZ ETS participants
 - ii. that decisions on unit limit settings may pre-empt or narrow decisions on emissions budgets.
 - The main reasons for updating settings now:
 - i. To address the requirement in the Act to add settings for 2026; updating settings will occur every year
 - ii. To more closely align the auction price corridor with updates to forecast ways to reduce gross emissions
 - iii. The increasing likelihood of the cost containment reserve volume being released, and the associated fiscal risks
 - iv. To reflect most up-to-date analysis and modelling, and the Climate Change Commission's recommendations

Next steps

4. We will be providing you with a draft Cabinet paper in August to take amendment regulations implementing Cabinet policy decisions to LEG on 23 September.

Recommendations

We recommend that you:

- **Note** the talking points above for you to use at ENV on 5 August 2021
- **Agree** that this briefing and appendices will be released proactively on the Ministry for the Environment's website within the next eight weeks

Yes/No

Signature

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| Scott Gulliver Acting Manager NZ ETS Policy, Climate Change | |
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| Hon James SHAW, Minister of Climate Change | |
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Proactively Released