



# Cabinet Environment, Energy and Climate Committee

## Minute of Decision

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### Approval to Consult on Improvements to the New Zealand Emissions Trading Scheme

Portfolio                      Climate Change

On 31 July 2018, the Cabinet Environment, Energy and Climate Committee:

- 1        **noted** that the New Zealand Emissions Trading Scheme (NZ ETS) is the government's key policy tool to reduce greenhouse gas emissions and support New Zealand to meet its climate change targets;
- 2        **noted** that under current settings the NZ ETS will not effectively assist New Zealand to meet its 2030 target under the Paris Agreement, or potentially any new 2050 target under the Zero Carbon Bill;
- 3        **noted** that in December 2017, Cabinet noted four in-principle decisions made by the previous government and that the changes would be pursued through legislative amendments to the Climate Change Response Act 2002 by the end of 2019 [CAB-17-MIN-0547.01];
- 4        **noted** that the discussion document on improvements to the NZ ETS, attached under ENV-18-SUB-0034 (the discussion document), will include options for implementing the in-principle decisions. These proposals are to:
  - 4.1      introduce sealed-bid, single-round auctions with uniform pricing, with an open question on auction frequency;
  - 4.2      establish a new price ceiling, in the form of a volume-limited cost containment reserve as part of the auction mechanism, to replace the current fixed price option;
  - 4.3      limit the use of international units either through restrictions on government purchase, or through limiting the volume able to be imported/surrendered by NZ ETS participants;
  - 4.4      establishing a process for coordinating and managing unit supply decisions and identifying what factors need to be taken into account when making these decisions, such as advice from the independent Climate Change Commission (the Commission);
- 5        **noted** that implementing the in-principle decisions would allow the government to align unit supply with the government's emission reduction targets and budgets, and provide the government with the tools to put a cap on emissions via the NZ ETS;

- 6 **noted** that the final policy decisions on the Zero Carbon Bill will have implications on unit supply settings of the NZ ETS, including any new 2050 target, emissions budgets and the role of the Commission;
- 7 **noted** that the proposed changes to the NZ ETS would complement the Zero Carbon Bill process as they can provide the basis for helping meet emissions budgets and support the transition to a net zero emissions economy;
- 8 **noted** that the consultation, referred to above, is not consulting on specific unit supply settings and volumes (e.g. the level of any price ceiling, the level of any limit on international emissions units, or the volume of units to be sold via auctioning);
- 9 **noted** that providing details on technical aspects and unit supply settings in regulations will require further consultation in 2019;
- 10 **invited** the Minister for Climate Change to report back to ENV by the end of 2019 with proposals for setting unit supply volumes in regulations;
- 11 **noted** that the discussion document includes options aimed at improving market function and governance to address other issues identified during the review. These include:
- 11.1 options for future decisions on industrial allocation;
  - 11.2 seeking feedback on the risks of market misconduct, in order to inform work on improvements to the market governance of the NZ ETS;
  - 11.3 improving the provision of market information and establishing a dedicated NZ ETS web portal;
  - 11.4 improving the compliance regime by introducing infringement offences for low level non-compliance, and options to change the penalty regime for failing to surrender units;
  - 11.5 a number of technical and operational improvements;
- 12 **noted** that a package of improvements related to forestry in the NZ ETS is being considered in an accompanying paper *New Zealand Emissions Trading Scheme (ETS) Review: Improving the ETS for Forestry* under ENV-18-SUB-0033 and should be considered in conjunction with the paper under ENV-18-SUB-0034;
- 13 **agreed** to release the discussion document for public consultation from 13 August 2018 to 21 September 2018 on proposals to improve the NZ ETS;
- 14 **authorised** the Minister for Climate Change to make minor editorial, design, and technical and minor policy changes to the consultation document as required;
- 15 **authorised** the Minister for Climate Change, in consultation with the Minister of Finance and the Minister for the Environment, to approve amendments to the consultation document:
- 15.1 on the timeframe to change the fixed price option, if he considers that changes are required, to manage fiscal and other potential risks associated with the current \$25 fixed price option;
  - 15.2 to include a general indication of what the carbon price's upper range is likely to be in the near future;

- 16 **noted** that, if following advice on options to manage fiscal risks arising from the current fixed price option, the Minister for Climate Change, in consultation with the Minister of Finance and the Minister for the Environment, considers it necessary, Cabinet may be invited to consider more expedient action to reduce the fiscal risk and/or put in place an interim solution;
- 17 **invited** the Minister for Climate Change to report back to ENV, following public consultation, to seek final policy decisions in early 2019, with a view to introducing a Climate Change Response Amendment Bill to Parliament in 2019;
- 18 **noted** that any new funding required to implement the final policy decisions will be sought through a separate Cabinet paper or through Budget 2019.

Vivien Meek  
Committee Secretary

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**Present:**

Rt Hon Winston Peters  
Hon Kelvin Davis  
Hon Grant Robertson (part item)  
Hon Dr Megan Woods  
Hon David Parker (Chair)  
Hon Stuart Nash  
Hon Damien O'Connor (part item)  
Hon Shane Jones  
Hon James Shaw  
Hon Eugenie Sage

**Hard-copy distribution:**

Minister for Climate Change

**Officials present from:**

Officials Committee for ENV  
Office of the Prime Minister  
Officials from the Ministry for Primary Industries  
Officials from the Ministry for the Environment