



Webinar Q&A summary - 2023 ETS Unit Settings consultation

Webinar dates: 24 and 29 May 2023

Where questions have been answered orally these notes are not necessarily verbatim. Some edits have been made for sense and clarity. Further information has been provided for some answers. No edits have been made to written answers.

Question:

Hi there, does the proposed reduction in tradeable units also apply to the free units allocated?

Answer: Written

Free units allocated to firms in eligible industries are unaffected by the proposed changes to the ETS cap and auction volume. A Bill proposing to allow the updating of industrial allocations is at Select Committee at the moment. If passed and implemented, it is expected industrial allocation volumes will be lower than currently forecast.

Question:

So, by a stockpile adjustment- is this in relation to privately held units or in relation to the auctions? How will this work practically?

Answer: Written

The stockpile adjustment is intended to encourage participants to surrender emission units from the stockpile instead of using auctioned emission units. It should mean a reduction in the number of privately held emission units over time.

Question:

Are the proposed cap and auction volume changes based on current industrial allocations, or proposed industrial allocation?

Answer: Written

They are based on current forecasts of industrial allocations. The potential for changes through implementing the amendment Bill are not factored in.



Question:

Has any advice been produced on how the proposed reduction in industrial allocation would impact demand at auction, and use of stockpiled units? Both of which are targeted by this consultation.

Answer: Originally answered live

There is a Select Committee process underway and we're not able to predict where the Select Committee might land on the bill or where the House might land as it goes back to the House for further consideration. There's uncertainty again as to what the Bill will mean for industrial allocation volumes if it is passed as it currently stands. The industrial allocation change will be quite minor and won't have a large impact.

Question:

When will cabinet again be considering these proposed changes?

Answer: Originally answered live

This is an annual process dictated by the legislation. Each year these settings need to be in place by September to apply from the following year. We are working towards having this year's settings in regulations by the end of September to apply from 2024. Policy decisions will be sought in the lead up to that.

Question:

What would the process going forward look like if cabinet again ignores advice on changes to price control settings?

Answer: Originally answered live

As this is an annual process and we're required to provide advice on unit and price control settings each year and the government is required to set the settings looking forward five years, the process will be the same every year. It is up to Cabinet to consider submissions, the Commission's advice, and any advice we provide.

Question:

So, to encourage participants to sell NZUs, are you saying the trigger price will need to be set higher than the market price, so this encourages emitters to buy from the secondary market?

Answer: Originally answered live



The CCR trigger price can influence market outcomes. It can create a magnet effect, where participants treat it as a target, and withhold NZUs until the secondary price is close to it. The Commission's proposed CCR trigger prices for 2026-2028 are higher than expected cost of abatement, which removes the magnet effect. Conversely, a set of CCR trigger prices that are close to the secondary market price and do not significantly increase over time will dampen future price expectations, encouraging sellers to release their NZUs.

Question:

There is a substantial amount to digest here in terms of business impact, with a short consultation period - would MfE consider extending the submission period?

Answer: Originally answered live

We acknowledge that the consultation period is short. This is at least partly due to the fact that in May last year New Zealand's first emissions budgets were set, delaying last year's settings decisions to December 2022. That delay has had a flow on effect for our timelines this year. Under the Climate Change Response Act these regulations must be in place by 30 September and we are unable to extend the submission period for 2023. We will consider timeframes when planning next year's ETS settings process with a view to enabling a longer consultation period.

Question:

How are these prices set and why are they lower than countries such as those in Scandinavia who we like to compare ourselves to?

Answer: Originally answered live

The market sets the price for NZUs, and the price controls are designed to set lower and upper limits within the auction process for when the government is auctioning units to the market. They are set in line with our domestic emissions budgets and targets out to 2050.

As the New Zealand Emissions Trading Scheme is a domestic only scheme, they are set in relation to our domestic targets at present so there is no direct connection or parity with overseas schemes. Every country faces a different cost to abatement which skews a lot of international comparisons.



Question:

Thanks for that answer regarding international comparison - but to categorise this as a market doesn't seem accurate as it is not a market such as the stock market. Otherwise, the misalignment last year would not have happened. Is that fair to say?

Answer: Originally answered live

There is a secondary market for NZUs. Once they have been issued and allocated by the government they can be traded between participants. There are platforms where they can be bought and sold external to the government. It's not necessarily the same as a listed security but it is a market.

Question:

is the price in the secondary market considered when setting the reserve price at the quarterly auctions? By this I mean the confidential reserve price.

Answer: Originally answered live

The secondary market price is considered when setting the confidential reserve price as per the Climate Change Response Act to ensure that NZUs aren't sold at a price significantly below the secondary market price.

Question:

Is there a targeted stockpile volume that you are attempting to produce?

Answer: Written

Kia ora - for more information you can see page 26 of the discussion document. Detailed analysis can be found in the Commission's advice from last year, see page 39 onwards of <https://www.climatecommission.govt.nz/public/ETS-advice-July-22/PDFs/NZ-ETS-settings-2023-2027-final-report-web-27-July-2022.pdf>

Question:

Re, issues not covered in this seminar. The present ETS review that is occurring, the Minister publicly indicated that the initial draft review would be available to public and open for consultation in Q2. So, could we please have an update on the timeframe of this crucial program?

Answer: Written

The ETS review consultation is still expected to start in Q2 and run for at least six weeks.



Question:

ETS has been in operation since 2008 yet gross emissions are still higher than 1990. How can you argue it is eventually going to 'work' to reduce gross emissions?

Answer: Written

The reformed NZ ETS, linking emission budgets and auction volumes, with auction price controls, is relatively new. The purpose for that most recent reform was to align the NZ ETS with meeting emission budgets and commitments. The NZ ETS was previously price controlled; it is now volume controlled.

Question:

In order to stay aligned with emissions budgets and any surplus or discretionary adjustments, how will the methodology factor in NZUs that are unsold as at the end of the current year (potentially four auctions' worth)?

Answer: Written

Annual unsold auction volume does not roll through to the next year.

Question:

The March auction failed. Do you anticipate the June auction will also fail?

Answer: Written

We do not make predictions of auction outcomes or comment on market activity.

Question:

Hi, question related to auction and industrial allocation volume. If company like NZ Steel, who received IA, reduced their gross emission, will that increase the auction volume available for sale? considering the ETS cap remains the same.

Answer: Written

Hi, no decisions have been made on whether auction volume will change if NZ Steel receives less allocation. Those decisions are for a later year, when we have more certainty about the investment impacts, and following advice from the Commission.



Question:

Re the non-ETS post-89 forestry adjustments to emissions budgets (slides 12,13), can you please give a bit more detail / example of what this involves and why it's being done?

I was under the impression that non-ETS post-89 forestry is not accounted in NZ's emissions inventory - is that correct?

If these non-ETS forests are included then who is mitigating the double-counting risk from carbon forestry schemes in voluntary markets?

Answer: Originally answered live

In step 2 we are allocating how much of the budget is taken up by sectors outside of the ETS. The forests that are not registered in the ETS could be considered to be offsetting emissions outside of the ETS. Now that some of those forests are registered in the ETS they are no longer considered to be offsetting emissions outside the scheme. This has the effect of increasing emissions outside of the ETS as there are less forestry offsets outside of the ETS. As a result, the emissions outside of the ETS take up a greater portion of the emissions budget.

The voluntary market is not something that the government has a close eye on. It is for participants in the market to be careful about the claims being made and what is being counted. If there is double counting involved, then that is more the responsibility the participants in the voluntary market to manage than it is for the government.

Question:

If annual unsold auction volume does not roll through to the next year, then the methodology will get out of line with the emissions budgets and any surplus or discretionary adjustments (which is the objective of the exercise). So how will the methodology meet that objective, or does it not need to meet that objective?

Answer: Originally answered live

The key objective for the ETS settings is that they accord with our emissions budgets. This will be the same for next years process even if there is unsold auction volume at the end of this year. The Climate Change Commission will take this into account when they are providing their recommendations next year.



Question:

Can you explain what is involved in the final proposal process to the Minister around the options that have been presented?

Answer: Originally answered live

Once consultation closes the Ministry for the Environment will analyse your submissions and inform recommendations through a regulatory impact assessment which is published alongside the Cabinet decisions. The regulatory impact assessment assists the Minister in providing his recommendations to Cabinet. Cabinet decisions need to be made before the statutory deadline in September.

Question:

When the clearing price was below the Confidential reserve price, why is the commission expecting a CCR price getting triggered at the next auction?

Answer: Originally answered live

The Commission hasn't commented on whether they expect the CCR to be triggered or not. They have provided recommendations in their advice for settings to be updated for years 2024 and 2025 should the CCR be triggered in the June auction.

Question:

So, you are still expecting the reformed ETS to eventually succeed? Or don't you have a view on that?

Answer: Originally answered live

The government is expecting the reformed ETS to succeed in reducing net emissions and has stated that it has been very effective at driving removals from forestry. The ETS review is looking at whether the ETS should be adjusted to drive more gross emissions reductions. Whether the ETS will be successful in decarbonising the New Zealand economy will be a topic for discussion soon.

Question:

The stockpile quantum of NZ units, do you have an idea?

Answer: Originally answered live

We received information from the Commission on 1 June 2022 that the estimated stockpile amount is 144 million NZUs. We are seeking feedback on options to address the surplus portion of the stockpile. The surplus is made up of units that are not tied up in contracts or hedging strategies for surrender obligations. The estimated surplus is between 33-66 million units.



Question:

Is integrating international units into the ETS (for the government and/or participants) an operational decision, or will that require a law change? If the latter, approximately when will that be consulted on?

Answer: Originally answered live

Previously the ETS was open to international units in regulations. The government has decided that if international units were to be used in the ETS again there would be a limit on the number of units, and they would need to have environmental integrity. We do not know when this will be consulted on at this time.

Question:

When will the government release the consultation and details on the ETS review?

Answer: Originally answered live

The ETS review consultation is still expected to start in Q2 and run for at least six weeks.

Question:

If other countries are now buying ITMO's or units with CA's to help them meet their NDC - why is NZ taking so long?

Answer: Originally answered live

This question is out of the scope of this review.

Question:

I need to understand better that you said commission has not said about CCR happening and it is only for transparency but as a matter of fact, Commission has exactly said this in its advisory - "While the March auction did not clear, there remains a possibility that a release of units from the CCR at the June auction could occur."

Answer: Originally answered live

The government also holds that the release of the CCR at the June auction is a possibility. This does not mean that the release of the CCR is expected but only that it is considered as part of the Commission's recommendations.



Question:

Are you engaging with specific groups as part of your Joint Management Agreements? e.g. Tangata whenua

Answer: Originally answered live

As part of the ETS settings consultation, we have engaged with a range of Iwi/Māori groups. We are required to undertake Te Tiriti analysis in all of our policy decisions and engage with our treaty partners more broadly.

We are aware of the volume of Māori engagement taking place at present across multiple Climate workstreams such as the ETS review and Climate Adaptation. Updating the ETS unit limits and price settings is an annual technical process and is not focused on broad significant changes to the ETS. There are no plans for separate Māori engagement on ETS settings this year. We intend to review our approach to Māori engagement for 2024.

Question:

You mention that non-ETS registered forestry removals are offsetting non-ETS emissions, and adjusting accordingly for the increase in post 1990 forestry removals (ie Step 2 in your slides). What about situations where non-ETS emissions are being offset with ETS-eligible removals?

Answer: Originally answered live

Step 2 considers the treatment of post-1989 forestry. This step is focused on determining how much of the emissions budget is allocated to ETS sectors which provides a starting point for calculating auction volumes.

Question:

Can you once again explain the difference between status quo and Delayed ramp?

Answer: Originally answered live

For both the auction reserve price and CCR price options there is two years of status quo settings.

For the Auction reserve there is an increase of 5% per year adjusted for inflation toward the Commission's recommended 2030 auction reserve price.

For the CCR there is an increase of 10% per year adjusted for inflation toward the Commission's recommended 2030 CCR price.