

Proposed changes to New Zealand Emissions Trading Scheme limit and price control settings for units 2022

Summary of submissions



Ministry for the
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Manatū Mō Te Taiao



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Introduction

From 8 September to 6 October 2022, we consulted on proposals to update New Zealand Emissions Trading Scheme (NZ ETS) unit settings for the period 2023–27. This included three public webinars.

This report summarises the views expressed from public consultation on updates to NZ ETS unit settings, described in the consultation document – *Proposed changes to New Zealand Emissions Trading Scheme limit and price control settings for units 2022*. It does not provide an analysis of those views, or recommendations in response to them. Any recommendations in response to these submissions will be made through policy development and advice to the Government.

Why do we need to update NZ ETS limit and price control settings for units in 2022?

The NZ ETS is one of the Government’s key tools to address climate change. The NZ ETS supports and encourages domestic and global efforts to reduce greenhouse gas emissions. Its purpose is to help New Zealand to meet its international obligations under the Paris Agreement, its 2050 target, and emissions budgets. The Government sets the number of units supplied into the scheme over time. This limits the quantity that emitters can emit, in line with New Zealand’s emission reduction targets.

New Zealand’s first emissions budgets were set this year. These place limits on the emissions that New Zealand can produce for the periods 2022–25, 2026–30 and 2031–35. The Government also published the first emissions reduction plan (ERP) on 16 May 2022. The ERP describes how we are going to meet the first (2022–25), second (2026–30), and third (2031–35) emissions budgets and progress towards our 2050 target. Emissions pricing, through the NZ ETS (and the related synthetic greenhouse gas levy), is a critical part of the ERP policy package.

The overall objective of updating NZ ETS limits and price control settings for 2022 is, therefore, to provide a greater level of certainty on unit supply, and to comply with the statutory requirement that unit settings cover each of the next five calendar years at all times. This will support the efficient and accurate operation of the NZ ETS and align the settings, as much as possible, to help New Zealand meet its emissions budgets and targets.

He Pou a Rangi – Climate Change Commission (the Commission) has provided its annual advice on limits and price control settings for units. The Minister of Climate Change must consider this advice as part of the process of updating the settings.

Feedback from consultation on these settings fell broadly into two categories, those supportive of the Commission’s recommendations, and those supportive of retaining status quo settings. This feedback is further explored below.

This document summarises the views expressed by submitters in response to the consultation document – *Proposed changes to New Zealand Emissions Trading Scheme limit and price control settings for units 2022* to inform policy development and advice to the Government on NZ ETS limit and price control settings.

Who responded to the consultation

We received 57 submissions. These were received through our consultation tool – Citizen Space and email.

Fifteen of these 57 submissions were nearly identical submissions using content contained in the submission from Coal Action Network (CAN). The tables in the [appendix](#) show an analysis of these submissions both counted as one submission and counted individually. For the purposes of the analysis and this summary, these submissions are counted as a single submission.

Table 1 sets out the number of submissions received from individuals and groups.

Table 1: Number of submissions by submitter group¹

Submitter type	Number
Individual	24
Industry body	11
Non-government organisation	3
Business	18
Registered charity	1
Total	57

¹ For clarity, the near identical submissions provided by individual submitters are counted in the ‘individuals’ category in this table.

Criteria assessment

The below criteria were described in the consultation document.

Primary criteria	Description
Accord with New Zealand's emissions budgets, NDC and 2050 target	The NZ ETS should accord with emissions budgets and help deliver the abatement required to meet New Zealand's emissions reduction targets and transition to a low-emissions economy.
Support the proper functioning of the NZ ETS	Settings should allow the NZ ETS to function in a way that supports NZ ETS participants to comply easily, while minimising complexity.
Improve regulatory certainty and predictability	The NZ ETS should operate in a transparent and durable manner that allows participants to form expectations about future market conditions. Regulatory stability is needed to build confidence in the NZ ETS market and encourage investment in cost-effective opportunities for domestic emissions abatement.
Support consistency with international obligations and NZU prices with the level and trajectory of international emissions prices	NZ ETS settings should support efforts to allow access to offshore mitigation. This includes an effective cap on unit supply within the market, maintaining the integrity of units and keeping NZU prices in line with international prices.
Additional criterion for analysis of price control settings	
Consider the impact of emissions prices on households and the economy, and inflation	The scheme should allocate risks, costs and benefits appropriately among the Crown, NZ ETS participants, households and other groups affected by an emissions price. Where possible, settings should avoid imposing excessive and disproportionate costs on affected groups and the wider economy.

Question 1: What do you think of the criteria we have chosen to assess options?

Question 2: Do you think alternative options should be considered for parts of the advice other than the settings that this consultation document focuses on?

Most submitters indicated that the assessment criteria need improvement. Some submitters didn't agree with the inclusion of particular criteria, while others provided alternatives or suggested alterations. A small portion of submitters agreed with all five criteria.

Some submitters used this section to communicate views unrelated to the assessment criteria. Among these views were:

- the ETS should be replaced with a carbon tax if the stockpile is not addressed
- New Zealand should not be a leader in emissions reduction efforts as few other countries with greater emissions are following suit
- Australia's carbon pricing policy and use of international offsetting should be a consideration
- the NZU price should not be so closely aligned with the European carbon prices
- China's emissions reduction policies should be given greater attention when making policy decisions for New Zealand given its geographical proximity.

A number of individual submitters, including those using content included in the submission from Coal Action Network (CAN), called for the removal of the "improve regulatory certainty and predictability" criterion, stating that it stood in the way of impactful climate action. They further suggested that the criterion "support the proper functioning of the ETS" be changed to "create a bold

incentive to minimise carbon emissions”. These submitters proposed an additional criterion concerning the speed of impact on climate outcomes.

Climate Clinic, Contact Energy, Climate Karanga Marlborough, and Compass Climate as well as a number of individual submitters disagreed with the Climate Change Commission’s options being placed at the most extreme end of those presented. They stated that this creates a “decoy-effect” and positions the Commission’s advice as unreasonable. Submitters suggested that more options should have been presented on either side of the Commission’s advice to ensure a more balanced analysis.

Contact Energy, Energy Resources Aotearoa, and Balance Agri-Nutrients Limited (Balance Agri-Nutrients) all recommended that the criteria be weighted. In their view, this would better differentiate between criteria that are of a higher or lower priority. Balance Agri-Nutrients stated that some criteria were overwhelmed by others due to the absence of weighting, and this did not give an accurate representation of costs and benefits.

Winstone Pulp International, Evonik Peroxide Limited (Evonik Peroxide), and Balance Agri-Nutrients all stated that it was unclear if the focus was on gross or net emissions reductions to meet emissions budgets and suggested that the criteria should differentiate between gross and net emissions reduction efforts. A number of other industry submitters expressed concern that the recommendations from the Commission appeared to be focused on gross emissions reduction in spite of New Zealand’s ‘net-zero’ target.

NZ ETS limits for units

Calculating auction volumes

Question 3: What are your views on the estimates of the ‘surplus’ or ‘excess liquid’ component of the unit stockpile?

Question 4: What levels of ‘surplus’ or ‘liquidity’ do you think is required for a functional market?

Of the submitters who responded, about half agreed with the estimates of the surplus component of the stockpile while the remaining half indicated that the estimates needed improvement.

Submitters who were in support of the Commission’s recommendations to reduce the unit stockpile called for a more aggressive approach, highlighting the impact that forestry units will have on the stockpile if they come to market. Most noted that a large number of stockpiled units poses a threat to the achievement of New Zealand’s emissions budgets.

Those who expressed uncertainty with the estimate suggested that more evidence is required before adjusting auction volumes in line with a stockpile reduction amount. They further noted that ETS participants typically employ a hedging strategy that accounts for future surrender obligations over a five-year period which is a contributing factor to current stockpile levels. The submitter’s views are that these hedged units are not expected to come to market and will therefore have little to no impact on meeting emissions budgets and targets.

Many of the submitters in support of the Commission’s recommendations suggested that the proposed 11 million unit surplus target was satisfactory with some recommending that there be no liquidity at all.

Most industry submitters advised against making adjustments to liquidity until research had been carried out on the level of liquidity required to ensure a properly functioning market, noting that this may differ by sector.

Question 5: What do you think of the methodology used to calculate the auction volumes, including on each specific step.

Most submitters provided alternative methods for calculating auction volumes or indicated that the methodology needed improvement. Few submitters agreed with the methodology without providing alternatives.

Submitters from a number of non-government organisations (NGOs) held the view that the auction volumes should be set to zero to ensure a fast and effective stockpile draw down. In lieu of a zero-auction volume option, submitters expressed support for continuing to use the existing multi-step methodology for calculating auction volumes, as recommended by the Commission. The need for the ETS to align with New Zealand’s Nationally Determined Contribution (NDC) was highlighted and NGOs suggested that the existing methodology was the best way to ensure this. Meridian energy was also in support of the existing methodology stating that it “appeared logical and reasonable”.

Business and industry submitters were largely critical of the decisions made by the Commission when applying the calculation methodology by taking a different approach to calculating stockpile and technical adjustments, and supported the status quo being maintained for auction volumes. They stated that a reduction in auction volumes would likely lead to increases in the price of New Zealand Units (NZUs) and that this methodology did not account for the time it takes for businesses to implement new technology aimed at reducing emissions. They further noted that reducing auction

volumes would not necessarily result in stockpiled units coming to market but would rather decrease the number of units available to participants which could create a carbon leakage risk.

Firstgas Group and Methanex both commented on the Commission not taking into consideration the hedging strategy of most businesses to cover on average at least 2 years of surrender obligations. They suggest that this hedging strategy is a reasonable and warranted form of risk management for businesses. Balance Agri-Nutrients and Winstone Pulp International both supported the stepwise approach to reduce auction volume.

Some submitters held the opinion that the technical adjustment step was not appropriate because the source of the discrepancy between the emissions reported in the Greenhouse Gas Inventory and those reported in the NZ ETS was unclear.

NZ ETS price settings

Considering gross or net emissions reduction in setting price controls

Question 7: What do you think of the approach of setting price controls with reference to prices required to deliver gross emissions reductions?

Just over half of the submitters who responded to this question supported NZ ETS price controls having a focus on gross emissions reductions with the remaining submitters supporting a focus on net emissions reductions. Those in support of a focus on gross emissions reductions comprised a number of individuals and NGOs as well as one forestry participant. Those in support of a focus on net emissions reductions were submitters from business and industry sectors.

Submitters supporting a gross emissions reduction focus highlighted that this approach accords with emissions budgets and the NDC and gives New Zealand the best chance of meeting its targets given that offshore mitigation is not assured at this time. Some submitters noted that net emissions reductions are not an effective long-term strategy. They further commented that forestry sequestration includes the risk that the carbon is released back into the atmosphere at a later stage whereas carbon emitted can remain in the atmosphere for thousands of years.

Those in support of a net emissions reduction focus argued that price settings with a focus on gross emissions reductions pre-empts policy work on the ERP action to assess whether NZ ETS changes are needed to balance gross and net emissions reductions. They further argued that this approach ignores the fact that some emissions are hard to abate and discounts the time and resource constraints associated with the implementation of emissions reduction technologies. Some submitters mentioned that a net approach is aligned with the Paris Agreement and acknowledges the necessity of carbon sinks to offset hard to abate sectors.

Auction reserve price settings

Question 8: Do you think it is appropriate to consider inflationary impacts in adjusting settings?

A substantial majority of submitters who responded to this question thought that it was appropriate to consider inflationary impacts in adjusting settings. This group comprised a mixture of submitters from industry, business, NGOs and individual submitters. Two submitters in this group supported an alternative long run inflation adjustment given the current inflationary environment. A further two were opposed to the consideration of inflationary impacts.

Submitters in favour of considering inflationary impacts described the necessity to adjust settings with inflation in mind to ensure that the NZ ETS remains an effective tool and achieves the desired emissions reduction outcomes.

Those against the inclusion of inflationary impacts expressed concerns with considering inflation in the current high inflation environment and the further impact on fuel and energy prices this could have.

Question 9: What do you think of the proposed auction price floor settings? What impacts do you think will result from different settings?

Most of the submitters who responded to this question supported the status quo for price floor settings, with a portion supporting the inclusion of an inflationary adjustment. Just below half of submitters were in support of the Commission's recommendations and one submitter supported the 'high ramp' option.

Submitters in support of the Commission's recommendations noted that the recommended reserve price was below current market prices and would therefore have minimal short-term impacts on participants if implemented while ensuring that prices don't fall too low. They further stated that the Commission's recommendations should be seen as a minimum as higher reserve prices are needed to remain in line with emissions budgets and sector sub targets. Attention was also given to the possible influx of forestry units and the dampening effect this could have on the NZU price.

Submitters in support of status quo options considered the potential for a higher reserve price to increase speculative activity. Some submitters from this group mentioned that raising the reserve price limits the ability of the market to adjust to changes in the economy as there is less room for price discovery. They noted that this could lead to further stockpiling of units and a lack of liquidity. A number of submitters noted the regularity with which the auction reserve price had been increased, stating that this did not allow businesses sufficient time to implement changes given the constraints that lie outside of the NZ ETS. Additionally, submitters favouring status quo were largely critical of the Commission's focus on gross emissions reductions.

Cost containment reserve volume

Question 6: What do you think the main drivers of market demand for NZUs are?

Question 12: How do you think the cost containment reserve volume should be calculated?

Most submitters stated that the main drivers of market demand for NZUs were businesses hedging for future surrender liability and speculation from investors.

Of the submitters who responded to question 12, almost half were in favour of maintaining the status quo for the cost containment reserve (CCR) volume, while just over half were in favour of the Commission's recommendations. Some submitters called for the removal of the CCR, stating that it is not fit for purpose and is contributing to the existing stockpile of NZUs.

Submitters in support of the Commission's recommendation for CCR volume comprised a number of individuals and NGOs as well as a few submitters from energy and forestry sectors. The consensus among this group was that CCR volume should be adjusted to reduce the stockpile volume and should not allow for emissions outside of the NZ ETS cap.

Submitters in favour of maintaining status quo settings were all from industry sectors. Most stated that there is insufficient evidence about the unit stockpile to justify any change to the CCR volume. Some submitters suggested that the CCR volume remain the same until international units become available. The common view held by those in favour of maintaining the status quo was that a decrease in CCR volume would drive the price of NZUs higher. They noted that higher prices could have an impact on the ability of participants with insufficient banked units to meet their obligations in the short term. They also noted that the outcome of higher NZU prices on the rest of the economy would be inflationary.

Cost containment reserve structure and price settings

Question 10: Do you think the cost containment reserve should consist of one or two tiers?

Just over half of submitters responding to this question supported the CCR consisting of one tier. Just under half of submitters were in support of two tiers and a handful of individual submitters and NGOs called for the CCR to be abolished.

Submitters in support of the Commission's recommendations suggested that having the CCR consist of two tiers would limit the number of units released if prices rose to reach the first trigger while adding minimal complexity to the NZ ETS. They further noted that splitting the CCR volume over two tiers would assist stockpile drawdown by releasing fewer units.

Those in support of the CCR continuing with one tier stated that a two-tier system would weaken the effectiveness of the CCR as a price dampening mechanism and add undue complexity to the NZ ETS. They further highlighted the risk of the second tier becoming a target which would lead to higher prices than a single tier environment.

A number of submitters called for the CCR to be removed entirely stating that high stockpile levels outweigh the benefits of having an additional CCR volume. They stated that the CCR is counterproductive given the current state of the market and is not required as the NZ ETS is no longer in its early stages.

Question 11: What do you think of the proposed cost containment reserve trigger price settings? What impacts do you think will result from different settings?

About half of the submitters who responded to this question supported the Commission's recommendations on trigger price settings while the remaining half supported the status quo, or the status quo adjusted for inflation.

Submitters supporting the Commission's recommendations noted that the Commission is required to balance all factors when coming to its recommendations and as such they should be treated as falling into the middle ground of options available rather than an extreme. They noted that the frequent triggering of the CCR is indicative of the fact that the trigger price to date has been too low and a drastic increase in price is necessary to ensure that the NZ ETS accords with emissions budgets and the NDC.

Two industry submitters in support of the Commission's recommendations highlighted the need to address the impacts of price settings through complementary policies outside of the NZ ETS. They also noted that the CCR being frequently triggered is counter to its function, and that a higher trigger price will decouple it from the NZU price.

Submitters supporting status quo settings noted that, if reached, higher trigger prices could lead to subsequent increases in fuel and energy prices that could have a significant impact on the wider economy. Further to this, these submitters drew attention to the carbon leakage risk and potential for businesses to close should the price reach the trigger level. They argue that the Commission's recommendations ignore the speed at which businesses are able to reduce emissions and would cause regulatory uncertainty if implemented, further impacting on businesses willingness to invest in low emissions outcomes. Submitters in this group called for greater stability and regulatory certainty in government policy stating that the settings should be aligned with New Zealand's net-zero target.

Impacts

Question 13: Are there further impacts at these prices that should be considered?

Question 14: Is it appropriate to rely solely on complementary measures to manage impacts?

Question 15: What role should price controls play in containing the level of impacts, and what price control settings would be required for this?

All submitters responding to these questions acknowledged that unit and price settings could have an impact on the cost of living, petrol/energy prices, land use, and transportation and that these impacts would be absorbed mostly by businesses and households.

Most submitters responding to these questions thought that it was important to consider these impacts when adjusting price control settings and consideration should be given to the current economic climate. Some submitters stated that legislation requires that impacts be considered when adjusting settings and that this should be the case unless legislation changes. Submitters in this group noted that complementary measures take time to implement and should therefore not be the sole method of addressing impacts.

Other respondents to these questions argued that the purpose of the NZ ETS is not to mitigate impacts on the economy but to reduce emissions in line with our emissions budgets and in accordance with the NDC. They further state that any impacts resulting from price settings should be addressed solely through complementary policy measures. Submitters in this group view the analysis of impacts resulting from price settings to be misleading as it assumes that the CCR trigger price will be reached and that raising the trigger price would result in these impacts. The consensus was that price controls should play very little to no role in limiting impacts and instead be geared toward limiting abnormal or extreme increases in price.

Question 16: If prices reached those presented in the cost containment reserve trigger price options above, do you feel that you have options to change behaviours or make new investments to address the impacts?

Question 17: Could you change behaviours or make new investments to mitigate the impact of higher prices on yourself?

Most industry submitters responding to these questions said that they do not feel that they have options to make new investments or change behaviours in response to impacts. They highlighted the factors outside of the NZ ETS that made it difficult to reduce emissions (eg, availability of specialised labour, supply chain issues, access to technology). Some provided examples of efforts currently being undertaken to reduce emissions and noted concerns that the proposed settings would make this transition harder and undermine current action and investments in decarbonisation.

The consensus among individuals and NGOs responding to these questions was that they would be able to respond to changes in price and adapt their behaviours or shift investments accordingly. They noted that, as previously mentioned, complementary policies targeted at addressing disproportionate impacts would play a role in supporting the ability for individuals, households and businesses to adapt to these changes.

Feedback and comments

Additional feedback from individuals and NGOs was largely focused on the following areas:

1. The consultation document is too technical and is not accessible to non-NZ ETS participants or those who are not experts on the NZ ETS and its functions. A lack of broad engagement means that the consultation is captured primarily by industry views.
2. The NZ ETS is not fit for purpose:
 - a. The focus of the NZ ETS should be on gross emissions reduction.
 - b. NZ ETS settings should be in accordance with the NDC. Auction volumes should be set to zero to assist with this as no offshore mitigation has been secured at this stage.
 - c. There is no cap on emissions while the stockpile exists.
3. Criticism of the Commission's recommendations being positioned at the extreme end of options presented in the consultation document.

Feedback from industry submitters was centred on criticism of the Commission's analysis and recommendations:

1. Analysis should take greater account of economic impacts.
2. Modelling needs improvement.
3. A better understanding of market liquidity is required to improve recommendations.
4. Advice needs to cover a range of gross vs net emissions reduction scenarios.
5. Advice should include an assessment of the risk of emissions leakage.

Additional information

For further information and documents about the annual update for NZ ETS limits and price control settings for units 2022 are available on our website:

[Proposed changes to NZ ETS limit and price control settings for units for 2022 - Ministry for the Environment - Citizen Space.](#)

Appendix: Tables showing percentage of total submissions in support of options presented

Submissions using the content contained in the submission from Coal Action Network (CAN) have been counted individually and as a single submission to calculate breakdowns of submissions presented below.²

Question 7: What do you think of the approach of setting price controls with reference to prices required to deliver gross emissions reductions?

	Percentage of total submissions in support of options presented		
	Focus on gross	Focus on net	No response/Other
Support (CAN as separate submissions)	49%	22%	28%
Support (CAN as one submission)	32%	30%	37%

Question 9: What do you think of the proposed auction price floor settings? What impacts do you think will result from different settings?

	Percentage of total submissions in support of options presented					
	Option one: status quo	Option two: inflation adjusted	Option three: delayed ramp	Option four: high ramp	Option five: commission advice	No response/Other
Support (CAN as separate submissions)	15%	8%	0%	1%	45%	28%
Support (CAN as one submission)	20%	11%	0%	2%	27%	38%

² Figures have been rounded for clarity.

Question 10: Do you think the cost containment reserve should consist of one or two tiers?

	Percentage of total submissions in support of options presented		
	Supports one tier	Supports two tiers	No response/Other
Support (CAN as separate submissions)	21%	17%	64%
Support (CAN as one submission)	27%	23%	48%

**Question 11: What do you think of the proposed cost containment reserve trigger price settings?
What impacts do you think will result from different settings?**

	Percentage of total submissions in support of options presented					
	Option one: status quo	Option two: inflation adjusted	Option three: low ramp	Option four: high ramp	Option five: commission advice	No response/Other
Support (CAN as separate submissions)	15%	8%	0%	0%	47%	14%
Support (CAN as one submission)	20%	11%	0%	0%	30%	37%

Question 12: How do you think of the cost containment reserve volume should be calculated?

	Percentage of total submissions in support of options presented		
	Option one: status quo – stockpile adjustment + additional amount	Supports two: commission advice – stockpile adjustment only	No response/Other
Support (CAN as separate submissions)	19%	45%	28%
Support (CAN as one submission)	25%	27%	46%