SUBMISSION

STRATERRA™
NATURAL RESOURCES OF NEW ZEALAND

Submission from Straterra
To Environment Committee
Climate Change Response (Emissions Trading Reform) Amendment Bill
January 2020

Introduction

1. Straterra is the industry association representing the New Zealand minerals and mining sector (including coal). Our membership is comprised of mining companies, explorers, researchers, service providers, and support companies.
2. We welcome the opportunity to submit on the Emissions Trading Reform Bill.

Introductory remarks

3. Straterra acknowledges the international imperative to reduce carbon emissions and we support New Zealand's obligations to reduce our emissions. In reducing our emissions, however, it is essential that;

    a) the competitiveness of effected sectors of the economy is maintained, and
    b) reducing New Zealand's emissions does not lead directly to increased global emissions.

4. The Emissions Trading Scheme is an important tool in the efforts to reduce New Zealand's carbon emissions. In principle, we support this bill, and the proposed amendments to the ETS, provided the above two conditions can be met.
5. Because climate change is a global issue, an international approach, including a market / trading scheme covering the majority of global emissions, is ultimately required. Such a market would enable countries and sectors that can emit more efficiently than others to do so. A global emissions trading scheme would deliver a fair playing field for New Zealand energy users and would be a more efficient way to reduce global emissions.
6. In this regard, it is unfortunate that such an international market is struggling to be established. For example, the recent COP25 talks in Madrid failed to deliver decisions on regulations for new international carbon markets and these have been deferred another year. We encourage the New Zealand government to place a high priority on working with other countries to developing a robust and credible international carbon market.

7. Notwithstanding the absence of an international market, New Zealand's emissions trading scheme needs to reflect what is happening internationally / international prices as closely as possible.

8. Currently only 15% of global emissions are subject to any carbon price, and energy related greenhouse gas emissions are continuing to increase globally revealing a widening gap between the world's professed commitments and reality. This significantly limits the extent to which a carbon price in New Zealand can contribute to driving global emissions down – without breaching the conditions noted above.

9. The Climate Change Response (Emissions Trading Reform) Amendment Bill restructures the New Zealand Emissions Trading Scheme (ETS) but does not specify the particular settings of the scheme, which are to be set by regulations. This submission sets out our broad views on the ETS. We anticipate submitting on the government's proposed settings specifically as part of another consultation separate to this process.

Submission

10. The remainder of this submission addresses key changes that the Bill will make to the Climate Change Response Act.

Enabling cap on emissions covered by the NZETS

11. The supply of New Zealand Units influences both the carbon price in the ETS and the total emissions permitted in a set period. To ensure the competitiveness of effected sectors of the economy is maintained, and that reducing New Zealand's emissions does not simply lead to increased global emissions (emissions leakage), restrictions in the supply of units, and the rate of reduction over time, must take account of what our trade partners and competitors are doing.

12. The Climate Change Commission will advise on emissions budgets and we support this process. The overall limit over the five-year period, will be set by regulations not this legislation, and we intend to work with the Climate Change Commission and the government to ensure decisions take account of what is happening internationally.

13. Decisions will also need to take account of the fact that many New Zealand emitters, particularly in the South Island, do not have access to cost effective alternatives and that emissions abatement is expensive and so will impact on the competitiveness of many businesses and sectors. Anecdotal evidence from South Island horticulture growers indicates that already local production is being replaced by imported product from countries not exposed to a carbon price.

Allowing for the cost containment reserve

14. The Bill will remove the current $25 fixed price option (FPO) and replace it with a cost containment reserve (CCR), which will operate through the New Zealand ETS auctions.

15. We support the CCR replacing the FPO as a mechanism for regulating prices but, in the absence of an international carbon market, it is essential that the carbon price faced by New Zealand emitters resembles that faced by our international trade competitors and partners so it does not make us uncompetitive.

16. The trigger level for the CCR mechanism will determine the price ceiling. This trigger will be set by regulation, not this legislation, based on recommendations by the Climate Change Commission. We intend to work closely with the Commission and, for the same reasons as discussed above, will strongly convey the view that the trigger level price must take account of the international price to ensure New Zealand businesses are not put at a disadvantage relative to their international competitors and partners or that emissions leakage occurs.

Introducing robust and transparent auctions

17. We support an auction system as the best way to introduce the units to the market. We also support the appointment of an independent auction monitor to ensure the auctions are run fairly. We broadly support the provisions as set out in the recent discussion document '*Reforming the New Zealand Emissions Trading Scheme: Rules for Auctioning'*, which outlines proposals as to how the auctions will run. The bill does not legislate for these rules which will be made by regulations. The bill simply enables these regulations to be made and sets out the types of decisions that need to be made. Accordingly, we support these provisions of the bill.

18. In particular, we support auctions being made accessible to all NZETS participants with clear rules and a timetable. The outcomes must be transparent while preserving the confidentiality of bidders.

Phase down of industrial allocation

19. Industrial allocations are free allocations of units to EITE's (energy intensive trade exposed) businesses introduced to mitigate the risk of emissions leakage. Allocations are made to eligible industrial activities.

20. We believe industrial allocations should come under the ambit of the Climate Change Commission which should advise the Minister on the phase-down.

21. As with the carbon price, the phase-down of industrial allocations needs to take account of what is happening internationally and what our trade competitors are doing.

22. We are pleased the bill acknowledges the risk of emissions leakage and requires the Minister to take account of this in recommending the phase-down rates. However, we remain concerned that the phase-down as planned will not prevent local businesses from closing and emissions leakage to occur as that economic activity is simply shifted offshore.

23. There is an underlying assumption that our trade competitors are taking similar actions to those being proposed, particularly around imposing similar levels of carbon pricing to reduce their emissions. However, this is seldom the case and it is noteworthy that other jurisdictions including the EU are finding adoption of their proposed targets challenging. Until such time as there is parity, free allocations to New Zealand's EITE sectors should remain.

24. One possibility, the New Zealand regime should consider is linking New Zealand's phase-down of industrial allocation to an index measuring a cohort of regional CO_2 markets, perhaps specific to the industry/commodity in question. This could be based on the model proposed (but not implemented) under the Australian Clean Energy Act which would have triggered a phase-down of allocated emission units when a set percentage of international competitors (70%) faced similar

emission reduction measures.

25. The phase-down of industrial allocation also needs to take account of ability to abate and alternative fuels available. We note that coal users in New Zealand (especially in the South Island) as well as other fossil fuel users, can only transition to other energy sources at significant cost, and those costs, given current options, would make many of those users uncompetitive.

26. Most coal users are open and upfront about the challenges they face switching out of coal. Fonterra, for example, has said that to replace its coal-fired boilers with wood biomass, it would need access to a forest the size of Belgium every year to keep them running. It has also highlighted the excessively unaffordable capital and operating costs of converting to electricity.

International units

27. While an international carbon market is not possible at this time, New Zealand's ETS must allow some trading in international carbon units. Under the reforms, if the ETS were to re-open to international units in the future their volume would be limited to maintain the focus on reducing New Zealand emissions. We do not support this approach. Climate change is a global issue and limiting global temperature rise to 1.5% requires a global approach i.e. a reduction in global emissions. Allowing the purchase of legitimate overseas units with high environmental integrity allows emission reductions to occur where abatement costs are the lowest which is what the trading scheme is designed to achieve.

28. In terms of who is allowed to purchase international units, it remains unresolved, but we reiterate our view that it is important that businesses be allowed to purchase approved overseas units directly and not just the government for local onward selling. An indirect pathway whereby the government buys the units and then auctions limited volumes would not necessarily reflect the price our competitors are facing which would be one weakness of this method.

29. It goes without saying that all such overseas units must be verified and have environmental integrity.

30. We support provisions in the bill which allow the Government to cancel international units that are not credible i.e. not representing real emissions reductions.

Strengthened compliance regime

31. We support the introduction of liability infringement notices. These are preferable to the increased use of criminal offences for low level offending.

Transparent scheme

32. We support increased transparency which is important for building trust in the scheme. However, when it comes to making data on individual businesses emissions publicly available a tradeoff is needed to minimise the risk of unnecessarily providing insights into individual businesses' commercial operations.