

Submission from Straterra

To MFE

Reforming the New Zealand Emissions Trading Scheme: Proposed Settings

February 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 make this brief submission on the Government's proposals for the Emissions Trading Scheme (ETS) as set out in the discussion document, [Reforming the New Zealand Emissions Trading Scheme: Proposed Settings](#) (the document).

Submission

Provisional Emissions Budget

3. The provisional emissions budget is a temporary limit set on emissions for the period 2021-2025 before the Climate Change Commission (the commission) is able to provide its first official emissions budget recommendations to the Government in early 2021.
4. There are a number of risks associated with a provisional emissions budget being produced before the commission has done its work as the commission's recommendations are unlikely to be totally aligned.
5. If there is to be a provisional emissions budget, we recommend a cautionary approach which is not too ambitious in the short term. We disagree with the straight-line approach used to arrive at the provisional emissions budget, as proposed in the document.
6. In terms of the government's general approach to meeting its 2050 target, we disagree with the notion that immediate and urgent action toward the target is needed. Technological developments are bound to make the cost of abatement cheaper in the coming years and we must avoid locking into current technologies which are both more expensive and not the most effective in terms of reducing emissions. For example, businesses converting out of coal-fired burners into biomass or natural gas may become locked into suboptimal

technologies for several years and so would be unable to take advantage of improving technologies in the areas like electrification as it becomes more affordable.

7. While there is uncertainty, it is likely abatement costs will get cheaper toward the middle or later part of the period leading up to 2050 due to unknown but likely technology advances. There are also other factors that need to be taken into account, such as the uncertainty around whether other countries adhere to their Paris commitments.

Complementary Policies

8. The document makes a case for a package of complementary policies to support the ETS and help deliver the provisional emissions budget. While there will be some exceptions, we do not agree with the premise that complementary policies are needed and believe that many of these would be counterproductive or duplicative.
9. Allowed to work properly, emissions pricing is the least-cost way of reducing emissions. Policies and regulations imposed on top of the ETS can result in distortions and unforeseen outcomes and disrupt the efficient working of the ETS.
10. These complementary policies also overlook the fact that the government is taking steps to strengthen the ETS with major revisions to its settings, including the removal of the price cap and the newly introduced volume cap. These amendments to the ETS need to be allowed to run their course before complementary measures are imposed.

Unit Supply Settings

11. Beyond the provisional emissions budget the proposed volume of New Zealand Units (NZUs) that will be available to auction annually within the ETS needs to be established.
12. We think this must be the subject of more analysis by the Climate Change Commission before decisions are made with more account taken of a number of factors beyond those set out in the document. As noted above, this review of ETS settings is occurring as other complementary policy initiatives are being introduced (not all of which are being led by the Ministry for the Environment) which will impact on businesses' emissions decisions and influence the optimal supply settings.
13. The upcoming **review of the industrial allocation regime** is one such initiative. While the proposed volume of units available for auction does take account of industrial allocation volumes, if these are to be reviewed and reduced, this not only impacts on the overall volume but also the distribution across holders. The calculation of available units needs to be delayed until after the review.
14. We agree that the issue of **stockpiled NZUs** must be dealt with but disagree with the proposal to withhold NZUs from auctions. There is an assumption that doing this will result in units being made available on the secondary market, but this will not necessarily be the case and the consequences will be dire for many businesses if they are not and there is a shortfall of units. We recommend that the proposal be delayed until a better understanding of the impacts on the secondary market is arrived at.

International Units

15. While an international carbon market is not possible at this time, and has been ruled out by the recent legislation, we believe New Zealand's ETS should allow some trading in international carbon units. Limiting 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. International units will only be used when cheaper domestic opportunities are not available.
16. Although the ETS is closed to international carbon markets, we agree the question of how international units should be included needs to be considered should the scheme be reopened to international carbon markets.
17. One option is for international units to be among the units introduced as part of the cost-containment reserve i.e. when a trigger price is reached, and units beyond the capped sum need to be found, international units could be released. It goes without saying that all such overseas units would have to be verified and have environmental integrity.

Price Controls

18. 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 we are not made uncompetitive and emissions leakage does not result.
19. We support the cost containment reserve (CCR) replacing the fixed price option (FPO) as a mechanism for regulating prices but believe the trigger level price for the CCR needs to reflect the international price.
20. In arriving at the \$50 price ceiling trigger for the CCR, the government has drawn on its marginal abatement cost (MAC) analysis across all sectors of the economy. Based on this, it has concluded that the CCR prices are unlikely to be triggered. We note the industries concerned have yet to confirm the accuracy of the MACs so care should be taken before they are used to inform policy. MACs only apply at a specific point in time and do not take account of consumer and business responses over time.
21. The proposed FPO price of \$35, up from \$25, which will be applied in 2020 until the CCR is in place appears to be arbitrarily chosen and we do not support it.
22. The price controls at auction will not prevent the secondary market from trading above the expected price ranges from time to time and we are concerned that the mechanisms in place will not be able to avoid the serious impacts on household costs and the economy when this occurs.

Climate change policy process

23. Finally, as a general comment, we are having increasing concerns about the way the government's climate change policy process is occurring – and not just in terms of the number of consultations and initiatives announced over a short timeframe.

24. The overlapping nature of many proposals risks causing policy incoherence and incompatible goals. For example, the reforms to the ETS coinciding with proposals for phasing out fossil fuels in process heat, and the proposed KiwiSaver ban on fossil fuel investments. These are coming alongside a number of other reforms outside the climate change ambit which will impact on the New Zealand internationally competitive primary sector including freshwater, indigenous biodiversity and the Resource Management Act.
25. There is little coherence in many of these initiatives, no direct assessment of competitive impact and these initiatives are being progressed without the input of the newly created Climate Change Commission.