

11 August 2023

James Palmer
Chief Executive
Ministry for the Environment
23 Sheppard Place
WELLINGTON 6011

Sent via email: etsconsultation@mfe.govt.nz

Dear James

Review of the New Zealand Emissions Trading Scheme

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Ministry for the Environment (MfE), the Ministry of Business, Innovation and Employment (MBIE) and Ministry for Primary Industries (MPI) discussion document "*Te Arotake Mahere Hokohoko Tukunga: Review of the New Zealand Emissions Trading Scheme*"¹ published for consultation on 19 June 2023.
2. MEUG members have been consulted on this submission. This submission is not confidential. Members may lodge separate submissions.

Overview of MEUG's submission

3. MEUG supports a credible and robust New Zealand Emissions Trading Scheme (NZ ETS) that supports our country in meeting our climate change targets. The Government recognises the ETS as its "*main emissions pricing tool*" and acknowledges the "*critical role*"² it plays within New Zealand's climate change policy. Many of MEUG's members have direct obligations under the NZ ETS, while all members face the cost of carbon through their electricity prices and fuel costs.
4. MEUG has several fundamental concerns with the proposals set out in this discussion document and believes that this ETS review has severely damaged confidence in the carbon market. We consider that:
 - a) This review introduces a significant level of political and regulatory uncertainty into the carbon market and has the potential to seriously impact property rights, if the Government does not swiftly rule out any retrospective changes to carbon units.

¹ <https://environment.govt.nz/assets/publications/climate-change/Review-of-the-New-Zealand-Emissions-Trading-Scheme-Discussion-Document.pdf>

² Page 13 of the discussion document.

- b) The discussion document fails to properly consider the other tools that Government could utilise to address its concerns with the role of forestry, and rather relies on substantial changes to the NZ ETS.
 - c) The discussion document provides very limited analysis of the four options, making it difficult for submitters to provide meaningful comments on the options.
5. We expand on each of these points below.

Poor regulatory approach significantly impacts on property rights

- 6. MEUG is concerned that this NZ ETS review has had a significant detrimental impact on market participants, damaging their confidence in the New Zealand carbon market. The scope of some of the proposals would not only severely impact New Zealand foresters but would also impact any participants who currently hold forestry units to meet their obligations.
- 7. This review creates more uncertainty, which is counter to the intent of the NZ ETS, where a *“strong and stable emissions price signal should encourage greater climate action across the economy”*.³ The NZ ETS has already undergone several refinements, with the discussion document⁴ itself noting the numerous consultations that have been undertaken over the last three years.
- 8. What is the most concerning to MEUG is that the discussion does not rule out the possibility of retrospective changes to the rights of forestry currently registered in the NZ ETS. The discussion document introduces the concept of vintaging which would *“put on expiry date on units being held by participants in the NZ ETS stockpile”*⁵. Option 1 also discusses the option of using existing levers such as industrial allocations, at a time when MEUG note that government is already considering changes to industrial allocations through the *Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Bill*.⁶
- 9. To foster a supportive investment environment where businesses are confident to invest in decarbonisation projects, the Government needs to ensure clear and unambiguous property rights without constant amendments to the scheme. We strongly recommend that the Government rule out any retrospective changes to the fungibility of currently held NZ units or the future use of NZUs from investments already made before it proceeds with any further work on this review.

Blunt measure to address forestry issues

- 10. MEUG is concerned that the Government has not fully considered the policy tools it has available outside of (yet complementary to) the NZ ETS to drive a change in forestry focus.
- 11. We recognise that as the *“NZ ETS does not distinguish between emissions reductions and removals.....it is likely the NZ ETS will continue to drive considerable carbon removals from exotic forests and wont lead to significant indigenous afforestation or promote other nature-based solutions that can remove carbon from the atmosphere.”*⁷ We also agree with the statement that while forestry is an important means of removing carbon

³ Page 14 of the discussion document.

⁴ See pages 22/23 of the discussion document.

⁵ Page 63 of the discussion document.

⁶ <https://bills.parliament.nz/v/Bill/de05f452-bb22-4288-b5ef-345da2194394?Tab=history>

⁷ Page 11 of the discussion document.

dioxide from the atmosphere:

“...it can also achieve other strategic objectives. These include providing long-term carbon sinks (including those that enhance indigenous biodiversity); improving freshwater outcomes; building resilience to the impacts of climate change; and providing economic opportunities for landowners, including tangata whenua.”⁸

12. In the discussion document, the Government sets out the need to use a portfolio approach to drive emissions reductions and removals across New Zealand. We would encourage the Government to extend this approach to addressing the issues and opportunities it sees facing the forestry sector.
13. MEUG has reviewed the BusinessNZ Energy Council’s submission and supports its recommendation for a comprehensive assessment of all aspects impacting afforestation economics and potential planting, including factors beyond the carbon price to formulate robust policies and solutions.

Limited analysis of options hampers input from stakeholders

14. The Government has identified four high-level policy options that could be adopted if the decision is made to use the NZ ETS to prioritise gross emissions reductions, while maintaining support for removals. These range from using existing levers within the NZ ETS differently (such as auction volumes), to incentivising removals through an entirely different system from the current NZ ETS. While the paper provides a description and an initial assessment of these four options, we are disappointed that there is very little detailed analysis, particularly quantitative in nature.⁹ The options are relatively broad, with not much specific detail. This makes it difficult for submitters to understand the true costs and benefits of the options and state a preference for any of the options.
15. MEUG supports the BusinessNZ Energy Council’s recommendations that the Government should:
 - a) Conduct a comprehensive quantitative analysis to determine the level of gross emission reductions intended up to 2050 before any options are decided, and
 - b) Include a comprehensive assessment of the costs and benefits of each option in rebalancing the ETS towards more gross reductions. This should include assessing non-ETS regulatory measures aimed at managing and constraining afforestation, without changing the current ETS structure and undermining its effective price signal.
16. We consider that the preparation and consultation on this level of information would enable submitters to provide more insightful submissions and enable Government to make more informed decisions on the direction for the NZ ETS.

⁸ Page 14 of the discussion document.

⁹ We note that the discussion paper actually provides more commentary on the context for the review, in contrast to discussion of the options.

17. If you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely



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