

21 September 2018

ETS consultation
Ministry for the Environment
By email to etsconsultation@mfe.govt.nz

Dear ETS consultation team

Submission on improving the NZ ETS

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Ministry for the Environment consultation document "Improvements to the New Zealand Emissions Trading Scheme" (NZ ETS) published 13th August 2018.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. MEUG supports periodic reviews to improve the NZ ETS so that "it is a credible and well-functioning scheme that helps us meet our climate change targets."² Pricing greenhouse gases is, in our view, central to long-term effective international and New Zealand's domestic management in reducing emissions; hence the importance of the ETS.
4. The next section discusses 3 important background themes underlying this submission.
5. The remaining 4-sections of this submission comment on:
 - Co-ordinated decision-making proposals;
 - Price ceiling proposals;
 - International unit limit proposals; and
 - Industrial allocation phase-down proposals.
6. We do not comment on possible improvements discussed under auctioning proposals, market governance proposals, market information proposals and compliance and penalties proposals.³ MEUG's silence is because we have no view at this stage; not that we disagree that improvements need to be considered.

¹ URL <http://www.mfe.govt.nz/publications/climate-change/improvements-new-zealand-emissions-trading-scheme> at <http://www.mfe.govt.nz/consultation/ets>

² Ibid, web page

³ A summary of these proposals and those listed above is set out on pp9-11 of the consultation document.

Background themes

7. The following three themes underly the detailed comments on the consultation document.

- Climate change policies should align actions with other countries.

A key issue for MEUG is, in developing the pathway towards a low carbon future and greater international alignment of prices on greenhouse gases, Government should align New Zealand's actions with other countries, e.g. through equalised costs of abatement or other mechanisms

New Zealand is an open, trading economy. We export and compete in international markets, and our domestic businesses face low-cost competition from imports. Imposing costs on our businesses that our international competitors don't face will make us uncompetitive, cost jobs and export production to countries powered by fossil fuels and with lower environmental, labour and health and safety practices than New Zealand.

Members are already highly incentivised to increase efficiency and reduce emissions.

MEUG members contribute \$11 billion per annum to GDP, employ 25,000 people and have revenues of \$30 billion per annum. Any additional costs, levies, taxes, and compliance costs incurred by MEUG members and other businesses in New Zealand that are not incurred by competing businesses overseas make NZ companies less viable.

- Policy options need to be tested with an appropriate cost-benefit-analysis (CBA).

Where the outcomes of proposed policies have a high material value and are uncertain, the greater the need for robust sophisticated CBA techniques and consideration of alternative interim pathways that retain options until greater certainty on future outcomes unfolds.

In relation to some of the operational improvements considered in the discussion paper a quantitative CBA is unnecessary as alternative outcomes can be reasonably explained and compared. Quantitative CBA are necessary for testing broader policy options such as those under consideration with the drafting of the Zero Carbon Bill.

- A key policy decision being considered is whether and how a new emissions reduction target should be written into the proposed Zero Carbon legislation. The consultation document could be read to infer the decision to set a 2050 target has already been made. MEUG objects to that inference as we and other parties made submissions to the Ministry for the Environment Zero Carbon Bill consultation in July of this year recording our opposition to the 2050 target. Instead we proposed "the government sets a goal to reach net zero emissions by the second half of the century, and the Climate Change Commission advises on the specific target for the Government to set later."⁴

⁴ MEUG submission to MfE on Zero Carbon Bill, 19 July 2018, response to question 1.

Co-ordinated decision-making proposals

8. MEUG has concerns consultation on making unit supply decisions ahead of decisions being made on the Zero Carbon Bill may lead to 2-risks:
 - The entity(s) responsible for the ETS after the new Zero Carbon legislation is in place may be hamstrung by decisions arising from this consultation. That could lead to unit supply decision policies and processes being inconsistent with the tenor of the final legislation; or
 - There will need to be further consultation on co-ordinated decision-making proposals by the new entity(s) assigned that responsibility in the final legislation and hence a duplication of work for interested parties.
9. MEUG suggest the Ministry collate responses to the co-ordinated decision-making proposals, wait until there is clarity from the new Zero Carbon legislation on the entity(s) responsible for improving the ETS and pass feedback from this consultation onto those entity(s).

Price ceiling proposals

10. MEUG does not support lifting the effective carbon price higher than what the majority of what our trading partners face. Any increase in the price cap should be done from the start of a compliance year; doing otherwise could create significant adverse contractual complications.

International unit limit proposals

11. Provided units have integrity, MEUG does not support limiting the ability of New Zealand businesses to offset emissions through capping the number of units they can purchase.

Industrial allocation phase-down proposals

12. If the Government is going to phase down industrial allocations that needs to be tagged to the rate of phase down in most of our trading partners so New Zealand businesses aren't rendered un-competitive. Such a phase-down mechanism was used in the Australian Clean Energy Act 2011 whereby a phase-down of allocated emission units was triggered when at least 70% of competitors globally faced similar emission reduction measures. That approach was never implemented as subsequently Australia repealed the legislation as part of a broader shift in climate change policies. MEUG suggests that the 70% of competitors test could be adapted for New Zealand.

Yours sincerely



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