

# Submission from Straterra to the Ministry for the Environment Updates to New Zealand Emissions Trading Scheme June 2024

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## 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 consultation document [Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2024](#) (the document).

## Improvements to the ETS / International Units

3. Climate change is a global, not a local, phenomenon and climate change mitigation requires a global approach. Acknowledging that a global ETS is not achievable at this time, we advocate for as close a proxy to that as is possible.
4. The carbon price faced by New Zealand emitters, and the stringency of other policies to reduce emissions, need to parallel those faced by our international trade competitors and partners as much as possible, so we can remain competitive, and emissions leakage does not result.
5. To this end, we recommend the ETS contain a mechanism to benchmark the NZU price with a weighted average of our trading competitors. This could determine the price control trigger prices which would be preferable to the way they are currently determined. This would go a long way towards reducing the risks of carbon prices leading to carbon leakage.
6. Even though an international carbon market is not possible at this time, we consider New Zealand's ETS should be amended to allow some trading in international carbon units (from credible sources) by market participants. We urge the Government to press ahead with discussions with overseas counterparts to enable this.
7. We note that pricing schemes only cover 24% of global emissions (according to the World Bank's [State and Trends of Carbon Pricing 2024](#)) and that the average price provided by ETS schemes and carbon taxes was US\$8.00 compared with New Zealand's of around NZ\$51.00 (US\$31.00).

## Submission

8. We do not support changes proposed in the document which would result in reduced units being available and higher prices. These would come at a time of high inflation and cost of living pressures

for households and could lead to significant business closures with emissions transferring offshore (as a consequence there would be no reduction in global emissions).

9. The ETS settings are required to be reviewed annually. There have now been three updates. Significant changes on a frequent basis create uncertainty which impacts on confidence in the market and participants investing in the scheme. Stable and predictable ETS settings are needed for the scheme to work efficiently.
10. The remainder of this submission comments on the sections of the document relevant to the mining industry. We summarise our responses to consultation questions at the end.

## Options for unit settings

11. The methodology for calculating auction volumes, as set out in the consultation document on page 14, goes through a number of calculation steps. We broadly support the process, but we do not support the outcome which is a reduction in auction volumes.
12. The reduction in auction volumes is largely brought about by the proposal to reduce the volume to address the unit surplus which has accumulated over many years. (Step 5 – Set the reduction volume to address the unit surplus). We support Option 1 here (on page 21), no change to surplus reductions.
13. There are good reasons for allowing so-called “banking” of units, namely it helps reduce price volatility, ensures the NZU price is forward-looking, and supports participants to manage their future liabilities.
14. There seems to be an assumption that withholding NZUs from auctions would result in units being made available on the secondary market, but this will not necessarily be the case.
15. Lowering the supply of units at auction will not necessarily make those holders of banked units use or release them. All it will do is reduce availability for participants and cause the price to rise. The consequences will be severe for many businesses if the banked units are not released and if there is a shortfall of units.
16. In addition to the reasons given in the document, we contend the surpluses have arisen from wider government, non-NZ ETS policies that have been implemented in recent years. For example, the Government Investment in Decarbonising Industry (GIDI) Fund which has since been discontinued. These policies have distorted the ETS by reducing emissions from NZ ETS-covered sectors, which reduced demand for NZUs and created surplus units.
17. The best response to this is to leave the emissions reduction to the New Zealand ETS which has a reducing cap. Discontinuing the non-NZ ETS policies would result in reductions in the surplus and would reduce the need to retrospectively address the surplus units by reducing the unit volumes. For this reason, we oppose Option 3 on page 15, Further adjustment to manage the impact of non-ETS policies.
18. Option 2, as part of Step 1, i.e. accounting for methodological changes made in the 2023 GHG inventory (page 14) is reasonable. We support this.

## Options for price control settings

### Price control trigger prices (auction price corridor) options

19. We oppose an increase in the price control trigger prices (auction reserve price and CCR triggers) beyond what has already been signalled.

20. We do not support Option 1, on page 27, Status quo extended. A 3% increase each year plus an adjustment for forecast inflation seems random. If anything, it should be one or the other i.e. the 3% could be a proxy for inflation (given it is around the RBNZ inflation target). There is no case for applying the two together.
21. We support Option 2, on page 27, as proposed, i.e. lower price corridor trigger prices. A lower corridor would allow lower prices which reduces the cost impact on households and the economy. This is very important in the current economic environment of a high inflation and deteriorating economy, with no relief predicted in the next couple of years. Again, the annual adjustment should not be 3% plus forecast inflation.
22. We are concerned about the replication of the Climate Change Commission's recommended price control triggers as set out in Table 10 on page 27.
23. The table has a recommended auction floor price at \$68 in 2025. This is significantly higher than not only the current floor but also the current market price (\$51 at the time of writing). This auction floor price would have an immediate upward impact on the market prices, and we would be totally opposed to its implementation.
24. The commission's proposed increases to the CCR trigger price, as set out in the same table, are also excessive – \$194/\$243 (tier 1/ tier 2) in 2025, increasing to \$238/\$298 in 2029. The CCR trigger price can be seen as a de facto cap. If these increases were implemented, they would likely translate into higher market prices before the price is actually triggered in the auction because of the signal it sends the market as to how high prices are allowed to go.
25. Such an abrupt rise in the price control triggers, as recommended by the commission, would undermine regulatory certainty and likely result in carbon leakage and business closures.
26. Higher prices would also send a signal for land use to change to forestry which is contrary to what the commission and others say they want to target elsewhere.

## **Cost containment reserve volumes**

27. The cost containment reserve's (CCR) purpose is to release additional units beyond a specified threshold to stabilise prices. We support this approach and support Option 1, on page 29, the current reserve volume of units that is in place.
28. Option 2 on page 29 proposes an increase in CCR volume to reflect the surplus reduction as proposed in the document. As outlined earlier in our submission, we do not support surplus reduction and so an increase in the CCR volume should not be necessary. If surplus reductions were to occur, however, Option 2 would make sense.
29. One possibility in the future would be for international units, once they are available, to be among the units introduced as part of the cost containment reserve (consistent with the discussion in the opening paragraphs of this submission). It goes without saying that all such overseas units would have to be verified and have environmental integrity.

## **Summary / Response to consultation questions**

**What do you think of each of the options presented for step 1? What is your preferred option? Is there any other option that you think we should consider?**

30. We oppose Option 3 on page 15, Further adjustment to manage the impact of non-ETS policies.

31. We support Option 2, minimum adjustment, as part of Step 1, status quo, i.e. accounting for methodological changes made in the 2023 GHG inventory (page 14).

**What is your preferred option for step 5? Is there any other option that you think we should consider?**

32. We support Option 1 (on page 21), no change to surplus reductions.

**What is your preferred option for the price control corridor? Is there any other option that you think we should consider? What factors should inform the price these are set?**

33. We oppose Option 1, on page 27, status quo extended.

34. We support Option 2, on page 27, lower price corridor trigger prices.

**What is your preferred option for the CCR volume? Is there any other option that you think we should consider?**

35. We support Option 1, on page 29, status quo: maintain the current CCR volume.

36. We would support Option 2 on page 29, increase CCR volume to reflect surplus reduction, if a surplus reduction were to occur, but as noted above, we do not support that.