



PROACTIVE RELEASE COVERSHEET

Minister	Minister Shaw	Portfolio	Minister of Climate Change
Name of package	Approval to consult on the annual update to New Zealand Emissions Trading Scheme limit and price control settings for units	Date to be published	30 August 2023

List of documents that have been proactively released

Date	Title	Author
19 August 2022	Approval to consult on the annual update to New Zealand Emissions Trading Scheme limit and price control settings for units	Office of the Minister of Climate Change
29 August 2022	Minute of Decision	Cabinet Office

Information redacted

YES

Any information redacted in this document is redacted in accordance with the Ministry for the Environment's policy on proactive release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Summary of reasons for redaction

Information has been withheld for the reasons of commercial information, in line with s 9(2)(b)(ii) of the Act.



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Annual Update to New Zealand Emissions Trading Scheme Limit and Price Control Settings for Units: Release of Consultation Document

Portfolio **Climate Change**

On 29 August 2022, following reference from Cabinet Economic Development Committee, Cabinet:

Background

- 1 **noted** that amendments need to be made in 2022 to update New Zealand Emissions Trading Scheme (NZ ETS) limit and price control settings and extend them to 2027;
- 2 **noted** that timeframes are tight as amendments to the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 are required to be made by 31 December 2022;
- 3 **noted** that the Climate Change Commission (the Commission) has provided advice on unit settings;
- 4 **noted** that the advice from the Commission must be considered when making updates to unit settings;

Limit settings for units

- 5 **noted** that the impacts of the volume of privately owned units and required secondary market liquidity are key considerations in setting these limits and auction volumes as they relate to the accordance of these settings with the Nationally Determined Contributions, emissions budgets and 2050 target, and the proper functioning of the NZ ETS;

Price control settings for units

- 6 **noted** that price controls provide the government with a mechanism to help manage unacceptably low or high prices in the NZ ETS;
- 7 **noted** that price controls can also enable businesses to develop long-term expectations of their costs of participating in the NZ ETS to better inform their investment decisions and business planning;

Impacts of unit prices

- 8 **noted** that New Zealand Unit (NZU) prices directly affect electricity, petrol, and natural gas prices and that, at current prices of \$75, this is estimated to have the following impacts:
- 8.1 1.7-2.9c/kWh on residential electricity (approximately ten percent of cost);
 - 8.2 23c/l for diesel;
 - 8.3 20c/l for petrol;
- 9 **noted** that NZU prices also affect the ability of industrial allocation to prevent emissions leakage – the risk of New Zealand companies losing market share or shifting overseas to avoid emissions pricing;
- 10 **noted** that NZU prices affect land-use decisions, including afforestation;
- 11 **noted** that decisions on the balance of gross- and net-emissions reductions, and forestry settings within the NZ ETS will have significant implications for the impacts/implications of these settings;

Content of Climate Change Commission advice

- 12 **noted** that the Commission's advice included commentary on factors outside of the scope of the required updates to NZ ETS unit settings;
- 13 **noted** that the Commission has highlighted the prioritisation of gross emissions reductions to meet emissions budgets and 2050 emissions targets;
- 14 **noted** that the Commission describes an emerging risk that forestry in the NZ ETS will displace gross emissions reductions;
- 15 **noted** that the Commission concludes that NZ ETS settings are not the appropriate tool for managing distributional and other equity considerations in the just transition;
- 16 **noted** that the Commission's recommendations on price control settings drew heavily on the prices needed to deliver gross emissions reductions that reflect the aggregate of sector sub-targets referenced in table one of the Emissions Reduction Plan;
- 17 **noted** that the Minister of Climate Change intends to bring a paper to Cabinet later in 2022 seeking approval to the scope and process for a targeted review of the NZ ETS to strengthen incentives for gross emissions reduction;

Consultation

- 18 **agreed** to the release of the consultation document *Proposed Changes to New Zealand Emissions Trading Scheme Limit and Price Control Settings for Units 2022* (the consultation document), attached to the paper under CAB-22-SUB-0343, to support consultation on updates to the settings;
- 19 **authorised** the Minister of Climate Change to approve any minor design, editorial and technical changes to the consultation document prior to its release;

20 **noted** that the Minister of Climate Change intends to seek Cabinet approval for the necessary amendment regulations in November 2022.

Rachel Hayward
Acting Secretary of the Cabinet