



Cabinet Economic Development Committee

Minute of Decision

McGuinness Institute title:
[DEV-22-MIN-0261] New Zealand Emissions Trading Scheme: Market Governance: Release of Discussion Document for Targeted Engagement

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New Zealand Emissions Trading Scheme: Market Governance: Release of Discussion Document for Targeted Engagement

Portfolio Climate Change

On 9 November 2022, the Cabinet Economic Development Committee:

Background

- 1 **noted** that a poorly governed New Zealand Emissions Trading Scheme (NZ ETS) market for New Zealand Units (NZUs) could impact the ability to meet New Zealand's domestic emissions budgets and undermine the robustness of the NZ ETS;
- 2 **noted** that the government has been aware of substandard advice to NZ ETS forestry participants since 2014;
- 3 **noted** that a review of the NZ ETS in 2015 indicated that regulations for the governance of the NZU market could be improved;
- 4 **noted** that in 2018, the government identified and consulted on seven NZU market governance risks relating to bad advice, transparency issues with trading, and misconduct [CAB-18-MIN-0606.01];
- 5 **noted** that in 2018, the Productivity Commission recommended that reform to deliver effective emissions pricing would require a new agency to exercise stewardship of the NZU market;
- 6 **noted** that in 2021, the Climate Change Commission called for improvements to the governance of the NZ ETS;
- 7 **noted** that:
 - 7.1 in July 2021, the Ministry for the Environment (MfE) consulted on the seven market governance risks in the NZU market and potential market governance scenarios;
 - 7.2 the feedback to this consultation has been incorporated into the proposed market governance framework;
- 8 **noted** that in August 2022, Cabinet directed agencies to prepare a discussion document for targeted engagement, for Cabinet's consideration in November 2022 [CAB-22-MIN-0344];

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s 9(2)(b)
(ii)

- 10 **noted** that in August 2022, Cabinet directed MfE, in consultation with Ministry of Business, Innovation and Employment and the Ministry for Primary Industries, to undertake further analysis on an optional centralised exchange to address governance of trading risks [CAB-22-MIN-0344];

Discussion document for targeted engagement

- 11 **noted** that the discussion document *Market Governance of the New Zealand Emissions Trading Scheme* (the discussion document), attached to the paper under DEV-22-SUB-0261:
- 11.1 outlines the full detail of the proposed options;
 - 11.2 assesses MfE's preferred options and alternative options against a set of criteria;
 - 11.3 evaluates how the options address the NZU market risks relative to the status quo;
- 12 **noted** that the discussion document will act as an interim Regulatory Impact Statement (RIS);
- 13 **noted** that a further, more comprehensive, RIS will be provided to Cabinet when final policy decisions are sought in early 2023;
- 14 **noted** that the Minister of Climate Change intends to run a targeted engagement process, with submissions received up until 24 December 2022 being considered;
- 15 **noted** that MfE will run workshops to discuss the proposal, answer questions, and facilitate stakeholder feedback;
- 16 **noted** that engagement will be targeted to cater for the diverse range of stakeholders with an interest in these proposals, including iwi and Māori and NZ ETS forestry participants;
- 17 **agreed** to the release of the discussion document for targeted engagement, subject to any minor design, editorial and technical changes that may be authorised by the Minister of Climate Change before its release;

Technical requirements for the optional centralised exchange.

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s 9(2)(f)(iv)

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s 9(2)(f)(iv)

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s 9(2)(f)(iv)

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s 9(2)(f)(iv)

22 s 9(2)(f)(iv)

Funding implications for progressing this work

23 s 9(2)(f)(iv)

24 s 9(2)(f)(iv)

Janine Harvey
Committee Secretary

Present:

Hon Grant Robertson (Chair)
Hon Dr Megan Woods
Hon David Parker
Hon Damien O'Connor
Hon Stuart Nash
Hon Willie Jackson
Hon Michael Wood
Hon Kiri Allan
Hon Dr Ayesha Verrall
Hon Priyanca Radhakrishnan
Hon Kieran McAnulty
Hon James Shaw
Dr Deborah Russell MP

Officials present from:

Office of the Prime Minister
Officials Committee for DEV