



Cabinet Economic Development Committee

Minute of Decision

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New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units: Approval to Consult on Annual Updates

Portfolio Climate Change

On 10 May 2023, the Cabinet Economic Development Committee:

Background

- 1 **noted** that amendments to the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 are required to update New Zealand Emissions Trading Scheme (NZ ETS) limit and price control settings, and extend them to 2028;
- 2 **noted** that timeframes are compressed as the amendments to the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 are required to be made by 30 September 2023 to meet statutory requirements;
- 3 **noted** that the Climate Change Commission (the Commission) has provided advice on unit settings for the years 2024 to 2028;
- 4 **noted** that the advice from the Commission must be considered when making updates to unit settings;
- 5 **noted** that there is a statutory requirement for public consultation before making amendments to unit settings;

Limits settings for units

- 6 **noted** that limits for units control the annual supply of units into the NZ ETS, other than units transferred for 'emissions removal activities' such as forestry;
- 7 **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;

Price control settings for units

- 8 **noted** that price controls provide the government with a mechanism to help manage unacceptably low or high prices in the NZ ETS;
- 9 **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

- 10 **noted** that New Zealand emission unit (NZU) prices directly affect electricity, petrol, and natural gas prices, and so at prices of \$75, this is estimated to have the following impacts:
- 10.1 1.7-2.9c/kWh on residential electricity (approximately ten percent of cost);
 - 10.2 23c/l for diesel (just over ten percent of cost);
 - 10.3 20c/l for petrol (around eight percent of cost);
- 11 **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;
- 12 **noted** that at some price point, the industrial allocation settings become insufficient to prevent emissions leakage;
- 13 **noted** that NZU prices affect land-use decisions, including afforestation;

ETS Review and permanent forestry

- 14 **noted** that the government is progressing other work considering changes to the NZ ETS;
- 15 **noted** that this includes undertaking a review on the balance of gross- and net-emissions reductions incentivised by the NZ ETS, and considering the redesign of NZ ETS permanent forestry settings;
- 16 **noted** that decisions on the balance of gross- and net-emissions reductions, and forestry settings within the NZ ETS, could have significant implications on NZ ETS unit settings in future;
- 17 **noted** that public consultation for the review of the NZ ETS is expected to commence after consultation on NZ ETS unit settings is completed;

Content of Climate Change Commission advice

- 18 **noted** that the Commission has highlighted the prioritisation of gross emissions reductions to meet emissions budgets and 2050 emissions targets;
- 19 **noted** that this advice is being considered in the review of the NZ ETS;
- 20 **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;
- 21 **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;

Consultation

- 22 **agreed** to release the discussion document, *Annual Updates to New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2023*, attached to the submission under DEV-23-SUB-0079, to support consultation on updates to NZ ETS limit and price control settings;

- 23 **authorised** the Minister of Climate Change to approve minor design, editorial, and technical changes to the consultation document as needed prior to its release;
- 24 **noted** that the Minister of Climate Change will seek policy decisions and approval for issuing drafting instructions for amendment regulations in August 2023.

Janine Harvey
Committee Secretary

Present:

Hon Grant Robertson (Chair)
Hon Dr Ayesha Verrall
Hon David Parker
Hon Priyanca Radhakrishnan
Hon Kieran McAnulty
Hon Ginny Andersen
Hon Barbara Edmonds
Hon Dr Duncan Webb
Hon Rino Tirikatene
Hon Dr Deborah Russell
Hon Rachel Brooking
Hon James Shaw

Officials present from:

Office of the Prime Minister
Officials Committee for DEV