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6 June 2024

Ministry for the Environment
PO Box 10362
Wellington 6143

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Dear Sir/Madam

Waikato Regional Council staff submission to the proposed annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2024

Thank you for the opportunity to submit on the proposed annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2024. Please find attached the Waikato Regional Council's staff submission, signed under delegated authority.

Should you have any queries regarding the content of this document please contact Annika Hamilton, Policy Advisor, Policy Implementation directly on (07) 8590990 or by email Annika.hamilton@waikatoregion.govt.nz.

Regards,

A handwritten signature in black ink, appearing to read "Tracey May". The signature is fluid and cursive, with a large loop at the end.

Tracey May
Director Science, Policy and Information

Submission from Waikato Regional Council staff on the proposed annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2024

Introduction

1. We appreciate the opportunity to make a submission on the proposed annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2024.
2. We recognise the importance of climate action in the current global and national setting and Waikato Regional Council has a strategic priority to work with others to transition to a competitive low emissions economy. We consider well informed policies and strategies are necessary to ensure that the country reduces its emissions, and we recognise the New Zealand Emissions Trading Scheme (NZ ETS) as a key tool for meeting the national targets set under the Climate Change Response Act 2002.
3. We note that the NZ ETS has a direct impact on land use in the Waikato Region and caution against the unintended negative consequences associated with widespread exotic afforestation. The Waikato Regional Council does not advocate for one land use activity over another, such as the wholesale replacement of agricultural activities with forestry. Rather it is supportive of both farming and forestry continuing in a sustainable manner where land is used appropriately to adjust to climate change impact.
4. For ease of reference, we have structured the submission following the questions in the consultation document. Our comments are in the attached table, and we wish to highlight the following points:
 - a. We refer to our previous submission on the review of the NZ ETS dated 9 August 2023¹ and continue to advocate for the government to follow the Climate Change Commission's (the Commission's) advice on price control settings.
 - b. We consider the NZ ETS is a key tool for addressing climate change in Aotearoa, but it needs to be allowed to act as intended, to operate as an effective pricing mechanism, and to provide appropriate incentives for change. The unit limits and price control settings should incentivise emissions reductions. We consider that changing the price settings to reduce the cost impact on households should not be the key consideration. Such matters can be addressed directly through non-ETS policies, without undermining the price incentives and policy objectives of the ETS.
 - c. We encourage the government to reduce the surplus supply of New Zealand Units to better accord with emissions budgets and support the proper functioning of the NZ ETS.
5. It is noted that this is a technical staff submission in line with the previous submission approved by Council. We look forward to future consultation processes and would welcome the opportunity to comment on any issues explored during their development.

Submitter details

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¹ <https://www.waikatoregion.govt.nz/assets/WRC/Review-of-the-NZ-ETS-and-redesigned-NZ-ETS-Permanent-Forest-Category.pdf>

WAIKATO REGIONAL COUNCIL STAFF SUBMISSION ON THE ANNUAL UPDATES TO NEW ZEALAND EMISSIONS TRADING SCHEME LIMITS AND PRICE CONTROL SETTINGS FOR UNITS 2024

Questions	WRC response
1. 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?	We advocate for option three, which would allow for a further adjustment to manage the impact of non-ETS policies. This option would allow unit limits to reflect the sizeable changes in emissions that result from other non-ETS interventions. We consider this will better accord with emissions budgets and targets. This will also avoid surplus in the market that could then affect ETS prices and incentives and undermine the government’s climate policy objectives.
2. If option 3 for step 1 was proposed, what criteria could be used to identify eligible reductions and removals?	We consider the criteria should reflect a sustained reduction in emissions calculated over a period of time. For example, if there is a policy direction that results in significant land use change (i.e. farm to solar) this could lead to a greater reduction in carbon emissions, increasing the surplus. The settings should therefore remain responsive to non-ETS policies that have a significant effect on the way the ETS operates. The criteria should be flexible and allow for adjustments within the five-year period.
3. Do you agree with the calculation for step 2? If not, why not? Do you have any evidence or information to suggest a different share of the emissions budget?	No comments, we have no evidence to suggest a different share of the emissions budget.
4. Do you agree with the calculation for step 3? If not, why not? Do you have any evidence or information to support a different option?	No comments, we have no information to support a different option.
5. Do you agree with the calculation for step 4? If not, why not? Do you have any evidence or information to support a different option?	No comments, we have no information to support a different option.
6. Do you agree with the Commission’s surplus methodology and estimate? If not, why not?	No comment, we have no information to support a different methodology.

<p>7. What is your preferred option for step 5? Is there any other option that you think we should consider?</p>	<p>We recommend option three, which involves updating the surplus reductions for 2025-2028 to reflect the surplus estimate. This option has the advantage of reducing the surplus more quickly to better align with emissions budgets without the shock of a stepwise adjustment in 2027 under option two.</p> <p>We refer to the Commission’s 2024 advice where it states that new information shows there are too many units in the NZ ETS, increasing the risk that the government will not achieve the emissions targets. We consider this justifies changing the settings within the first two years under the special circumstances prescribed for in section 30GB(5) of the Climate Change Response Act 2002.</p> <p>Additionally, we recommend that option three is further refined to account for the number of units banked in private accounts.</p>
<p>8. We are interested in your views on the Commission’s interpretation of increased transfers of pre-1990 units. Do you think the sale of pre-1990 units have increased? If so, what factors are influencing this?</p>	<p>No comments.</p>
<p>9. 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?</p>	<p>Option one is preferred – status quo extended. We recommend that the government follows the advice of the Commission in relation to unit limits and price control settings. The NZ ETS is a key tool for addressing climate change in Aotearoa, but it needs to be allowed to act as intended, to operate as an effective pricing mechanism. The price control settings should incentivise emissions reductions and be focused on meeting the national targets set under the Climate Change Response Act 2002.</p> <p>Changing the price settings to reduce the cost impact on households should not be the key consideration for price control settings. Such matters can be directly addressed through non-ETS policies. For example, the Australian government is providing electricity bill rebates to all Australian households and eligible small business electricity customers in 2024-2025 to ease cost of living pressures.² All Australian households will receive a \$300 rebate to be paid in quarterly instalments on their electricity bill throughout 2024 -2025. Policies such as this could be used to address the short-term cost of living impacts, whilst allowing the ETS to operate in a way that drives down emissions.</p> <p>We also refer to the Commission’s 2024 advice where it states that “Many households and businesses will be able to take up options that involve lower levels of greenhouse gases (such as changing from how they travel or move goods, or heat buildings), meaning emissions pricing will impact them less and less over time.”</p>

² [Energy Bill Relief Fund extension | energy.gov.au](https://energy.gov.au)

<p>10. Do you consider a price corridor (ie, an auction floor price and a CCR), to be important? Why or why not?</p>	<p>We recognise that there may be a role for the price corridor as a transitional measure. However, the price should ultimately be determined by the supply of units released each period because price bands are likely to artificially keep the price of carbon down and prevent the NZ ETS from acting as an effective pricing mechanism.</p> <p>We note that manipulating NZ unit prices to a particular corridor raises the risk of a significant market shock in the future (in a similar way that the post-1984 economy saw a sharp rise in prices following the removal of wage and price freezes, and the sharp fall in the NZ dollar when it was devalued (and then floated) after being kept artificially and unsustainably high under the Muldoon government).</p>
<p>11. What is your preferred option for the CCR volume? Is there any other option that you think we should consider?</p>	<p>Option one is preferred – status quo, maintain the current CCR volume. We refer to our comments in question nine above. The NZ ETS should be left to operate as it was intended. Increasing the potential supply of units via the Cost Containment Reserve could increase the risk of the surplus stockpile being maintained and it could undermine the effectiveness of the NZ ETS.</p> <p>We note that if the NZ ETS becomes ineffective at driving down emissions, it is more likely that the New Zealand government will need to buy international units to meet our NDC and Paris commitments, which carries significant fiscal risk. We also note that this could negatively affect our international trade opportunities by financing other countries to transition to low emissions economies before we do so ourselves.</p>
<p>12. Do you agree with our impact analysis? Are there any further impacts that should be considered, which we have not captured in our analysis?</p>	<p>We acknowledge the impacts outlined but recognise that analysing the impact of the NZ ETS settings can be a complex exercise that is difficult to sum up in a single table.</p> <p>We consider that further categories should be included for ‘local communities’ and ‘infrastructure’. The table refers to landowners as an affected group and outlines how the returns for foresters are closely linked to the NZ ETS. We note this can drive land use change (from farming to forestry) and as a result infrastructure (like roading) will need to be reviewed and possibly retrofitted as a result. This may increase costs for local authorities and ratepayers. Land use change may also impact the employment patterns and location of services in local communities.</p> <p>We consider that the impact analysis should inform and tailor non-ETS policies to mitigate any risks associated with carbon pricing, such as land use change and the cost of living. This will enable the ETS to be left to operate as intended. We also caution against any unintended consequences of reliance on the ETS as a sole policy lever. For example, the ETS may drive afforestation and increase land use for exotic forestry. We consider there is a risk that widespread exotic afforestation could displace productive land use and result in monocultures that can increase the risk of disease, fire and extreme weather events. Therefore, non-ETS policies will be required to ensure the right trees are planted in the right place for the right purpose.</p>

