



Cabinet Environment, Energy and Climate Committee

Minute of Decision

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New Zealand Emissions Trading Scheme Tranche Two: Enabling Future Price Controls

Portfolio **Climate Change**

On 4 April 2019, the Cabinet Environment, Energy and Climate Committee:

- 1 **noted** that the New Zealand Emissions Trading Scheme (NZ ETS) is the government's key tool to assist New Zealand to meet its climate change targets, and that:
 - 1.1 the government is reforming the NZ ETS to ensure it can support the transition to a low-emissions and climate resilient New Zealand;
 - 1.2 this requires amendments to the Climate Change Response Act 2002 (CCRA);
- 2 **noted** that the amendments are being developed in tranches:
 - 2.1 in December 2018, Cabinet agreed to tranche one of amendments to the CCRA and drafting has commenced [CAB-18-MIN-0606.01];
 - 2.2 tranche two comprises of a series of papers with discrete proposals which will be considered by Cabinet over March to May 2019;
 - 2.3 tranches one and two will result in a single bill amending the CCRA to be introduced to the House in mid-2019, and to enter into force in 2020;
- 3 **noted** that price controls, that is price floors and price ceilings, aim to manage unacceptably low or high prices in the NZ ETS;
- 4 **noted** that the paper under ENV-19-SUB-0011 focuses on how to enable price controls to future-proof the NZ ETS and does not consider what an unacceptable high or low price would be;

Price ceiling

- 5 **noted** that the NZ ETS has a price ceiling in the form of a \$25 fixed price option (FPO) which allows participants to meet their NZ ETS obligations by paying \$25 cash to the Crown instead of surrendering a unit;
- 6 **noted** that in December 2018, Cabinet agreed that a price ceiling should remain in the NZ ETS [CAB-18-MIN-0606.01];

- 7 **noted** that in December 2018, Cabinet agreed that a cost containment reserve via auctioning will replace the FPO;
- 8 **noted** that further operational decisions are needed to enable the transition from the FPO to the cost containment reserve, as set out in the paper under ENV-19-SUB-0011;
- 9 **agreed** that the CCRA should be amended to provide for the Minister for Climate Change to be required to recommend the making of an Order in Council to remove the FPO once:
- 9.1 auctioning is operational (that is, the day the first auction is held); and
- 9.2 in any event, no later than 31 December 2022 (to provide a backstop and ensure the FPO is eventually removed while allowing for unexpected events);
- 10 **agreed** to ensure consistency across the CCRA, in that:
- 10.1 the \$25 maximum carbon price for the Synthetic Greenhouse Gas Levy (SGG Levy) will cease to have effect alongside the FPO following the making of the Order in Council removing the FPO;
- 10.2 despite the removal of the FPO via an Order in Council, the Environmental Protection Authority (EPA) will continue to have the option to reimburse units by paying \$25 if the reimbursement relates to a surrender or repayment which used the FPO;

Price floor

- 11 **noted** that the NZ ETS does not currently have a price floor, but there has been significant stakeholder support for a price floor;
- 12 **noted** that in December 2018, Cabinet directed officials to investigate options for a price floor, including an option to set a reserve price at auction to future-proof the NZ ETS, in light of the expected role of the Climate Change Commission and to respond to unexpected prices [CAB-18-MIN-0606.01];
- 13 **noted** that a price floor via a reserve price at auction is the most administratively simple option and would send a signal to the market that the government would not sell units below this price, but its effectiveness would be limited by the volume of units available at auction;
- 14 **noted** that enabling a price floor via a reserve price at auction does not preclude the Minister of Finance from buying back units;
- 15 **noted** that in December 2018, Cabinet agreed to a coordinated decision-making process that will require the government to make annual regulation updates setting the supply of units into the NZ ETS on a five-year rolling basis, including price control settings [CAB-18-MIN-0606.01];
- 16 **noted** that no decision is being sought on whether a price floor is desirable at this stage, or the level of a possible price floor, as this requires further consultation and analysis, which could occur as part of consultation for regulations as part of the coordinated decision-making process;

Price controls in the coordinated decision-making process

- 17 **noted** that price controls need to be considered as part of the coordinated decision-making process as they have a direct impact on unit supply;
- 18 **noted** the CCRA will not require the government to make regulations setting price controls;
- 19 **agreed** the government may set price controls (i.e. a price floor via a reserve price at auction and/or a cost containment reserve) in regulations as part of the coordinated decision-making process (agreed in tranche one [CAB-18-MIN-0606.01]);
- 20 **authorised** the Minister for Climate Change to further clarify policy decisions relating to the amendments proposed in the paper under ENV-19-SUB-0011, in a way not inconsistent with Cabinet's decisions;
- 21 **invited** the Minister for Climate Change to issue drafting instructions to the Parliamentary Counsel Office based on the decisions presented in the paper under ENV-19-SUB-0011.

Vivien Meek
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Kelvin Davis
Hon Grant Robertson
Hon David Parker (Chair)
Hon Stuart Nash
Hon Shane Jones
Hon James Shaw
Hon Eugenie Sage

Officials present from:

Officials Committee for ENV
Ministry for the Environment officials

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