

28 February 2020

Ministry for the Environment
PO Box 10362
Wellington 6143

Via email: etsconsultation@mfe.govt.nz

Reforming the ETS: proposed settings

Thank you for the opportunity to submit regarding the 'Reforming the New Zealand Emissions Trading Scheme: Proposed settings' consultation document.

Through our three membership brands, the Wellington Chamber of Commerce, Business Central and ExportNZ, our organisation represents around 3,500 businesses across the central and lower North Island. Our organisation is one of the four regional organisations that make up the Business New Zealand family and is also accredited through the New Zealand Chambers of Commerce network.

The Wellington Chamber of Commerce has been the voice of business in the Wellington region since 1856 and advocates policies that reflect the interests of Wellington's business community and the development of the Wellington economy as a whole. Business Central represents employers and provides employment, health and safety, and human resources advice, and advocates policies that reflect the interest of the business community.

As members of Business New Zealand, we support and endorse their submission on the consultation document. This submission highlights the issues most important to our members and us.

We support the government's long-term efforts to tackle climate change and the policy work underway. We urge policy-makers to continue to use a strong evidence base for making decisions, and this applies equally to the science as well as the economic impacts of new policies. The economic consequences must be well understood so New Zealand can continue to afford to transition to a low-carbon economy while maintaining business confidence to grow and employ people.

Our overall key issues are around giving business clear expectations on future policy decisions and on price paths for carbon. The ability of New Zealand emitters to access international units needs clarification because there is uncertainty now about the role and trade-offs between reduction, creation of New Zealand credits and access to international credits. It is imperative New Zealand's action on climate change runs in parallel with global efforts, otherwise, our businesses are penalised and risk losing customers to international competitors which does nothing to reduce total emissions.

Rather than going through each consultation question in turn, here is our feedback on the main points our members are interested in.

While establishing the Climate Change Commission, we agree with the proposal to set emissions for this year and next based on 2020 levels to determine relevant auction volumes. A straight line approach in the short-term is a useful mechanism to begin progress.

Extreme caution must be taken on electricity reform – pushing up electricity prices too far too quickly will dissuade the transition to electricity from fossil fuels by many sectors. It would be counterproductive to New Zealand's very high rates of renewable electricity generation to prevent it from being used to reduce emissions in other critical sectors like transport or industrial heat. Furthermore, maintaining the security of supply is vital to our commercial sectors. Any supply disruptions caused by hastily removing gas-fired baseload generation would very quickly dent business confidence and their willingness to invest in the new, emission-reducing plant and equipment.

Industry experts are questioning the sector-specific reduction assumptions underpinning the marginal abatement cost curves ('MACC'). We suggest these are verified with the relevant businesses; otherwise, it undermines the government's analysis.

We agree with the proposal for the overall New Zealand unit auction supply to remain at current levels. Withholding volumes from auctions could have an impact on the secondary market, and the implications of this policy change should be further analysed first. Supply of units is a core feature of the market and must be changed carefully. Also, the free allocation volumes need to be reassessed within the current and future policy framework because much has changed since the development of the original mechanism.

Setting the 2020 fixed-price offer ('FPO') at \$35 appears to be an arbitrary point between \$25 and \$50. We would rather see a gradual increase in the FPO with \$30 for the 2020 emissions year, and \$35 for the 2021 emissions year.

We recommend further work is undertaken on the cost containment reserves ('CCR') to provide greater clarity and certainty to businesses. The price settings to trigger the CCR need further work to understand the impact of price levels on market behaviour and ensure as much transparency as possible, so businesses know where they stand. There also needs to be clarity on where the CCR units are coming from: domestic afforestation, domestic emissions reductions, or international credits. And if international credits are used, how will this work and what are the quality safeguards? Giving New Zealanders greater access to quality international units does support the lowest cost abatement principal.

Finally, we urge policy-makers to focus on the impacts on businesses of all the policy changes taking place. This should take the form of rigorous economic impact assessments underpinned by detailed conversations with industry leaders to ensure the accuracy of the information. Impacts will be wide-ranging across domestic and international players with associated supply chains and dependent suppliers. Given New Zealand is establishing the framework for a long-term transition with extremely significant economic implications, it is imperative to get it right now to build confidence and drive faster and harder transitions as we approach 2050.

Thank you again for the opportunity to submit.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Milford', with a stylized flourish at the end.

John Milford
Chief Executive
Wellington Chamber of Commerce, Business Central