



An ExxonMobil Brand

**Response to the Ministry for the Environment *Manatū Mō Te Taiao*  
regarding Reforming the New Zealand Emissions Trading Scheme:  
Proposed settings**

**Submission by Mobil Oil New Zealand Limited**

**Public submission**

**28 February 2020**

## 1. Introduction

- 1.1. Mobil Oil New Zealand Limited (Mobil) appreciates the opportunity to provide its response to the Ministry for the Environment *Manatū Mō Te Taiao* (the Ministry) regarding its proposed changes to the New Zealand Emissions Trading Scheme (NZ ETS).
- 1.2. Mobil supports environmental policy measures where there is a demonstrable benefit to the community that is supported by sound scientific analysis, rigorous economic analysis and acceptability to the community.
- 1.3. Mobil strives to conduct its business in a manner that is protective of the environment and compatible with the environmental and economic needs of the communities in which it operates.
- 1.4. The downstream petroleum industry plays a critical role providing the energy that supports economic growth and improves the quality of life for all New Zealanders.
- 1.5. Moreover, Mobil supports the Government's efforts to make end users aware of their emissions, and acknowledges that the NZ ETS is a crucial tool in reducing emissions in order to meet the targets set forth under the Climate Change Response (Zero Carbon) Amendment Act 2019, and in support of the 2015 Paris Agreement.
- 1.6. Aligned with the New Zealand government commitment, Mobil support the goals of the 2015 Paris Agreement as a global framework to coordinate government policies. The structure of the Paris Agreement recognises that energy-related emissions are driven by society's demand for energy – not its supply.
- 1.7. Climate change is a global issue that requires collaboration amongst governments, private companies, consumers and other stakeholders to create meaningful solutions. Mobil understands that dealing successfully with climate change risks will require a coordinated effort involving individuals, governments and industry-leaders around the world.
- 1.8. Mobil strongly advocates policy measures that avoid placing undue financial burdens on industry, and supports regulations that create a level playing field. We believe market-based policies that place a uniform, predictable cost on greenhouse gas emissions more effectively drive consumer behaviour and support technology innovation.
- 1.9. Policy-makers should seek to understand and avoid any unintended consequences, which may be the result of uncertainty with increased costs of compliance for industry. Any changes to the ETS should carefully consider the timing of changes, and the ability of business to adjust to these changes.
- 1.10. Mobil's access to the global expertise of affiliate organisations provides it with a unique understanding of what defines a workable Emissions Trading Scheme.

## 2. Proposed Changes

- 2.1. The Ministry is currently consulting on range of changes to the ETS, via the Climate Change Response (Emissions Trading Reform) Amendment Bill, which proposes raising the ceiling price or "fixed price option" for carbon units from \$25 to \$35 per tonne.

- 2.2. The Ministry's consultation document, *Reforming the New Zealand Emissions Trading Scheme: Proposed settings*, states that "The Government proposes that the fixed price option remains in place for emissions produced in 2020 but is increased to \$35" (ref. p14).
- 2.3. Mobil is not opposed to increasing the fixed price option, however, we have significant concerns with the fixed price option change being incurred retroactively.
- 2.4. As the Ministry indicates in its consultation document, the fixed price option provides the certainty of a guaranteed maximum compliance cost for businesses (ref. p56). Mobil agrees, and this certainty of cost is valuable to our business in New Zealand, as it provides certainty for compliance costs under the ETS, and certainty to our customers.

### **3. Timing of Proposed Changes**

- 3.1. Mobil understands the increase in the fixed price option will happen in June 2020, but will apply to all emissions incurred in the 2020 calendar year, and therefore is being applied retroactively to emissions in the first half of 2020.
- 3.2. This change process is not aligned with the objective of the proposal.
- 3.3. The retroactive application of a higher fixed price undermines the intention of the fixed price option, which is to create certainty of compliance cost and to "transition the NZ ETS market as smoothly as possible to the new settings and to minimise the significant risks" (ref. p59).
- 3.4. Mobil recognises the Government's right to increase the fixed price, but believes it is unreasonable to do so retroactively. It is a basic principle of policy making that increased costs should be forward looking and not retroactive.

REDACTED

## **5. Cost Uncertainty to Customers**

- 5.1. Mobil understands that during the recent consultation session in Christchurch, one commodity purchaser noted they were being charged at the \$25 rate for the fixed price option, while another was being charged based on a \$35 fixed price option.
- 5.2. Not having the certainty of ETS pricing for business has the potential to adversely impact customers who may incur unplanned costs, or who may be overcharged for products they purchase. Without clear government direction on this policy change, both businesses and customers are likely to suffer unexpected costs, and there is potential for this uncertainty to create uncompetitive markets.

## **6. Global Experience with Retroactive Programs**

- 6.1. Mobil, as an affiliate of Exxon Mobil Corporation, is well aware of the potential consequences of introducing emissions reduction programs that are applied retroactively.
- 6.2. Experience in other countries with retroactive legislation has resulted in multi-million dollar litigation from businesses adversely impacted by the changes, which has stretched out over many years. This is not only costly to business in time and expense, but is also a significant drain on government resources.
- 6.3. Whilst litigation is not the preferred option, it can occur with regard to retroactive legislation.

## **7. Precedent with ETS**

- 7.1. When the ETS was first introduced in 2010, the government was very clear with business in the implementation timing.
- 7.2. The legislation was known well in advance, and the ETS cost was implemented starting half way through the year, rather than for the full year during implementation. By clearly defining this timetable, business was given the certainty it needed to effectively compete in the New Zealand market.

## **8. Options and Recommendation**

- 8.1. Mobil recommends that any fixed price option increase only be forward-looking, and only be implemented on emissions incurred after legislation is passed. One possible solution is to amend the legislation so that the year is split into two 6-month periods at \$25 and \$35 respectively.
- 8.2. This would allow participants in the NZ ETS who utilise the fixed price option to appropriately plan for its introduction.
- 8.3. However, to ensure full transparency to the market, and to avoid cost uncertainty to customers and potential significant loss of margin for business, Mobil recommends that the fixed price option increase to \$35 commence on 1 January 2021, and apply from that date forward. This is the fairest option for both customers and business, and reduces the complexity for implementation by government.

- 8.4. At the very least, Mobil considers that the New Zealand Government should allow an extensive implementation timeframe so that it can adequately prepare for the introduction of the proposed changes to the NZ ETS.
- 8.5. Mobil is amenable to further engagement with the Ministry if required, in order to further discuss the issues raised in this document.