

Reforming the New Zealand Emissions Trading Scheme: Proposed settings

Submission Reference no: 46

The details of this submitter has been withheld from publication.

Submitter Type: Not specified

Source: Email

Overall Notes:

Clause

What is your background? Please select all that apply

Position 1

Liquid fossil fuels

Position 2

Stationary energy (excluding electricity)

Position 3

Industrial processors

Position 4

Business/industry

Notes

[REDACTED]

Clause

Are you currently a registered NZ ETS participant?

Position

Yes

Notes

Clause

Do you agree with the proposal to set a provisional emissions budget of 354 Mt CO₂-e for the 2021 -25 period? If not, why not? Please include your views on: using a straight-line approach towards the 2050 target, and the considerations that were included in proposing the provisional emissions budget.

Notes

Carbon Budget - We support, at a high level, the areas of focus that are proposed to contribute to reducing New Zealand's emissions. We strongly believe that it is also important that the assumed implications of these proposed settings are clearly articulated to the public and affected parties to allow a considered view on the consequences of the budget and pricing that is being proposed We also support the approach of marginal abatement research to identify cost-effective ways to reduce emissions. We would encourage more refinement of the work already done by progressing it from a desktop academic exercise to engaging with industry to understand how it could be applied in the real world. This would include challenging assumptions with businesses that understand their industries better, for example a 6% rate of return assumption is unlikely to be used by many businesses and hence significantly skews results driving sub optimal behaviour

Clause

Are there other adjustments that need to be considered?

Position

Yes

Notes

Clause

Do you agree with the steps and calculations taken to reach the proposed annual auction volumes?

Notes

Carbon Price and Industrial Allocation - It is essential that the industrial allocation of carbon units remains in place. Industrial Allocation is a mechanism that allows emissions intensive trade exposed (EITE) industries, such as ██████████ to trade competitively within international markets where competitors have low or no emissions costs. 5. Should this mechanism be phased down, or removed, or become out of step with carbon pricing in other countries, New Zealand based EITE businesses would be put at risk and potentially risk energy security of the country. 6. As an example, ██████████ and other energy intensive businesses contract gas on a long-term basis. This allows gas suppliers to invest in production assets that currently underpin, and according to the Interim Climate Change Commission will continue to underpin, our electricity system and benefit all of New Zealand. Removing that long-term certainty and base load supply would result in higher energy costs for all New Zealanders as development and supply infrastructure will be shared by a smaller base of customers. 7. To maintain international parity and competitiveness, this allocation must remain in place until our competitors face similar pricing. Therefore, we support phase-down rates be set by the independent Climate Change Commission following extensive review and consultation with EITE industries

Clause

Do you agree with the proposal to increase the fixed price option to \$35 for obligations arising from activities over 2020?

Position

No

Notes

We also believe that it is not appropriate for the settings proposed to have a retrospective impact on emissions produced today. The document proposes lifting the fixed price option in the ETS from \$25 to \$35 in June 2020. However, that new price will apply to all emission in 2020 and is therefore being applied retrospectively to the first half of this year. At the very least new costs should be forward looking so businesses can factor them in to investment decisions or mitigate the impact if possible.

Clause

Do you agree with the proposal to set the price ceiling trigger of the cost containment reserve at \$50 for the 2020-25 period? If not, why not?

Position

No

Notes

Refer to submission 14. Cost Containment Reserve (CCR) - We do not believe that that there is sufficient detail on the practical application of the CCR to be able to comment. As a result, there is significant uncertainty as to the implications of what is proposed.

Clause

Do you agree with the proposed annual cost containment reserve volumes to be released if the price ceiling trigger is hit? If not, why not?

Position

No

Notes

Refer to submission

Clause

Do you agree with the proposed approach for release of NZ ETS settings information? If not, why not?

Position

No

Notes

Refer to submission

Clause

Do you have any further questions?

Notes

The consultation document talks at length about the minimal impact these proposed settings will have on households at a macro level, ignoring the significant impact that these proposed settings are assumed to have on specific industries, and their surrounding communities, whose operations are assumed in the proposed budget to be curtailed within the next decade. We believe that the assumed consequences of the settings being proposed needs to be clearly articulated in the consultation, rather than buried deep in supporting analysis, before providing a view on the proposed settings and also to give communities time to understand and prepare for the impact. Carbon reduction should not be achieved at any cost. Meeting reduced carbon targets is important for all, however we need to leave ourselves room to mitigate severe impacts to our people or the economy and future proof New Zealand in a positive way Carbon Price and Industrial Allocation - It is essential that the industrial allocation of carbon units remains in place. Industrial Allocation is a mechanism that allows emissions intensive trade exposed (EITE) industries, such as ██████████, to trade competitively within international markets where competitors have low or no emissions

costs. 5. Should this mechanism be phased down, or removed, or become out of step with carbon pricing in other countries, New Zealand based EITE businesses would be put at risk and potentially risk energy security of the country. 6. As an example, [REDACTED] and other energy intensive businesses contract gas on a long-term basis. This allows gas suppliers to invest in production assets that currently underpin, and according to the Interim Climate Change Commission will continue to underpin, our electricity system and benefit all of New Zealand. Removing that long-term certainty and base load supply would result in higher energy costs for all New Zealanders as development and supply infrastructure will be shared by a smaller base of customers. 7. To maintain international parity and competitiveness, this allocation must remain in place until our competitors face similar pricing. Therefore, we support phase-down rates be set by the independent Climate Change Commission following extensive review and consultation with EITE industries. 8. Should significant differences in ETS settings between New Zealand and other jurisdictions occur, this would have a detrimental effect on the international competitiveness of New Zealand based businesses and be a driver for carbon leakage where, for example, low carbon methanol in New Zealand is replaced with high carbon coal-based methanol overseas. The cumulative effect of the proposed price settings and industrial allocation phase down, is significant for all energy intensive businesses and hence has impact on their associated communities and households. The speed of change proposed is significantly out of step for our industry relative to the rest of the world. At present over 94% of global methanol production is not subject to a carbon price and the other major methanol producing and exporting countries have not signaled material change to this in the short term. 10. The proposed settings will make New Zealand significantly more uncompetitive and increases the significant risk of carbon leakage. We cannot support ETS settings that support the perverse outcome of increasing global emissions. 11. We would propose that more industry specific ETS settings are applied which would minimise global emissions as opposed to New Zealand emissions International Units - The use of high-quality international carbon units will be an important tool to protect New Zealand's international competitiveness. This will ensure domestic emissions do not decrease at the expensive of increasing global emissions through carbon leakage, together with maintaining a strong economy where internationally competitive organisations are well placed to operate. As with the Industrial Allocation, we support the use and supply of international units to be managed by the independent Climate Change Commission following extensive review and consultation. Closing Remarks In finalising the Reforming the New Zealand Emissions Trading Scheme: Proposed settings, we urge you to consider how the Emissions Trading Scheme will impact the prosperity of the people of New Zealand and our ability to reduce global, not just New Zealand emissions.

The submitter have elected to withhold their personal details from publication.