

28th February 2020

Ministry For The Environment
Wellington
Via email: etsconsultation@mfe.govt.nz

Reforming the New Zealand Emissions Trading Scheme: proposed settings consultation document

ExportNZ is pleased to have the opportunity to provide a submission to the Ministry For The Environment on reforming the New Zealand Emissions Trading Scheme.

The Climate Change Response (Emissions Trading Reform) Amendment Bill is an important issue for exporters. The nature of exporting means that these businesses are trade-exposed, so the cost of doing business is important. Furthermore, many of our exporters are energy-intensive. While New Zealand's export profile is changing, and our services exports are growing, between 70 - 80% of our goods exports are from agricultural products¹, where New Zealand has a natural competitive advantage.

Overview

ExportNZ is supportive of an Emissions trading scheme that sends price signals that change behaviour at both a business and consumer level. The emissions trading scheme needs to ensure that businesses are getting the right signals to reduce emissions, but that the transition to a low carbon economy is economically manageable. In a well-functioning market, the additional costs flow through to consumers and behaviour changes accordingly.

New Zealand is already a high-cost place to do business compared to our closest neighbours in Asia. The cost of doing business in New Zealand has increased recently due to minimum wage increases, regulatory and environmental policy changes. It is important that achieving a 'just transition' for businesses into a lower emissions future for New Zealand is carefully considered to ensure jobs are not at risk, and global emissions don't

¹ ANZ: While primary industry exports make-up only 7% of GDP, they account for 75-80% of goods exports and have a flow on impact of another 3% GDP in food manufacturing.

increase due to carbon leakage, i.e. more emissions intensive industries overseas picking up where we left off.

Uncertainty Around Impact

ExportNZ is concerned by the lack of modelling of both sector and economy-wide impacts of the proposed changes to the ETS. Increased carbon prices will impact a range of sectors in different ways. It is difficult to find a business in New Zealand that is not trade-exposed, given we have an open economy and few barriers to doing business in New Zealand. Increasing carbon prices could have significant impacts across the entire supply chain. This could result in business closures and job losses. We need to understand what impact a \$50/tonne emissions price would have on all those businesses that fall below the free allocation thresholds. Indeed, we need to understand the cost impact on the EITE companies getting free allocation as well

The lack of modelling also impacts businesses ability to prepare or understand what the tangible impacts on their business will be. If the proposed amendments impact the viability of a business's ability to operate and jobs are lost, political support for the scheme could be undermined due to public and business backlash.

The lack of modelling also makes it difficult to comment on the level of the CCR trigger price. There does not appear to be robust, or fact-based justification for setting the CCR trigger prices at \$50. If the price does hit the ceiling of \$50 per tonne it is important to understand the impact of that on the economy. For example, if agricultural emissions are to be included in the ETS in the next five years, we have seen economists report that at \$70 per tonne, it becomes more economically viable for farms to stop producing food and start planting pine trees. Agricultural representative groups say this change would happen at \$50 per tonne. The world will continue to need food and our farmers are amongst the lowest emissions producers of food in the world due to our grass-based farming system and our high productivity. This, plus the fact that 70-80% of goods exports are agricultural, seems to be a poor policy choice in our view, both for the environment and the economy.

The impact of all decisions made about the possible amendments to the emissions trading scheme, need to be clearly understood before these decisions are made. Transparency between businesses and the regulator will be crucial in ensuring sustainable and robust policy.

International units:

ExportNZ believes that participants should be able to purchase and sell and internationally sourced units. However, internationally sourced units would need to meet the same standard that is set for domestically sourced units.

The ability to source international units is critical for NZ to be able to meet the emissions budgets in a cost-effective manner. The consequences of limiting the ability of firms to buy the 'least-cost' emissions reduction units could lead to problems with global competitiveness and carbon leakage. The cost of emission abatement in New Zealand is

unusually high due to our unique emissions profile. Having a high percentage of renewables already, combined with a high percentage of methane and transport emissions, means there are few low-cost options available. In the report "*Economic impact analysis of 2050 emissions targets - A dynamic Computable General Equilibrium analysis*" commissioned for MFE by NZIER, it was estimated that to get to net carbon zero by 2050, the price of emissions would need to be north of \$200 a tonne, even with a breakthrough in methane inhibitors and significant innovation.

To conclude, while we support putting New Zealand on a path to a lower emissions future, and that a market mechanism like the ETS is a good way to do this, we can not risk getting too far ahead of the other countries.

If international competitors are facing similar costs, we will maintain our competitiveness. While there are pledges being made internationally to increase emissions prices, this will need close monitoring – or we will fail both economically and environmentally.

ExportNZ would urge MFE and MBIE to do economic analysis on the impacts on small to medium-sized businesses. It is difficult to comment on the proposed settings when the actual impacts on business are uncertain. There are several different industries that could be heavily impacted by an increase in costs, not just the manufacturing sector. In fact, businesses in the creative sector are amongst the largest energy users when they use a lot of computing power.

Policy makers should be focussed on getting New Zealand on a sustainable path, not a dramatic path. The latter will be painful and undermine public support for the changes we need to make.

Yours Sincerely,



Catherine Beard
Executive Director
ExportNZ

[Redacted]

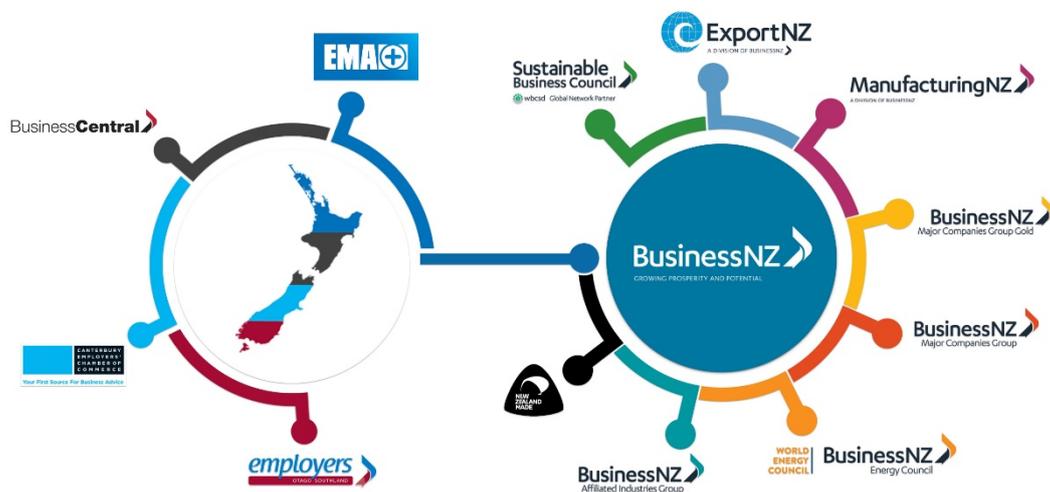
[Redacted]

ABOUT EXPORTNZ

ExportNZ is a national industry association representing a diverse range of exporters throughout New Zealand. ExportNZ is a division of BusinessNZ, New Zealand's peak business advocacy body.

We are a membership organisation and across our two brands have approximately 2,000 export members. We also have four regional partners: Employers Manufacturers Association (Upper North Island), Business Central (Lower North Island), Canterbury Employers Chamber of Commerce (Upper South Island) and Otago Southland Employers Association (Lower South Island) which between them represents the bulk of manufacturers in New Zealand.

Our value proposition for members is a mixture of policy and advocacy, education and training, networking, trade missions and inspiration through awards events and conferences. Notably, we run a BusinessNZ Chief Technology Officers Group, incorporating the largest innovation-driven companies in New Zealand, many of which export.



BusinessNZ Network