Submission from Straterra
to the Ministry for the Environment
Review of the Emissions Trading Scheme
August 2023

Introduction

1. Straterra is the industry association representing the New Zealand minerals and mining sector (including coal). Our membership is comprised of mining companies, explorers, researchers, service providers, and support companies.
2. We welcome the opportunity to make this brief submission on the Government's Emissions Trading Scheme (ETS) review as set out in the discussion document, Review of the Emissions Trading Scheme (the document).

Key points

- We do not support a strategic shift away from net emissions towards gross emissions in the Government's climate change response. Likewise, we do not support using the Emissions Trading Scheme (ETS) to prioritise reductions of gross emissions.
- We do not support any of the four options provided in the document.
- There are other important policy changes that could be made to improve the workings of the ETS that are not canvassed in the discussion document such as allowing trading of international units and benchmarking carbon prices to those of our trading partners.
- Confidence in the ETS is at risk because of the lack of a clear policy direction.

Continual reviews are undermining the ETS

3. We are concerned about the continual tinkering with the ETS which is contributing to uncertainty and undermining confidence in the scheme. It must be left to do its job but the frequency and materiality of setting changes and reviews have damaged confidence in the ETS which is weakening investment in decarbonisation.

Gross vs net emissions / forestry offsets

4. From a climate science perspective, it doesn't matter if reducing carbon in the atmosphere comes about by reducing gross emissions (greenhouse gases that are released) or increasing removals of carbon from the atmosphere. A tonne of carbon permanently sequestered from the atmosphere is just as good as a tonne of carbon dioxide that is not emitted and so it is net emissions which matter for the science of climate change, not gross emissions.
5. This is presumably why the Climate Change Response Act 2002 was drafted with a net zero emissions target not a gross target and why the ETS is designed to meet the country's net emissions target.
6. It would be a major change of direction for the Government to shift the focus from net to gross emissions. Before adjusting the ETS settings again to achieve this, the Government should first come to a view that a shift from net to gross is the right strategy. (And we don't think it is.) The review of the ETS should not occur until after that issue is settled.
7. Gross emissions are declining and will continue to decline as the world shifts towards a low carbon economy including non-carbon emitting fuels and renewable energy.
8. If an easy way to reduce atmospheric carbon in the short term is to focus on removals, then we should not be discouraging that.

Exotic vs indigenous forestry

9. We do not think the review should be making value judgements about exotic versus indigenous forests. It is not the place of the ETS to achieve biodiversity outcomes.
10. We acknowledge the importance of indigenous forests, but the ETS is a policy tool to reduce carbon emissions and it shouldn't be used as a biodiversity instrument (just as biodiversity policy shouldn't be used to address climate change policy).
11. Exotic forestry is currently one of the lowest-cost and scalable sources of removals – more so than indigenous because it grows and absorbs carbon quickly. If emissions reduction is the goal, investment in exotic forestry should be welcomed.
12. The Government has a number of options outside the ETS to manage afforestation without undermining market signals in the ETS.

Government policy / Emissions reduction plan is undermining the ETS

13. The discussion document implies in a number of places that the price of NZUs is too low. Specifically, it says it is cheaper for emitters to pay for their emissions rather than investing in improving energy efficiency.
14. We do not think the NZU price is too low. However, we note that there is case to say that it is lower than it otherwise would be if the Government did not pursue policies designed to mandate how and where emissions should be reduced. For example, under the Government Investment in Decarbonising Industry (GIDI) Fund significant resources are allocated to encouraging emitters to switch out of fossil fuels, meaning they are taken out of the ETS as buyers of units resulting in lower prices than would otherwise exist.
15. These lower prices benefit more favoured emitters, but do not do anything to bring overall emissions down given the ETS's sinking lid on NZU supply.

16. Many of the regulations and policies to reduce emissions contained within the Emissions Reduction Plan (ERP) are not necessary for this reason. It is this, by definition, that will bring New Zealand emissions down, not the array of proposed interventions contained within the ERP which are interfering with the ETS and distorting the economy generally.

International units

17. Climate change is a global, not a local, phenomenon. The New Zealand ETS is incomplete in that it does not take account of carbon prices in international markets. Consequently, it risks undermining New Zealand's international competitiveness with no benefit for the world's climate.
18. In the absence of international carbon markets, we consider it is essential that the carbon price faced by New Zealand emitters (and the stringency of other policies to reduce emissions generally) parallels those faced by our international trade competitors and partners as much as possible, so we are not made uncompetitive, and emissions leakage does not result.
19. To this end, we recommend the ETS should contain a mechanism to benchmark the NZU price with a weighted average of our trading competitors. This could determine the price cap (and the cost containment reserve) which would be preferable to the rather arbitrary way it is currently determined. This would go a long way towards reducing the risks of carbon prices leading to carbon leakage.
20. Even though an international carbon market is not possible at this time, we consider New Zealand's ETS should be amended to allow some trading in international carbon units (from credible sources) by market participants.
21. One option in the interim would be for international units to be among the units introduced by the Government as part of the cost containment reserve.