

## IETA SUBMISSION IN RESPONSE TO THE PUBLIC CONSULTATION ON THE NEW ZEALAND EMISSIONS TRADING SCHEME

14.06.2024

### INTRODUCTION

IETA appreciates the Ministry for the Environment's and Climate Change Commission's efforts to facilitate the successful regulation of the emissions trading scheme (ETS) in New Zealand, and their willingness to engage with stakeholders through public consultation. However, IETA expresses concern with the proposed changes, excess policy interventions, consequent instability and lack of confidence in the market.

This submission addresses the following document: [Annual Updates to NZ ETS Limits and Price Control Settings for Units 2024 Consultation Document](#). In particular, IETA will address [Section A: Options for unit settings](#), [Section B: Options for price control settings](#), and [Section C: Impacts of NZ ETS unit settings](#).

We look forward to working together to facilitate efficient carbon markets to bring us closer to achieving the goals of the Paris Agreement. For any questions, do not hesitate to reach out to us through the contacts listed at the end of this paper.

### UNIT SETTINGS

To achieve our climate goals, the right market signals must be present to incentivise businesses to reduce emissions. IETA believes that an excessive surplus, which could negatively impact the effectiveness of the ETS in meeting national emissions budgets, could require amendments by the Ministry. However, due to the uncertainty about the estimated stockpile, basing proposed changes to auction volumes on these figures, as recommended by the Commission, may have unintended negative consequences. Before reducing the volumes available at auction, more analysis would be necessary to test stockpile volumes and confirm any excessive surplus of allowances. This would help address variability and uncertainty in estimating the surplus volume, as proper calibration of unit limits is essential to prevent an over-correction or under-correction of the market.

A gradual and smooth tightening of the system, with an incremental reduction in unit limits and lowering of auction volumes, without excessive artificial amendments to the market policy would be the preferred way forward.

### PRICE CONTROL SETTINGS

IETA believes there is no need to alter the auction price floor, the cost containment reserve (CCR) trigger price, or the CCR volume. Introducing additional changes and uncertainty to the market would negatively impact the functioning of the ETS and be counterproductive to the government's goal of enhancing market confidence and stability. The potential lowering of corridor price triggers has impaired investor confidence, and as a result, participants across the market — including foresters, emitters, and investors — have become more reluctant to engage in NZU transactions, or invest in



forestry and decarbonisation technologies. Unnecessary meddling with the ETS price settings may also diminish the appetite of global financial institutions to invest in the NZ ETS. Considering the history and experiences from previous alterations in price control settings, it is concerning to see this option reflected in the document. We urge the government to consider the potential impacts consultation documents may have on the functioning of the market. We believe that maintaining the status quo and signalling an intent to retain the price corridor as defined would support confidence in the market for compliance and other market participants.

IETA recognises the benefits price corridors can deliver in emissions trading systems. Firstly, by mitigating the risks of extreme price volatility and acting as a mechanism to self-correct for supply shocks. Secondly, price corridors provide businesses with a level of predictability, which enables strategic long-term planning and investments. Thirdly, environmental integrity can be enhanced, as economic incentives for emissions reductions will be present even when demand for allowances is low. However, for these benefits to be realised, the price corridor must remain stable and predictable. It should also guide a reasonable proportion of the supply available to the market, as auction volumes and the role of auctions in supporting market balance reduce over time, the effectiveness of these corridors will also diminish.

## CONCLUDING VIEWS

IETA believes in the potential of the New Zealand emissions trading scheme to deliver climate objectives and supports the contributions of experts in the commission. However, we warn against unnecessary regulatory interventions and emphasise that markets work best with well-defined rules, which are not changed arbitrarily. Deviations from a free market should be well justified, with consideration for all market players.

In line with IETA's principles, we encourage the Ministry to explore further options to expand the market and consider international linkages. We look forward to further consideration of the use of Internationally Transferred Mitigation Outcomes (ITMOs) generated through cooperative approaches under Article 6.2 of the Paris Agreement in the NZ ETS. Utilising ITMOs to support increased CCR volumes could be one way to ensure domestic abatement opportunities continue to be prioritised while providing flexibility to mitigate liquidity constraints and support increased ambition.



### ABOUT IETA

IETA is a non-profit business association with a membership of over 300 leading international organisations operating in compliance and voluntary carbon markets. Since its foundation in 1999, IETA has been the leading voice of business on ambitious market-based solutions to climate change. We are a trusted adviser to governments to support them in developing international policy and market frameworks to reduce greenhouse gases at lowest cost, increase climate ambition, and build a credible path to net zero emissions. See [www.ieta.org](http://www.ieta.org) for more information.

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