

# Minerals West Coast submission on “Proposed changes to New Zealand Emissions Trading Scheme limit and price control settings for units 2022 Consultation document”

October 2022

## INTRODUCTION

1. Minerals West Coast is an industry association representing the West Coast region’s mining interests.
2. The association’s members include people and companies in the business of mining gold, coal, and aggregates. These range in scale from small to medium-sized, family-owned and/or owner-operators to larger firms employing anywhere up to 100 staff across different sites, as well as some of New Zealand’s largest mining companies. Other members include training institutes, engineering and mechanical support services, geologists, and other contractors and consultants.
3. Mining makes a significant contribution to the West Coast region’s prosperity, comprising 8.4% of GDP in the West Coast region, 3rd after ‘dairy cattle farming’ (10.6%) and ‘electricity and gas supply’ (9.1%) in 2021, according to Infometrics<sup>1</sup>.
4. At a regional level, direct employment in the mining industry amounted to about 581 fulltime staff, according to Infometrics data for 2021<sup>2</sup>.

## SUMMARY OF THIS SUBMISSION

Minerals West Coast is pleased to submit on the Ministry for the Environment consultation document, “Proposed changes to New Zealand Emissions Trading Scheme limit and price control settings for units 2022”.

The Government’s problem definition boils down to wanting to control the supply of NZUs, and NZU prices, to best promote direct greenhouse gas emissions reductions in New Zealand. The ultimate aim is to achieve a net zero carbon New Zealand by 2050.

The Minerals West Coast submission is divided into two parts, an executive summary, below, and answers to consultation document questions.

Minerals West Coast submits from the point of view of the people of Aotearoa New Zealand “doing the right thing” by honouring the New Zealand government’s obligations under the Paris Agreement, and, by the global climate.

As a country, New Zealand’s total greenhouse gas emissions are too small for unilateral action to have a material impact on stabilising global temperatures.

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<sup>1</sup> Based on Minerals West Coast interpretation of data from [Infometrics](#).

<sup>2</sup> Based on Minerals West Coast interpretation of data from [Infometrics](#).



Unfortunately, by and large, the world is not following our lead. As indications, only 23% of greenhouse gas emissions face any emissions pricing (World Bank, State and trends in carbon pricing report 2022), and New Zealand has among the highest carbon pricing in the world.

Therefore, the most appropriate course of action is for New Zealand is to fast-follow the lead of others. We should certainly have a climate change policy. The question is what.

The government could have focused on ensuring optimal functioning of the Emissions Trading Scheme. Instead, it is constantly introducing non-ETS measures in an attempt to achieve net zero carbon by 2050. The inevitable byproduct is uncertainty in the ETS system, eg by putting downward pressure on New Zealand Unit prices.

The policies proposed for climate change action are, therefore, unpredictable, while appearing to take little or no account of global climate change action, or inaction, and, importantly, the New Zealand economy and society.

As New Zealand heads towards the 2023 general election, the issues confronting the people of nation include: a failing health system, housing affordability and homelessness, labour shortages in certain sectors, higher cost of living (eg food, electricity, building materials), uncertainty over the future of the hospitality and tourism sector, consumer price inflation, and a weakening NZ dollar.

To be concentrating on increasing the NZU price and limiting NZU supply at this time is showing little or no compassion for New Zealanders increasingly struggling to make ends meet.

## **ANSWERS TO CONSULTATION DOCUMENT QUESTIONS**

### **1. What do you think of the criteria we have chosen to assess options?**

This is a good starting point for a list of criteria. Missing is consideration of the international context.

The Government has said previously New Zealand is or aspires to be a world leader on climate change action. But what is the point of being a leader if few countries, or no countries appear to be following?

### **2. Do you think alternative options should be considered for parts of the advice other than the settings that this consultation document focuses on?**

The purpose of the auctioning scheme was always to control the supply of Paris Agreement units to the market, to meet the Government's object of an ETS with a sinking cap.

As a separate point: the Government should consider seriously Dr Dave Frame's research showing serious flaws in the calculation of New Zealand's methane emissions (Newstalk ZB, 30 September 2022). This argues for ground-up, and immediate reform of the ETS system.

### **3. What are your views on the estimates of the 'surplus' or 'excess liquid' component of the unit stockpile?**

The document notes uncertainty and challenges in making these estimates. That in itself is a strong argument for not focusing on this issue.

### **4. What level of 'surplus' or 'liquidity' do you think is required for a functional market?**

This is a challenging question to answer because of the Government's non-ETS interventions in climate change policy, eg process heat phase-out, incentives for more affluent New Zealanders to buy electric and hybrid vehicles.



All such actions will affect demand for NZUs, and will, therefore, affect the price of NZUs, whether at auction or on the secondary market.

**5. What do you think of the methodology used to calculate auction volumes, including on each specific step?**

The ETS system is flawed in several ways, as discussed above, so it doesn't matter how officials calculate auction volumes.

**6. What do you think the main drivers of market demand for NZUs are?**

Perhaps, the uncertainty that surrounds Government climate change policy development is a strong incentive for actors in the auctioning system buy large quantities of NZUs to manage future risk from exposure to rising NZU prices.

To go further, by signalling future rises in the trigger price of NZU auctions, the government is telling buyers and sellers in the market to speculate on NZUs – it's a certain bet.

**7. What do you think of the approach of setting price controls with reference to prices required to deliver gross emissions reductions?**

It's an attractive idea; however, as stated above the system is subject to so much intervention and unpredictability that it does not matter what the Government does – unintended consequences will almost certainly be the result.

**8. Do you think it is appropriate to consider inflationary impacts in adjusting settings?**

This is hardly something to worry about, given other factors affecting carbon pricing, as discussed above.

**9. What do you think of the proposed auction price floor settings? What impacts do you think will result from different settings?**

As above.

**10. Do you think the cost containment reserve should consist of one or two tiers?**

One tier. Simplest is best.

**11. What do you think of the proposed cost containment reserve trigger price settings? What impacts do you think will result from different settings?**

As discussed, NZU pricing in the ETS system has noise in it arising from non-ETS measures, which will inevitably affect NZU prices.

Minerals West Coast proposes keeping the status quo, do not raise NZU trigger prices any further, and reconsider methane in New Zealand government policy, on the basis of Dr Frame's advice referred to above.

**12. How do you think of the cost containment reserve volume should be calculated?**

Not answered.

**13. Are there further impacts at these prices that should be considered?**

As per the previous discussion.

**14. Is it appropriate to rely solely on complementary measures to manage impacts?**

Either use complementary measures or run an ETS system. An attempt to do both, as the Government has been doing, will inevitably deliver unintended consequences. The New Zealand Initiative has written extensively on this issue.

**15. What role should price controls play in containing the level of impacts, and what price control settings would be required for this?**

The current approach to price controls seems to be to raise NZU prices over time while having little or no regard for global emissions pricing.

Minerals West Coast finds the Government's lack of interest in what the rest of the world is doing, or not doing, for world climate difficult to understand and accept.

**16. If prices reached those presented in the cost containment reserve trigger price options above, do you feel that you have options to change behaviours or make new investments to address the impacts?**

Not answered.

**17. Could you change behaviours or make new investments to mitigate the impact of higher prices on yourself?**

As above.