Submission by

to the

Ministry for the Environment

on the

Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2025

29 June 2025

– A BUSINESSNZ AND BUSINESSNZ ENERGY COUNCIL (BEC) SUBMISSION –
ANNUAL UPDATES TO NZ ETS LIMITS AND PRICE CONTROL SETTINGS FOR UNITS 2025

Introduction

1. We welcome the opportunity to provide feedback to the Ministry for the Environment (MfE) on its consultation document titled the *Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2025*.

2. BusinessNZ and BusinessNZ Energy Council (BEC) supports New Zealand's net-zero carbon target. Collectively, New Zealand's business community has a dominant role in achieving reductions sought under the Paris Agreement. The Emissions Trading Scheme (ETS) underpins this role, remaining the main tool motivating businesses to undertake emission reductions.

3. The strategic direction of ETS policy, including its unit and price settings, is therefore important to New Zealand's business community. The direction set by the Government has the potential to hasten investment in emission reductions, if the cost of avoiding emissions is less than the carbon price, keeping New Zealand comparable with its peers while creating economic and social benefits beyond climate change objectives.

4. Equally, the direction set by the Government risks increasing the costs of doing business beyond what is optimal and necessary to achieve our targets, damaging the commercially viability of operating in New Zealand. This is especially true for energy intensive businesses that play an important role in our economy.

5. A more costly transition which diverts private and public resources away from alternative investments, which command equally important weight, would minimise the potential economic and social wellbeing of current and future generations. The choices highlight tight tensions and trade-offs between the costs and benefits of possible pathways the ETS could trek.

6. This submission addresses the key questions within the consultation document, namely around changes to auction volumes and other matters that relate to methodology/technical changes. Beyond these questions, this submission continues to highlight previous broader strategic positions that we recommend the Government's ETS policy should pursue and retain.

Summary of recommendations

- We **recommend that the current structure of the NZ ETS is retained** as it reduces the potential for bias and should allow for the lowest cost pathway to net-zero.

- We **recommend that regulatory certainty should be restored within the NZ ETS** by reducing the frequency of changes to the ETS unit and price settings.

- We **support** the Climate Change Commissions' (CCC) recommendation on **increasing the auction volumes of NZUs over the 2028, 2029 and 2030 period.**

- We **support** the CCCs recommendation of **no change made to the price settings over the 2026-2030 period**. This is expected to increase certainty around carbon pricing.

- We **support option 1 for managing rollover auction volumes.** This option is expected to solve the current issue where successive auction bids above the CRP that would have cleared a stand-alone auction do not clear a combined auction.

- We **support option 2 for amending the collateral window for NZ ETS auctions**. This option allows participants to decrease the amount of lost interest earnings they have by posting collateral.

- We broadly support other technical and regulatory changes that are aimed at correcting errors or reducing compliance costs.

Comments on broader positions beyond setting changes outlined in the document

Retain the current structure of the NZ ETS

7. As BusinessNZ and BEC have stated in previous submissions the ETS is a valuable tool in indicating to emitters the cost of their emissions on the environment. Decisions being based around a decentralised and technologically neutral position reduces potential for bias. **We recommend retaining this principle**.

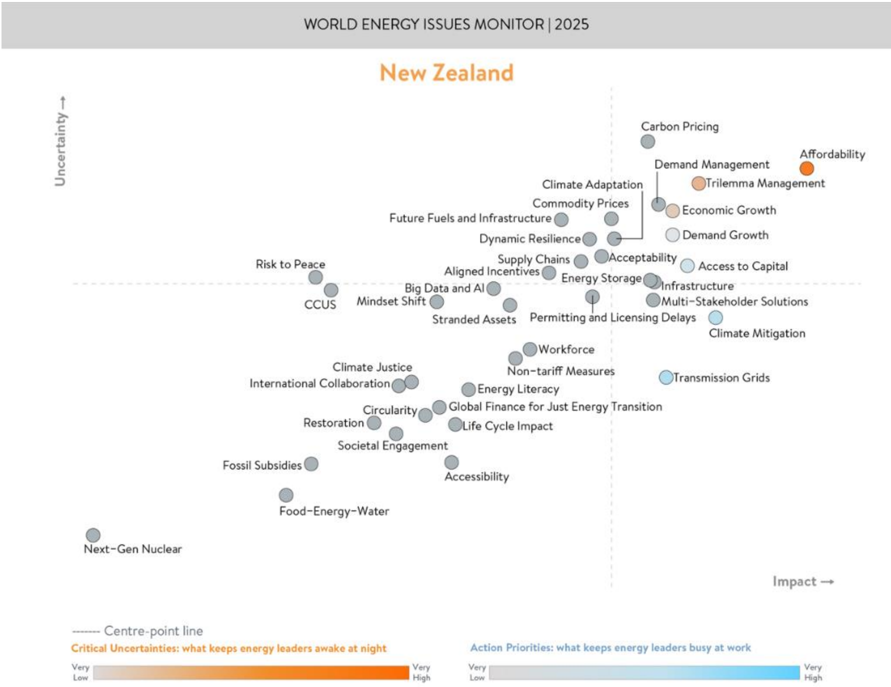
8. Having a market-based mechanism to react to shifts in behaviour around decarbonisation remains consistent with the lowest cost pathway to net-zero. Within this context **the core principles and foundations underlying the ETS structure remain sound. We recommend retaining the current structure.**

9. While there have been restrictions placed on the registering of new exotic forests, limiting the ability of forestry to provide carbon offset, there continues to be no new limits on the registration of new indigenous forests. We support no further changes to forestry as it is a valuable way to provide continued pathways for carbon offsetting.

Restore regulatory certainty by way of legislating issued and allocated units over a longer period.

10. As mentioned in our previous submission, persistent regulatory uncertainty has weakened the signal given by carbon price in setting the direction of travel and the level of investment into new technologies. A continuing cause of the uncertainty has been the constant change and proposed changes to the ETS unit and price settings. Yearly consultations leading up to the current day have repeated cycles of uncertainty.

11. The World Energy Council (WEC) 2025 New Zealand issues map data shows that carbon pricing is the most uncertain issue for New Zealand energy leaders. Which provides substantial evidence that continued adjustments is increasing uncertainty.



12. Establishing the regulatory frameworks which businesses operate under, followed by preserving the core foundations of such regimes over time, is essential for business investment. Uncertainty around aspects of regulation, such as pricing or volume, shifts and can delay investment until uncertainty settles. The same is true for ETS policy. Uncertainty about ETS policy, including climate change policy more generally, undermines investment. Constant interference should therefore be avoided.

13. There are trade-offs between the stability of the regulation, which improves investment certainty, and flexibility in settings, which maintains the regulations functionality over time. Both of these aspects are important, but we believe that the current approach has frequently tipped disproportionately towards the latter at the cost to market stability and investment certainty.

14. **We recommend that ETS settings, once in accordance with New Zealand's emissions targets, should remain in place for a longer period. The sinking cap of units to be issued or allocated between now and 2050, or at the minimum, over three budget periods out to 2035, should be fixed and known to the market by way of legislation.** The market will adapt accordingly, better informing investment decisions.

15. While having yearly adjustments provides more flexibility to the ETS, **we believe the process for determining ETS settings for five years ahead is too frequent**. Yearly setting amendments have regularly changed the outlook businesses operate under. The expectation that setting changes are excluded for the first two years, unless due to special circumstances, provides some confidence and reassurance.

Proposed changes to price and auction volumes

16. The consultation document outlines two options for auction volumes. The first is to maintain the status quo of decreasing the action volumes of NZU each year from 2026 to 2030 with a total NZU volume over this time of 16.9 million.

17. The second is to go with the CCCs recommended volumes which sees 2026 and 2027 remain the same but have the auction volume for 2028, 2029 and 2030 all increased to 7.0 million NZUs. This would increase the total volume over this time to 30.5 million which is a 13.6 million increase.

18. The CCC justifies their recommendation through the following factors: first the surplus of NZUs in the market since 2024 has reduced more quickly than previously forecast, due to fewer units being sold at auction and lower industrial allocations. This means that the market is less oversupplied than before, and there is more room to increase auction volumes in the future without jeopardising emissions targets.

19. The second is that the CCC emphasizes the importance of a stable and predictable NZ ETS market. Rapid or unpredictable price spikes (due to upward pressure from NZUs) can undermine confidence, deter investment in low-emissions technologies and create uncertainty for businesses.

20. The third is that by deferring increased auction volumes to later years and spreading them out the CCC aims to provide flexibility to adjust settings as new information emerges, rather than locking in changes that may need to be reversed if market or emission forecasts change.

21. **We support option 2 as it better reflects the current state of the market and will allow for the lowest cost path to our 2030 targets.** However, the basis for deferring additional volumes to adjust for any future changes is likely to increase uncertainty as it means that any future planning beyond 2027 is subject to change. Within this context **we recommend providing certainty for auction volumes out to 2030**.

22. However, the recommended increase of 13.6 million credits may be too much, given recent failures to clear recent auctions may indicate a genuine oversupply of NZUs in the market.

23. Additionally, the biggest problem with ETS settings in recent years has been flip flopping between settings. With this in mind, there could be value in maintaining the status quo or reducing the size of the change, purely for consistency.

24. The CCC recommends that auction reserve price (ARP) and the cost containment reserve (CCR) price triggers remain at current levels, adjusted only for inflation.

25. **We support this as it will maintain certainty within the market.**

Managing ETS auctions

26. The MfE outlines in their *Proposed changes to the New Zealand Emissions Trading Scheme regulations 2025* three options for managing rollover auction volumes: the first is for there to be no change and unsold units continue to roll over to the next auction. **We do not support this option** as it means that for the successive auction bids above the CRP that would have cleared a stand-alone auction would not clear a combined auction.

27. The second is what the MfE describes as option 1, the ability to sell unsold units if there is enough demand. This is where unsold units roll over but are only sold if the current auction first clears its newly offered volume. **We support this option** as this ensures that the volume of new units remains available to participants if there is demand.

28. The third is what the MfE describes as option 2, instead of spreading out all unsold units to the next single auction, this option spreads them evenly across the remaining auctions in that year. **We do not support this option** as it will not solve the issue which is outlined in paragraph 26.

29. Within option 1 outlined in paragraph 27 we believe that this should be taken a step further and there should be the ability to have partial clearance of the rollover volume. Using the 5m auction volume and 5m rollover auction volume example from the consultation document this would mean that instead of only 5m or 10m being able to be sold there could be (for example) 7m NZUs sold.

30. The MfE also has outlined a desire to amend the collateral window for NZ ETS auctions. The current issue outlined by the MfE is that the NZ ETS does not pay interest on collateral that it holds. If the collateral is cash, the bidder loses the opportunity to earn interest on that money while it is held. The MfE outlines two options the first is for there to be no change and collateral continues to be provided 5 working days before the auction. The second is for participants to post collateral three working days before the auction. **We support the second option** as it allows participants to increase their earnings, compared to the current situation.

31. We broadly support other technical and regulatory changes that are aimed at correcting errors in regulations or reducing compliance costs.

Appendix One - Background information on BusinessNZ and BEC

BusinessNZ is New Zealand's largest business advocacy body, representing:

- Regional business groups EMA, Business Central, Canterbury Employers' Chamber of Commerce, and Employers Otago Southland
- Major Companies Group of New Zealand's largest businesses
- Gold Group of medium sized businesses
- Affiliated Industries Group of national industry associations
- ExportNZ representing New Zealand exporting enterprises
- ManufacturingNZ representing New Zealand manufacturing enterprises
- Sustainable Business Council of enterprises leading sustainable business practice
- BusinessNZ Energy Council of enterprises leading sustainable energy production and use
- Buy NZ Made representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation (ILO), the International Organisation of Employers (IOE) and the Business and Industry Advisory Council (BIAC) to the Organisation for Economic Cooperation and Development (OECD).

The BusinessNZ Energy Council (BEC) is a group of New Zealand's peak energy sector organisations taking a leading role in creating a sustainable energy future. BEC is a division of BusinessNZ, New Zealand's largest business advocacy group. BEC is a member of the World Energy Council (WEC). BEC members are a cross-section of leading energy sector businesses, government and research organisations. Together with its members BEC is shaping the energy agenda for New Zealand.

Our vision is to support New Zealand's economic wellbeing through the active promotion of the sustainable development and use of energy, domestically and globally. With that goal in mind, BEC is shaping the debate through leadership, influence and advocacy.