Submission by

WORLD ENERGY COUNCIL | BusinessNZ Energy Council

to

Ministry for the Environment

on the consultation

Annual Updates to New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2026

12 July 2026

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– SUBMISSION BY BUSINESSNZ ENERGY COUNCIL—

Introduction

1. BusinessNZ Energy Council (BEC)[1] is pleased to have the opportunity to provide feedback on the Ministry for the Environments (MfE) consultation document titled 'Annual Updates to New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units.'

2. BEC represents a diverse array of leading energy-sector businesses, government bodies, and research organisations dedicated to creating a sustainable, equitable, and secure energy future.

3. As a brand of BusinessNZ, New Zealand's largest business advocacy organisation, we represent the World Energy Council in New Zealand, aiming to shape better outcomes for our wider energy system both locally and globally.

4. BusinessNZ and BEC supports New Zealand's net-zero carbon target as long as it can be achieved without undermining the competitiveness of domestic businesses versus their international competitors. 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.

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

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

7. This submission addresses the key questions within the consultation document, namely around changes to auction volumes and price settings. Beyond these questions, this submission continues to highlight previous broader strategic positions that we recommend the Government's ETS policy should pursue and retain.

[1] More about BEC in APPENDIX One

Key Recommendations for the Ministry for the Environment and the Government

- **BEC recommends** adoption of the Government's preferred auction-volume option of 13 million units over the 2027-2031 period.
- **BEC recommends** retaining the currently prescribed auction volumes for 2027 and 2028, do not distribute 2027 volume into later years.
- **BEC recommends** retaining the current price-control settings.
- **BEC recommends** proceed with the proposed move from annual to biennial ETS setting decisions.
- **BEC recommends** preserve the expectation that settings applying within the first two years of the settings period will not be changed except under genuinely exceptional circumstances.
- **BEC recommends** providing a clear and durable long-term trajectory for unit supply that is consistent with New Zealand's emissions budgets and net-zero target.
- **BEC recommends** the avoidance of intervention in the ETS that weakens the credibility of the carbon-price signal or creates avoidable regulatory uncertainty.

General discussion

8. 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 made around a decentralised and technologically neutral position reduces the potential for bias. **We recommend retaining this principle.**

9. 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 remain sound. We recommend retaining the current structure.**

10. While there have been changes made to the treatment of forestry under the ETS, namely new restrictions on converting farmland into exotic forest and registering to it to the ETS, which limits the ability of new forestry to provide carbon offsets, there continues to be no limit to the registration of new indigenous forests. We support this retention as indigenous forests remain a valuable way to provide continued pathways to carbon offsetting.

11. As mentioned in our previous submissions, 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. Moving to a biennial consultation on ETS unit and price settings after the 2027 settings adjustment may help to reduce this uncertainty, however the underlying issue remains the same.

12. The trade-off is that biennial decisions provide less flexibility to respond quickly to new information. However, we consider that the additional predictability to be more valuable, if there are genuine exceptional circumstances where amendments are necessary this remains an option.

13. Establishing the regulatory frameworks which businesses operate under, followed by preserving the core foundation of such a regime over time, is essential for business investment. Uncertainty around aspects such as regulation, including pricing and volume,

can delay and shift investment until uncertainty settles. The same is true for ETS policy. Uncertainty around ETS policy, including climate change policy more generally, undermines investment. Consistent interference should therefore be avoided.

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, should be fixed and known by the market by way of regulation.** The market will adapt accordingly, better informing investment decisions.

15. This does not mean that operational settings should never be reviewed, however adjustments, if needed, should be made with sufficient lead time to preserve confidence in the regulatory framework.

16. While having the ability to adjust settings yearly, soon to be biennially, provides flexibility to the ETS, **we believe that determining ETS settings for five years ahead is too frequent.** While the last few adjustments have been minimal, settings adjustments have regularly changed the outlook that businesses operate under. The expectation that setting changes are excluded for the first two years, unless due to special circumstances, provides some confidence, but is by no means guaranteed.

Proposed changes to price and auction volumes

17. The consultation document outlines three options for auction volumes over 2027-2031.

18. The first is the Climate Change Commissions (CCC) recommendation to offer 14.7 million units over the 2027-2031 period. This is based on maintaining status quo auction volumes for the second emissions budget, setting 2031 volumes on the basis that surplus would have depleted by then.

19. The second is the government recommendation of offering 13.0 million units over the 2027-2031 period. This also maintains the status quo over the remainder of the second emissions budget, with 2031 volumes reduced based on a tighter provisional third emissions budget.

20. The third option is to offer 7.7 million units over the 2027-2031 period. This reduces volumes over the remainder of the second emissions budget to draw down the current stockpile, improving the likelihood of meeting budgets. The proposed 2031 volume is the same as option 2.

21. **BusinessNZ and BEC support option 2**.

22. The CCC notes that while there is potential to offer more units in line with current emission budgets it is not recommended based on the current NZU price already sitting well below unit floor price. We agree with this assessment, current conditions indicate that the market is not currently dependent on additional supply via auction.

23. As the consultation identifies there is significant stock of NZUs held privately which remain available to the market. While there is uncertainty over what proportion of these units contribute to genuine surplus and are available for sale, the evidence indicates that this stock will not be sufficiently depleted during the remainder of the second emissions budget to justify increasing auction volumes.

24. At the same time, BusinessNZ and BEC do not support reducing the currently prescribed EB2 volumes to the extent proposed under Option 3. A reduction of this nature could increase the risk of a rapid tightening of supply as we head into EB3.

25. This would produce, as suggested in the consultation document, risk of unnecessary price volatility and price increases at a rate that would not give emissions intensive businesses time to adjust to new price signals. Therefore, there is a risk of such an outcome contributing to the deindustrialisation that we are already seeing rather than actual investment in emissions reduction. Running the market short also increases the risk of government intervention if prices climb too quickly, which would erode the credibility of the scheme.

26. We support option 2 as it provides appropriate balance between ensuring we meet our emissions budgets while preserving the ability of emissions intensive businesses to operate in New Zealand.

<u>Reallocating the 2027 auction volume</u>

27. The consultation considers whether the 2027 auction volume should be redistributed across 2028-2030. We do not support this proposal.

28. There may be some merit to the proposal. If prices remain below the auction floor in 2027, auctions are unlikely to clear, and the prescribed volume would not enter the market. Moving the volume into later years could, therefore, make it available at a time where the secondary market has been further reduced and demand for auction units may be stronger.

29. However, the value of reallocating the units is uncertain, while the cost to regulatory certainty would be immediate. The 2027 settings are now within two years of taking effect and changing them would weaken the expectation that near-term settings remain stable expect in exceptional circumstances.

30. It is important to maintain this principle now as businesses have already experienced repeated changes to the ETS and wider climate policy settings over the last few years. Even if this standalone adjustment was reasonable, combined with other changes it would have a cumulative effect on confidence.

31. Based on this BusinessNZ and BEC recommend retaining the currently prescribed 2027 volume and continuing auction settings as they stand.

<u>Biennial setting decisions</u>

32. BusinessNZ and BEC support moving from annual to biennial ETS setting decisions.

33. Annual reconsideration of auction volumes and price controls create a recurring source of uncertainty, even where the eventual changes may be minor. Moving to a two-year decision cycle should provide business with greater confidence in the short-term direction of travel, which will allow for investment decisions to be made with greater confidence in the surrounding assumptions.

34. As mentioned previously the major trade-off is reduced flexibility. A two-year process may make it more difficult to respond promptly to unexpected or rapid changes in economic conditions or availability of units.

35. This trade-off is acceptable. The ETS should not be managed through continual adjustments. Participants must be allowed to respond to the settings that have been established, rather than constantly assessing new conditions. Settings should only be changed where there is a material risk to emissions-budget achievement or market functionality.

36. The effectiveness of moving to biennial decisions will depend on maintaining the principle of the first two years being effectively fixed. If not, then any confidence gained by the move to biennial decisions will be undermined.

37. However, as we have advocated for in previous submissions, there should still be a clearer long-term unit supply trajectory. A less frequent consultation process will improve confidence on the margins, but it does not reduce wider uncertainty if the overall direction of ETS policy remains vulnerable to repeated or fundamental changes.

Conclusion

BusinessNZ and BEC continue to believe that the ETS remains the least cost method to meet New Zealand's international climate commitments and net-zero goal. However persistent regulatory uncertainty risks undermining the effectiveness of carbon price signals and delaying or preventing investment. A shift to biennial setting decisions could help reduce this risk and should move forward, but its effectiveness will depend on ensuring that adjustments to the first two years are kept to an absolute minimum. We support the Governments preferred option to offer 13.0 million units over the 2027-2031 period as we believe it provides a balance between ensuring we meet our emissions budgets while reducing the risk to business of sudden and rapid rises in price.

APPENDIX ONE – BACKGROUND INFORMATION ON THE BUSINESSNZ ENERGY COUNCIL

The BusinessNZ Energy Council (BEC) is a group of leading energy-sector business, government and research organisations taking a leading role in creating a sustainable, equitable and secure energy future.

BEC is a brand of BusinessNZ and represents the World Energy Council in New Zealand. Together with its members, BEC is shaping the energy agenda for New Zealand and globally.

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

- Regional business groups: EMA, Business Central, and Business South
- 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, consumers of NZ-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).