

Emissions pricing in our draft advice

2 February 2021

Webinar



He Pou a Rangi
Climate Change Commission

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Navigating our draft advice

Catherine Leining

Commission's role in respect of emissions pricing

- **Now:**

- Advice on the direction of policy for the Government's Emissions Reduction Plan

- **Future:**

- **Annually from 2022:** Advice on NZ ETS unit supply and price control settings
- **June 2022:** Review progress of He Waka Eke Noa
- **2022:** Advice on assistance to participants in agricultural pricing scheme
- **As requested:** Advice on increased or decreased phase out rates for industrial allocation

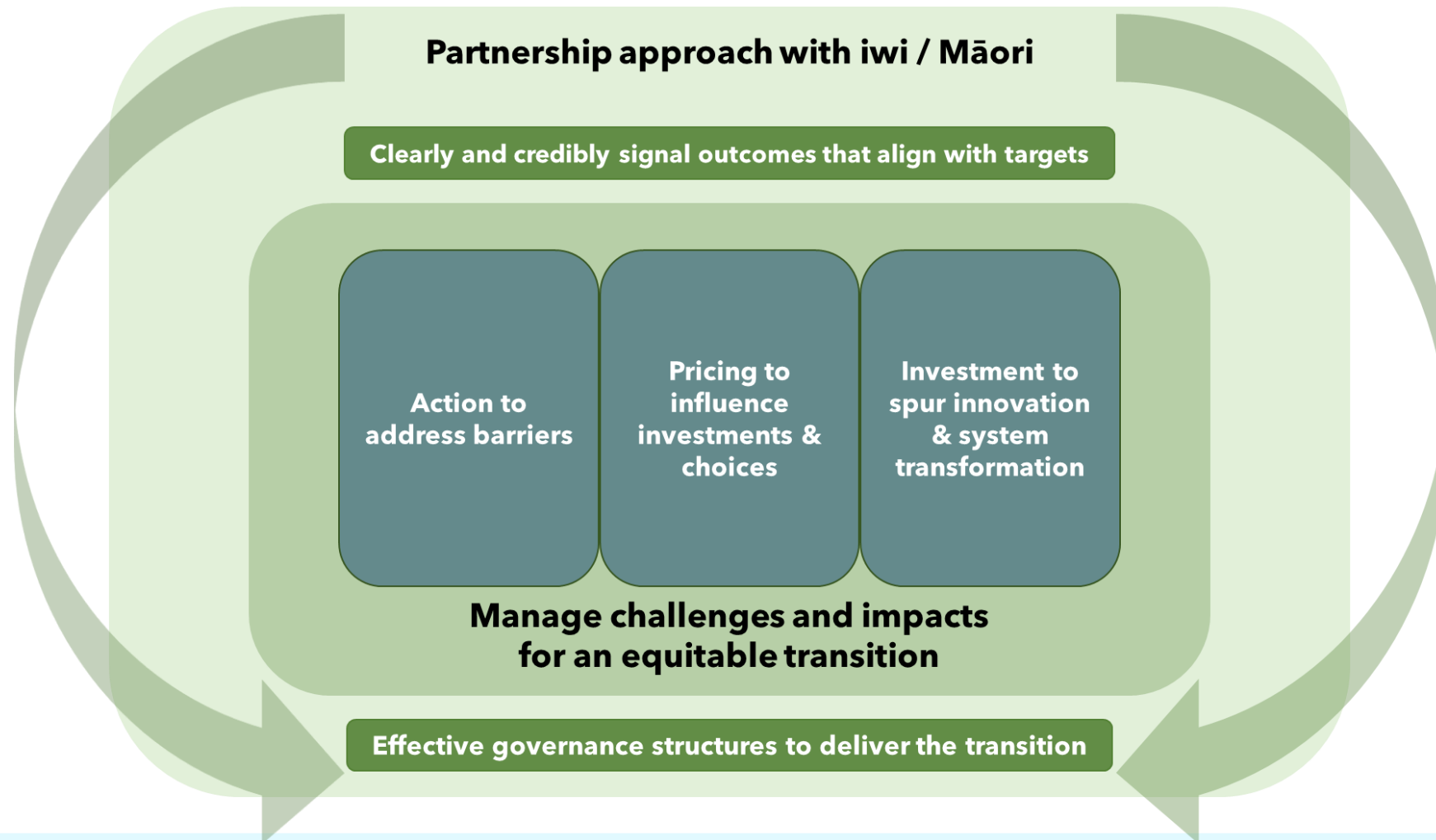
Recommendations

1. Emissions budget recommendations
2. Enabling recommendations
3. Policy recommendations
 - Time-critical necessary actions
 - Necessary actions

Emissions pricing-relevant topics in our reports

Topic	Advice report	Evidence report
Emissions pricing in the Commission's policy approach	pp104-105	Chapter 16 – Our approach to policy
NZ ETS settings	pp131-134	Chapter 8 – What our future could look like (especially emissions values pp7-9) Chapter 17 – The direction of policy for Aotearoa
Forestry	pp121-123 (policy) pp137-145 (accounting)	Chapter 17 – The direction of policy for Aotearoa Chapter 3 – How to measure progress
Policy for reducing agricultural emissions	pp118-119	Chapter 17 – The direction of policy for Aotearoa
Voluntary offsetting	p132 (policy) pp143-144 (accounting)	Chapter 17 – The direction of policy for Aotearoa Chapter 3 – How to measure progress
Offshore mitigation in emissions budgets	pp36-37	-
Offshore mitigation and the first NDC	pp155-158, 164-166	-
Abatement cost values for policy and investment analysis (shadow pricing)	pp128-129	Chapter 8 – What our future could look like (emissions values pp7-9) Chapter 17 – The direction of policy for Aotearoa

Policy approach



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NZ ETS recommendations

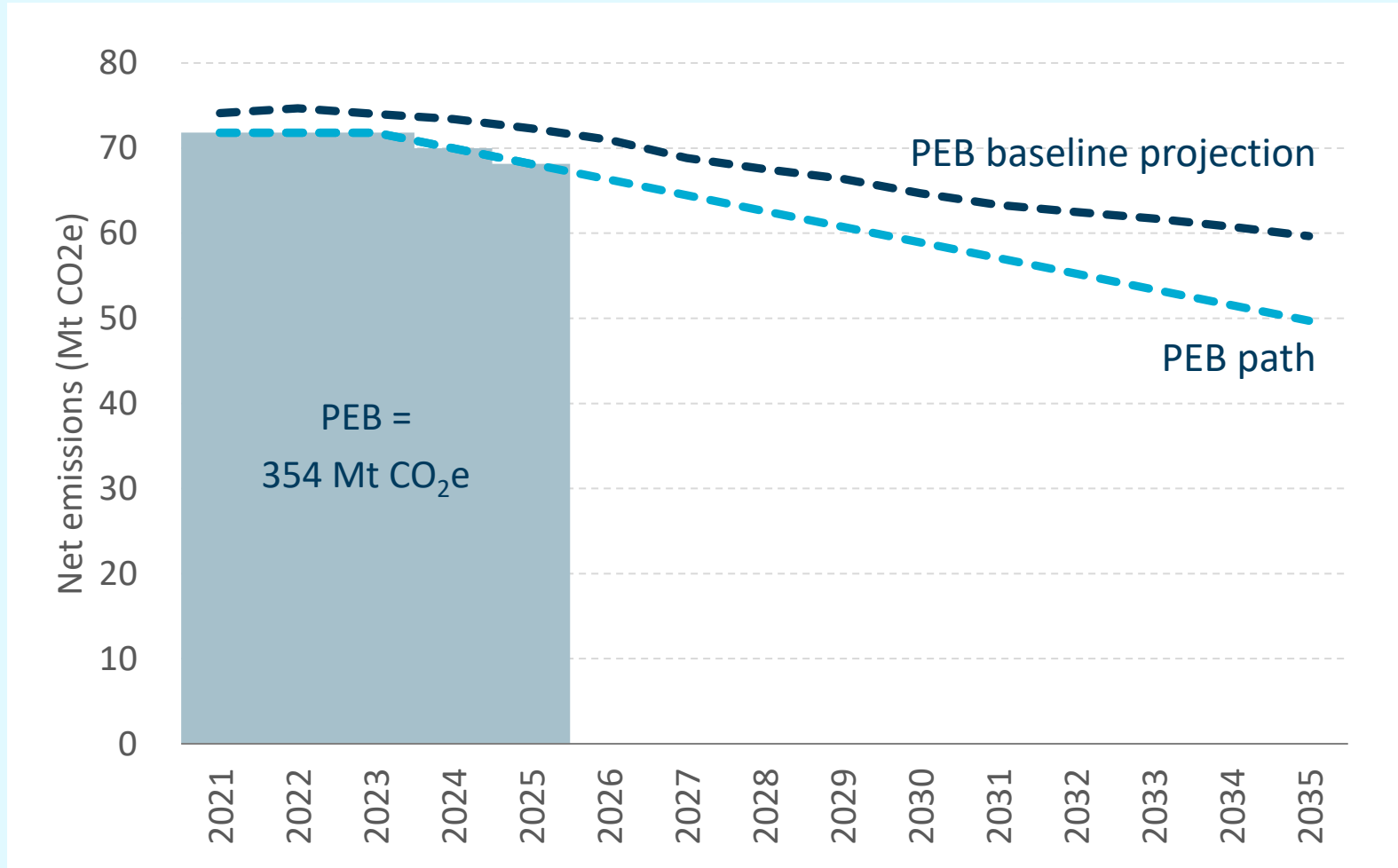
Eva Murray

Driving low emissions choices through the NZ ETS

Time critical necessary action 7 (advice report, page 133):

- Align unit volumes to emissions budgets
- Increase price control settings to reflect evidence about abatement costs
- Amend the NZ ETS to help deliver the recommended amount of removals
- Establish sound market governance for the NZ ETS

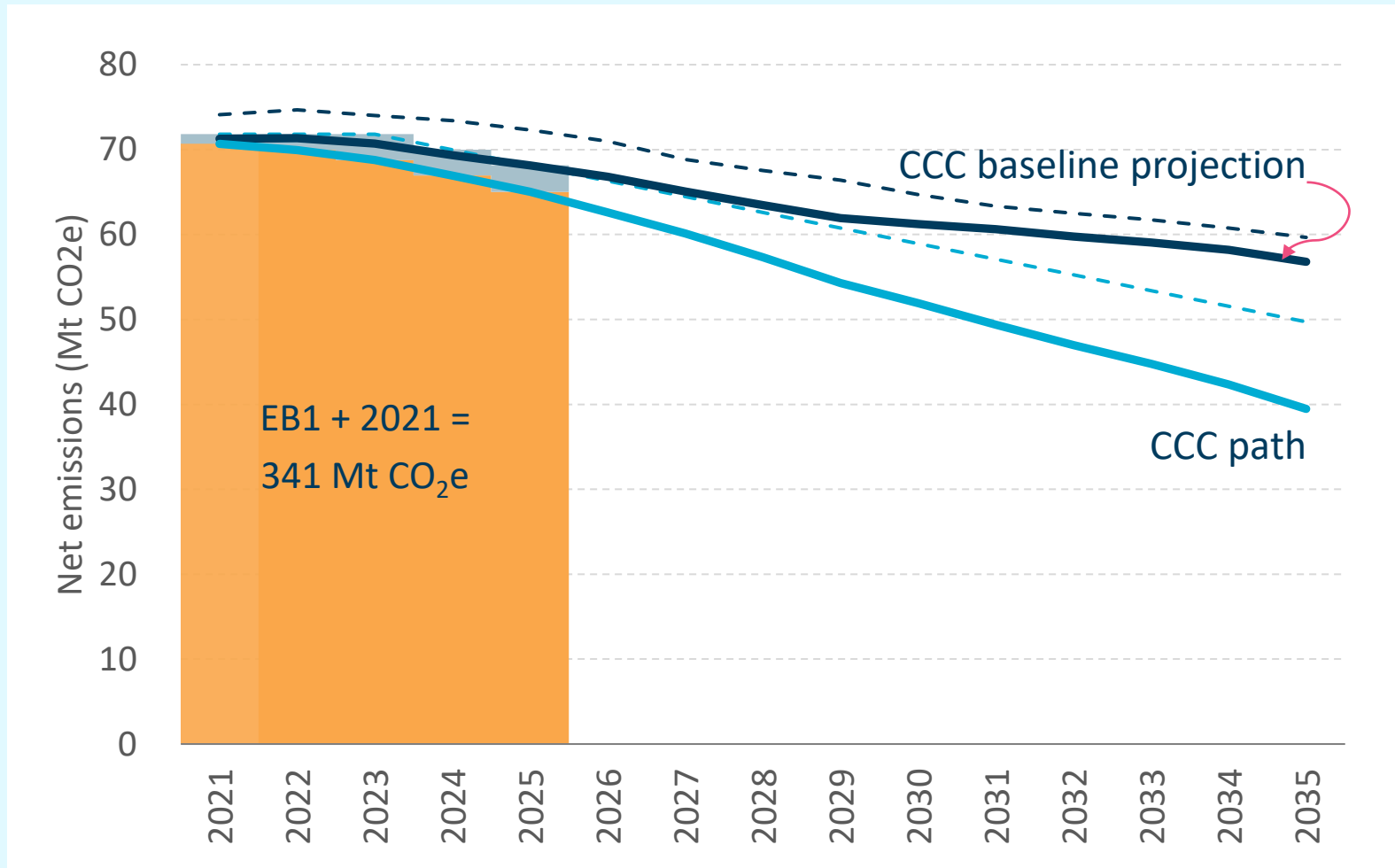
Comparing emissions budgets with the Provisional Emissions Budget (PEB)



Total 2021-2025 (Mt CO₂e)

	PEB	
Baseline net emissions	368.5	
Budget path	353.6	
Abatement required	14.9	

Comparing emissions budgets with the PEB



Total 2021-2025 (Mt CO₂e)

	PEB	CCC
Baseline net emissions	368.5	350.8
Budget path	353.6	341.4
Abatement required	14.9	9.5

Emissions values used in our scenarios

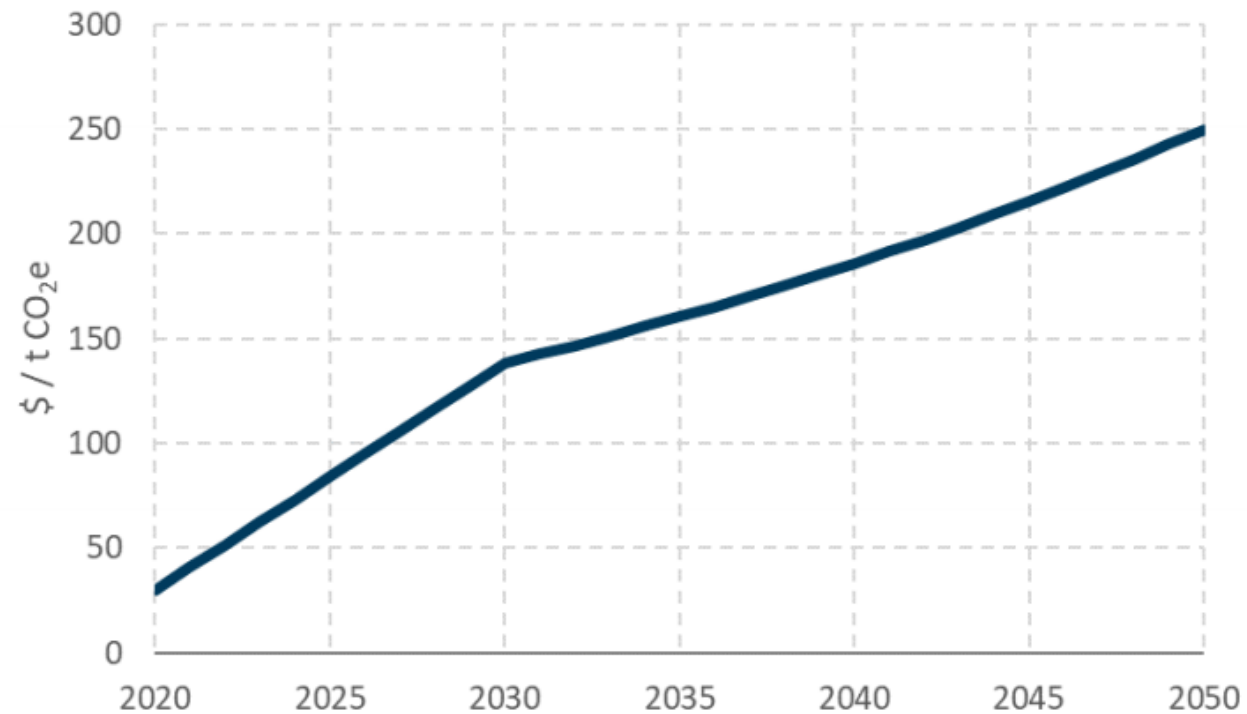
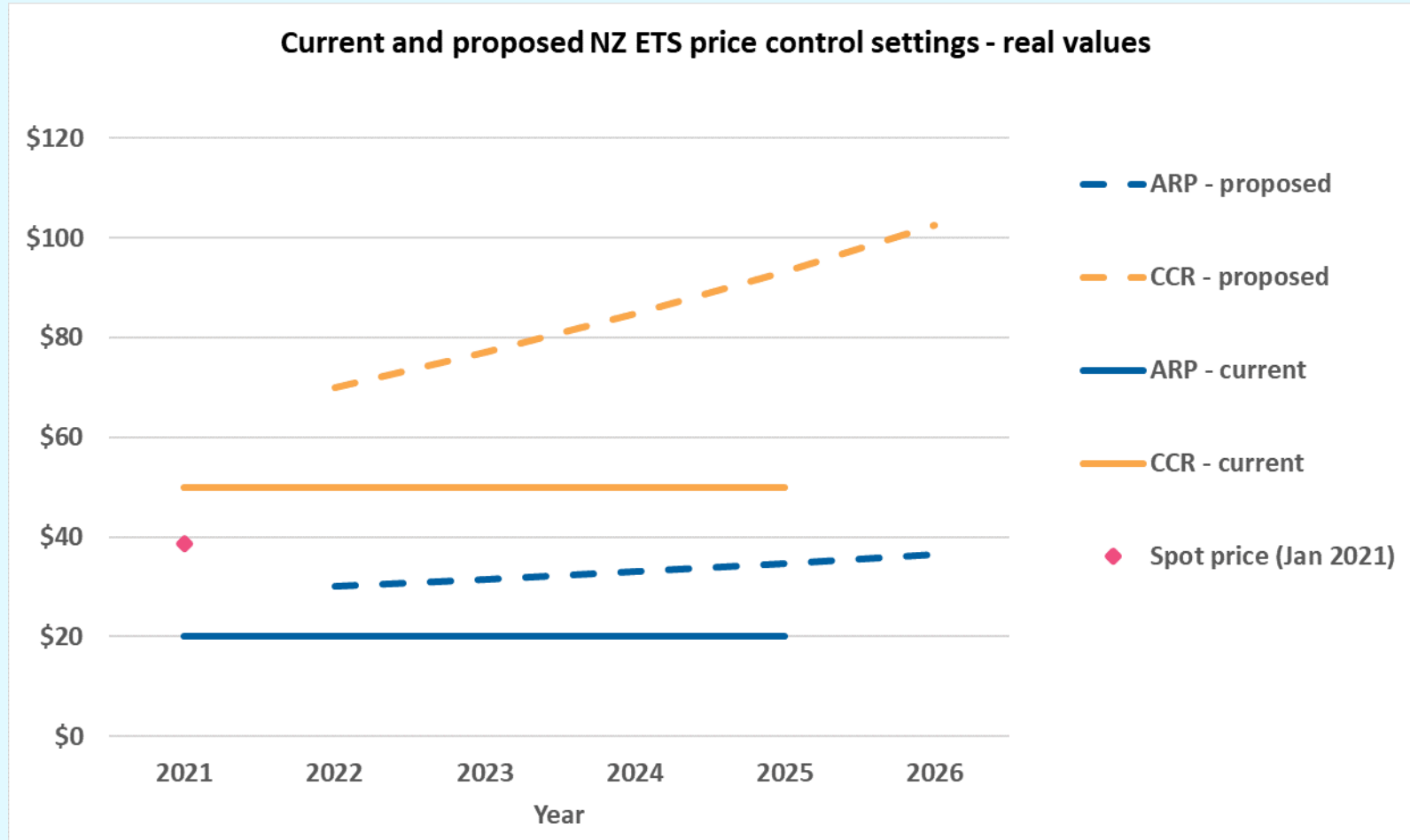


Figure 8.2: Emissions values used in the bottom-up scenario modelling in ENZ. These apply to the energy and transport sectors only.

Recommended price control settings



ARP: auction reserve price

CCR: cost containment reserve trigger price

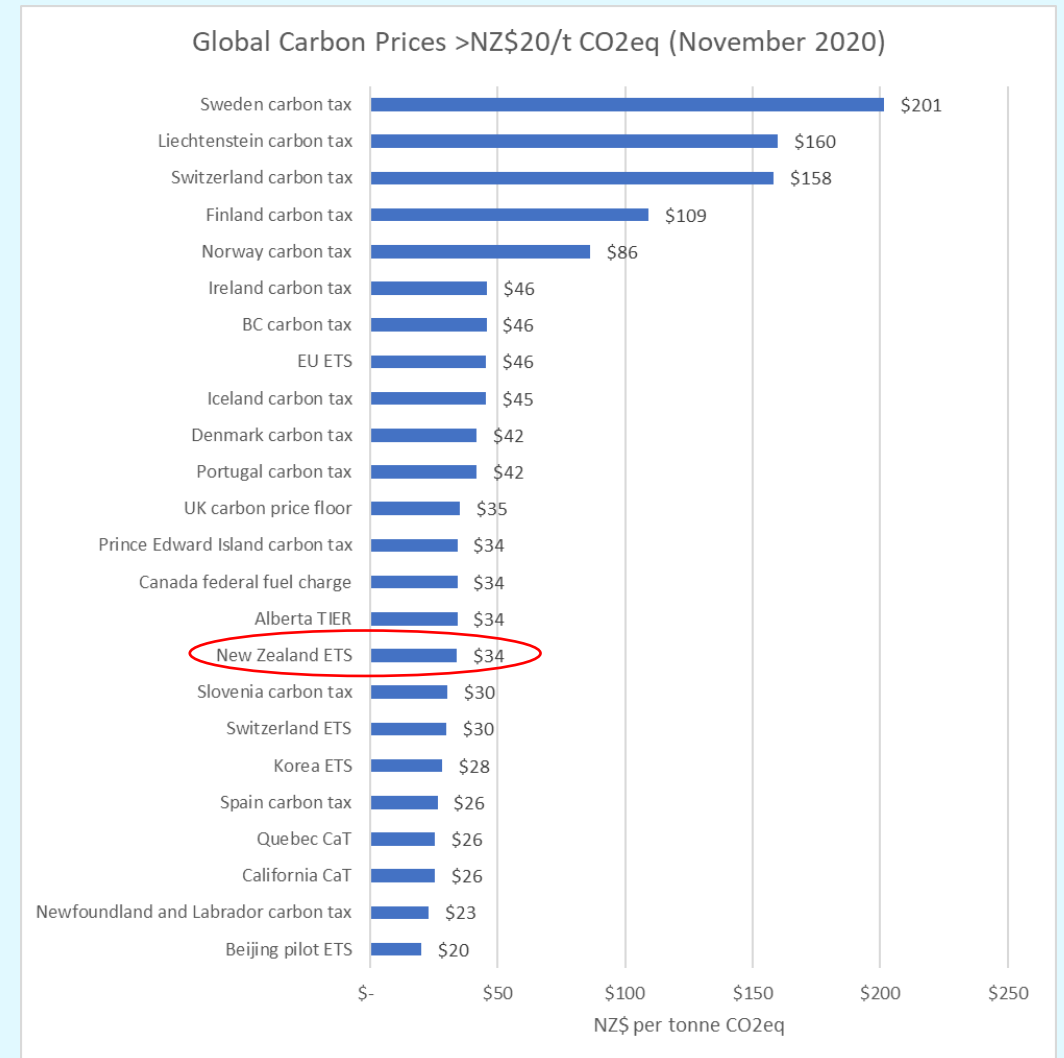
Note: this graph shows real prices. The Commission has recommended that the CCR and ARP values include an annual inflation adjustment (the Government used 2% per year for current settings).

How does this compare to other jurisdictions?

- Current emissions prices in selected international pricing schemes
- NZ ETS spot price as of January 2021 was around \$38

Source:

- World Bank Carbon Pricing Dashboard https://carbonpricingdashboard.worldbank.org/map_data



How does this compare to other jurisdictions?

- Announced or modelled emissions prices in 2030 for selected emissions pricing policies

Country	Instrument	2030		Source
		Local currency	NZD*	
EU	EU ETS	44-65	\$76 - 110	Modelled projection from European Commission, Stepping up Europe's 2030 climate ambition: Investing in a climate-neutral future for the benefit of our people (excludes policy-driven scenario)
Canada	Federal backstop carbon pricing	170	\$185	"A Healthy Environment and A Healthy Economy Plan"
Germany	ETS for buildings & transport	65 (ceiling) 55 (floor)	\$110 (ceiling) \$93 (floor)	German Emissions Trading Authority at the German Environment Agency. DEHSt - National emissions trading
California	Cap and Trade	101 (ceiling) 27 (floor)	\$140 (ceiling) \$38 (floor)	https://ww2.arb.ca.gov/sites/default/files/classic/cc/capandtrade/auction/2021/annual_reserve_price_notice_joint_auction.pdf The prices quoted do not include an expected inflation adjustment.
Ireland	Carbon tax on transport	80	\$135	Ireland Climate Action Plan
Norway	Carbon tax on fossil fuels	2000	\$325	Climate Action Plan 2021-30, Norway's comprehensive climate action plan - regjeringen.no

Forestry and the NZ ETS

- Budget recommendation 2 proposes the balance of emissions reductions and removals for meeting emissions budgets 1-3
- Amendments to the NZ ETS as well as to land use planning rules may be needed to deliver on this goal – as called for in time critical necessary actions 5 and 7
- There are a number of options for how this could be achieved

Continued NZ ETS improvements (necessary action 19)

- Develop and implement a plan for recycling NZ ETS auction proceeds
- Review industrial allocation policy.
- Continue phase out of industrial allocation.
- Explore other policies to address emissions leakage risk
- Reduce uncertainty about adjustments to NZ ETS settings
- Clarify the role and avenues for voluntary mitigation



Thanks

Want to get in touch?
hello@climatecommission.govt.nz



He Pou a Rangi
Climate Change Commission

Impacts

- Note: the impacts estimated in the Commission's draft advice reflect the full package – they are not an assessment of NZ ETS price impacts specifically
- *Overall costs*: estimated at less than 1% of projected annual GDP in 2050.
- *Electricity*: prices not expected to increase above today's level before 2035.
- *Transport*:
 - those switching to EVs could save around \$1000/yr by 2035 – reducing their total energy bills.
 - there will be a higher cost for those still driving petrol cars due to emissions pricing - rising by an additional 2c/litre per year to 2035. This is an around 1% per year increase in price – which could be offset by fuel efficiency improvements.
- *Gas bills*: potential increase to the average annual household gas bill by up to \$150 in 2035.