

# House of Representatives

# Supplementary Order Paper

**Tuesday, 9 March 2021**

## **Climate Change Response (Auction Price) Amendment Bill**

### *Proposed amendments*

Simon Court, in Committee, to move the following amendments:

#### *Clause 9*

In *clause 9*, delete *new regulation 15AA* (page 5, lines 16 to 22).

#### *Clause 11*

Delete *clause 11* (page 6, lines 8 to 11).

#### *Clause 12*

Delete *clause 12* (page 6, lines 12 to 16).

#### *New clause 11A*

After *clause 11* (page 6, after line 11), insert:

#### **11A Regulation 32 amended (Determining clearing price)**

In regulation 32, replace “zero” with “or equal to the confidential reserve price”.

#### *Clause 14*

In *clause 14*, delete *subclause (2)* (page 6, lines 24 to 27).

### **Explanatory note**

This Supplementary Order Paper amends the Climate Change Response (Auction Price) Amendment Bill (the **Bill**).

The ACT Party believes that a fully functioning market system, such as an Emissions Trading Scheme (**ETS**), is the most cost-effective and enduring way for New Zealand

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businesses to mitigate their climate emissions, although the scheme as currently administered by the Government falls well short of this objective.

However, ACT believes that any improvement to the ETS market functions should be supported, as ACT is concerned that, if the ETS mechanism fails, this will only encourage the Government to carry out more costly and ineffective interventions in the economy and our lives.

ACT proposes amendments to the Bill so that the businesses that need to access New Zealand units (NZUs), or carbon credits, in order to pay down their emissions obligations can—

- get them at a fair price through the Government auction process; and
- have certainty that, if they bid at or above the confidential reserve price, they can take away the NZUs they bid for.

The Government wants to set a confidential reserve price (**CRP**) to earn more revenue when it auctions NZUs and to prevent auctions clearing at prices significantly below the secondary market, today at around \$39.

Each auction will feed 4.75 million tonnes of NZUs into the market four times per year, or 19 million NZUs, which is similar to the current NZU requirements from ETS participants, who have obligations to hand over around that volume of NZUs every year to offset their emissions.

However, the Bill as it currently stands contains a provision which means that if the volume to be auctioned is not entirely bid above the CRP, then the entire auction volume will be passed in.

So, for example, if three bidders punt for 4.5 million NZUs at or above the CRP but a fourth bidder punts for 1 million NZUs just below the CRP, then the entire auction fails, because the total volume of 4.75 million NZUs above the CRP is not reached.

Many businesses submitted to the Environment Committee that this is a design flaw. They are concerned that the credits offered at an auction will not be released when they are needed by business to fulfil their obligations.

Increased pressure would then come on the secondary market for NZUs, potentially causing unpredictable price spikes, as volumes of NZUs available to ETS participants will be constrained by liquidity in the secondary market.

This could make the cost of compliance unaffordable to businesses which offered a bid above the CRP because, if a business can't get carbon credits through the auction process, there is a risk they will be forced to pay hefty penalties to the Government up to three times the NZU price when their obligations are due in June each year for the previous year's emissions.

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This risk can be eliminated simply by amending the Bill so that every bidder who puts in a price above the reserve is able to take away the carbon credits they bid for.