bp welcomes an opportunity to provide feedback on the discussion document, *Review of the New Zealand Emissions Trading Scheme*.

We believe that ambitious climate policies will be essential to enable the world to meet the Paris climate goals. bp welcomes well-designed, stable, and long-term policy frameworks to incentivize and support the necessary investments in low carbon solutions. bp strongly supports New Zealand's legislated goal of net zero emissions by 2050 and the New Zealand Emission Trading Scheme (NZ ETS) as a central policy to achieve those goals.

About bp

bp's purpose is to reimagine energy for people and our planet. Our ambition is to become a net-zero company by 2050 or sooner; and to help the world get there, too. Globally, bp aims to be net-zero across our operations (scope 1 & 2), in our oil and gas production (scope 3) and in the energy products we sell (life-cycle emissions intensity). For each of these we have also set short-term (2025) and medium-term targets (2030). You can read more about our net-zero aims here.

bp has been active in New Zealand since 1946. Under our new purpose and ambition, bp will continue to invest in our assets, infrastructure, people and the New Zealand community.

In New Zealand, we currently operate more than 100 bp Connect stores and Wild Bean Cafes, and maintain a national network of bp branded independent retailers, distributor partners, truck stops, and a terminals and logistics operation.

bp launched its global electrification business in New Zealand in December 2022. The launch marks the beginning of an initial wave of around 600 bp charge points in New Zealand, with a longer-term ambition to build the country's most convenient fast-charging EV network with the best possible customer experience.

Our wider operations include the Castrol lubricants business, bp marine and the Air bp aviation business. Many of our retail sites are owned and operated by New Zealand small to medium businesses and roughly 3,000 New Zealanders are employed across our wider operations.

As a major supplier of liquid fuels, bp New Zealand is a liable entity under the NZ ETS with the costs of compliance passed on to our end consumers.

For our New Zealand ETS activity, BP Energy Asia Pte. Ltd (BPEA) provides a single face to market participating in Over-The-Counter trades both direct and facilitated via brokers (such as via Jarden, and Carbon Match) and forestry consultants acting as aggregators (such as PF Olsen and Forest360), as well as, in the NZX-run Auctions. Direct activities can range from small spot deals for 1,000 New Zealand Units (NZUs) through to 10-year deals for millions of tonnes. BPEA's activities are conducted to support bp New Zealand's compliance obligations, proprietary trading activity and to support third-party customers. BPEA has been consistently active in the market since its inception in 2008.

Both emission reductions and removals will play a role

bp acknowledges that New Zealand will need to reduce emissions across the whole economy as well as incentivise removals to meet its emissions reduction targets. We agree Government has a role in determining the appropriate mix of emissions reductions and removals, and in implementing a suite of policies to achieve these goals.

We also acknowledge that not only must New Zealand achieve net-zero emissions by 2050, it must also continue to be net-zero in the decades beyond. We agree that even in a net-zero future, some residual emissions will remain, and additional removals will be needed to offset these emissions while they remain. To the extent that New Zealand's removal capacity is limited (as it reasonably is for land-based removals), Government also has a role to consider when it is most optimal to deploy those removals and to design policy accordingly.

In practice, assessing the optimal mix and timing of emissions reductions and removals over time is very complicated, requiring an understanding of the different abatement options and costs across the whole economy and over time. This is a benefit of the ETS, it draws together the understanding and expectations from across the market to determine the mix and timing of emissions reductions and removals. It is forward looking, with market participants making decisions today based on their expectation of the carbon price today and into the future.

This is not to say the ETS will necessarily result in the most optimal emission reductions and removals. There are many uncertainties, particularly about the cost and availability of technologies in the future; market participants don't have full information; and while they may look forward, they may not have a view over the long-term. There is a role for Government to make sure the policy settings are right and account for these potential market failures. In reviewing the ETS to ensure it will drive both emission reductions and incentives for removals, it would be useful to define more clearly what the market failures are that the reforms are trying to address.

Clarity on the role the NZETS is to play in achieving New Zealand's emissions reduction goals is needed.

bp is a strong supporter of the NZ ETS as a central policy to achieve New Zealand's emissions reduction goals. The value of the ETS is that it allows participants to make investments in emissions reductions and removals based on the market price today and expectations for the future. This view to the future is important because many of the gross emissions reductions under the ETS require investments in long-lived assets with business cases needing to be assessed over decades. To be effective the ETS requires a degree of stability and predictability in the policy settings. Unfortunately, the NZ ETS has been subject to frequent and material policy reforms over the past 3 years which has made these sort of investment decisions harder by creating uncertainty over the future system and price signal. We urge the department to move quickly to resolve the policy uncertainty associated with this review.

The discussion paper raises the concept of a strong and stable carbon price pathway. Another strength of the NZ ETS is that it does not require policy makers to have all the information to determine the optimal price pathway for driving emissions reductions. Instead, the carbon price is a result of the ETS settings including the caps (today and over time) and access/cost of removals. We encourage policy makers to avoid reforms that would see settings change year-to-year in an attempt to target an estimated "optimal price path".

While we support the ETS as the central policy, we do note there are several other policies being implemented or proposed that are also designed to reduce emissions from sources covered by the NZ ETS. Naturally outcomes from these policies will interact with the functioning of the ETS, particularly if reforms are made to prioritise gross emission reductions. For example, the discussion paper indicates as New Zealand's uptake of electric vehicles increases this will reduce emissions under the ETS and subsequently demand for NZUs. ETS settings are therefore intrinsically linked to the ambition of policy designed to drive EV uptake. Uncertainty in these other policies will also be relevant to the NZ ETS, for example, the recent decision not to move ahead with the biofuels mandate had implications for emissions and demand under the ETS. Sometimes the implications of other policies for the ETS are hard for the market to predict. For example, investments made under the GIDI to reduce emissions of the largest emitters are understandably made through bespoke tailored agreements. These investments materially reduce emissions covered by the NZ ETS, but the market can only respond once the investments are announced. Careful consideration of these interactions is needed when further reviewing potential reforms to the NZ ETS to prioritise gross emission reductions.

We encourage the department to further consider how the different segments of the market would behave under any reforms further developed.

Understanding how the different segments of the market are likely to behave under any reformed ETS settings will be important. We encourage the department to consider the following segments of the market: liable parties including industrial emitters, fuel suppliers and foresters; removal providers; and third-party intermediaries.

As a fuel supplier, bp is liable for the emissions generated by its downstream customers. We have limited influence over the emissions we are liable for. We pass the carbon cost onto our customers so the gross emissions reductions driven by the ETS will depend on how sensitive our customers are to the carbon price. We do not receive freely allocated NZUs, so must cover our liability through auctions, securing forestry NZUs or via the secondary market. Our compliance relies on liquidity in the market. We often take positions in the market years in advance to ensure we can meet our obligations. Having flexibility in how we can secure the necessary NZUs provides a degree of competition and helps to keep costs down for our customers.

Other liable entities will also be driven by their obligations, but their behaviour is likely to be different to fuel suppliers like bp. Many large industrial emitters have and will continue to receive declining free allocation. Some of these NZUs have been carried forward for use in future compliance years. Like bp these market participants can also cover their liability from the primary or secondary NZU markets, but they can also invest directly to reduce their emissions.

Foresters receive and tend to hold NZUs as their forests are growing to cover their liability when the trees are harvested. They can also buy NZUs at auction or from the secondary market. They may also consider selling their NZUs today but that will depend on their expectations for the future cost of NZUs to cover their liability at that time. Generating NZUs means they are less reliant on auctions and secondary market to meet their obligations.

Non-liable entities also participate in the NZ ETS market, via auctions, purchasing removal units and buying and selling in the secondary market. These intermediaries find value in the NZ ETS if they can buy an NZU today and sell it in the future for a price that is greater than the cost of buying and carrying it. They might have lower carrying costs or be better placed to bring NZUs to market than other market participants adding efficiency overall.

When the market is not very liquid/competitive material holders of NZUs may see value in bidding the auction price up to increase the value of their holdings overall, knowing that some liable entities will have to pay whatever the resulting price will be to comply. Any proposed reforms should address these risks, for example, by adjusting who and how different market participants can participate in the auctions.

Providers of forestry removals make investments based on their expectations of carbon price they will receive for the NZUs. We agree that where the expected carbon price is higher than the cost, new investments would likely be made. But we also believe that project proponents are forward looking and would respond to expectations about future price. We also expect the cost of forestry removal projects to increase over time, for example, as it becomes harder to identify additional land and/or the land becomes more marginal.

We would support the inclusion of other types of removals under the NZ ETS such as marine based removals, direct air capture with storage, biochar and BECCS.

Address impacts of forestry projects through the forest management framework and decide what types of forest projects are eligible under the ETS through the definition of permanent forest.

We note the impacts the discussion paper raises regarding certain forest projects. We agree Government has a role in determining the right type, scale, and location of forests. We believe however, these objectives are better achieved through policy specifying appropriate use of land and management of forests. Government can best direct what forestry projects will be incentivised by the NZ ETS through adjustments to the definition of the permanent forestry definition. We recommend settling the various forestry reforms and assessing the implications of these on likely supply of removals before finalising decision on any reforms to the NZ ETS to drive gross emissions reductions.

None of the reform options are developed enough for bp to form a view on their merit.

We do believe it is worth exploring how the existing NZ ETS levers can be used to achieve both emissions reductions and removals. We encourage the department to assess the likely outcomes taking into consideration other proposed changes, such as to the forest management framework and the definition of the permanent forest.

We consider it is important for any potential reforms to retain flexibility for liable entities to secure NZUs from removals. We do not support options that would separate the NZ ETS entirely from the removal market. Nor do we support options that would see the Government playing an intermediary role between the NZ ETS and removal market. We believe we are better placed to drive efficient outcomes within policy settings by engaging directly in the removal market.

We are open to options where the Government participates in the removal market along-side other market participants to drive additional removals beyond what would otherwise be achieved under the NZ ETS. This could help to achieve future NDCs and offset gross emissions that are not covered by the ETS. Even once the economy becomes net-zero, Government may continue to have a role to play to achieve net-negative emissions. We agree an important consideration for any such Government on the purchase of removals would be who pays. Given benefits across the economy we do not believe this should be limited to NZ ETS liable entities.

We do not recommend segmenting the market with too many different types of NZUs as this will have implications for liquidity. Should reforms be adopted that require the identification of removal units separately from other NZUs this should only require two categories of units.

Further analysis would be required to assess the implications of the option proposed to limit the number of removal NZUs liable entities could use toward compliance. To drive additional gross emission reductions bp assumes any such limit would need to be binding (in aggregate allow less removal NZUS than liable parties would otherwise use). It would become a key driver of the carbon price, so the market would need visibility over its settings into the future. Introduced too suddenly, a limit or subsequent change, risks prices increasing significantly until such time that additional emission reductions can be achieved. We would not support policy that would allow for limit settings to be adjusted from year to year as has been the experience with other market settings recently.

Should reforms be further developed sufficient lead time will be needed before any such reforms take effect. As discussed, bp manages its compliance obligations several years in advance and has in good faith already taken positions in the market based on the current NZ ETS settings.

Likewise careful consideration would be needed in deciding how to treat removal NZUs that are already in the stockpile. We do not support retrospectively applying limits on their use. We do not believe these should be treated differently to other NZUs held in the stockpile. Should vintages be further explored we also consider this should be assessed for other NZUs as well.

Some of the reform options canvassed would reduce the flexibility for liable entities and could see the market become more concentrated. Should these options be further developed we would recommend also considering other reforms that would address hoarding, for example, introducing vintages and considering who can participate in auctions.

We support further consideration of the role the voluntary carbon market could play in incentivising removals. We understand the proposal is to continue to claim these removals toward New Zealand's NDC with no consideration of transferring the outcome or making a corresponding adjustment under Article 6 of the Paris Agreement. Internationally there is demand for high quality nature-based carbon offsets in the voluntary market, particularly where these align with internationally accepted carbon accounting methods. While demand is unlikely to be material, some consideration could be given to setting a maximum number of removals that could be supplied into the voluntary market.

Closing
We understand the desire to review the NZ ETS settings to ensure they remain fit for purpose and aligned with Government's emission reduction plans. We also reiterate the importance for the proper functioning of the NZ ETS in having a degree of predictability and stability around the policy settings. We therefore encourage the department to move quickly to define more developed policy options and undertake the necessary analysis to finalize any policy reforms.

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