

Updated October 2023

New Zealand Emissions Trading Scheme (ETS)

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| Years in Operation | Began in 2008. Annual compliance periods, with units due to be surrendered by 31 May of the subsequent year. |
| Overall cap and trajectory | <p>As of September 2023, the overall limit in the NZ ETS is 145.1 million units over 2023-2028, of which 68.5 million is for auctioning and 40.5 million for the cost containment reserve (calculated using AR5 GWPs). The balance represents anticipated industrial free allocation (36.1 million units), which is not bound by the overall limit. These settings are calculated to accord with New Zealand's economy-wide budgets for domestic net emissions.</p> <p>ETS unit supply and price control settings are set five years ahead and updated annually on a rolling basis. Under the current methodology used to align ETS settings with the emissions budgets, the ETS would reach net-zero around 2037, with ongoing gross emissions balanced by forestry removals.</p> |
| Target(s) | <p>NDC target for net emissions to be 50% below 2005 gross emissions by 2030 (using a target accounting basis rather than full inventory for forestry removals). The NDC target will be implemented as a net emissions budget 2021-2030, provisionally estimated at 571 million tonnes.</p> <p>The country has legislated for a 2050 target of at least a 24-47% cut in biogenic methane below 2017 levels (including a 10% cut by 2030) and net-zero emissions of other GHGs. Domestic emissions budgets act as stepping-stones toward the 2050 target. Budgets for 2022-35 were put in place by the government in May 2022: 290 million tCO₂e over 2022-25, 305 MtCO₂e over 2026-30, and 240 MtCO₂e over 2031-35 (calculated using AR5 GWPs).</p> |
| Emissions reduced to date | According to the government's Emissions Reduction Plan, the ETS is projected to reduce net emissions by 0.9-3.5 Mt in the first emissions budget, 8.2-12.4 Mt in the second, and 13.0-19.8 Mt in the third. |
| Sectors covered | <ul style="list-style-type: none"> • Forestry (mandatory for deforestation of pre-1990 forest land; voluntary for post-1989 afforestation) • Liquid fossil fuels • Stationary energy • Industrial processes • Waste • Agriculture (reporting only) <p>Under legislation passed in June 2020, agriculture will face an emission price no later than 2025. A voluntary permanent forestry activity for post-1989 forests was introduced in 2023.</p> |



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| GHGs covered | <ul style="list-style-type: none"> • CO₂ • Methane • HFCs • N₂O • PFCs • SF₆ |
| Number of covered entities | As of June 2023, there were 197 mandatory participants, plus 79 agricultural processor entities with reporting obligations only and 3961 voluntary participants (of which 3922 conduct post-1989 forestry). |
| Allocation method | <p>Output-based free allocation to emissions-intensive, trade-exposed (EITE) industry. Historically, one-off free allocations to fishing quota owners and pre-1990 forest owners. Post-1989 forest owners (or lease/rights holders) can opt to earn units for net removals.</p> <p>Quarterly auctions are hosted by NZX and EEX. A total of 15 million NZUs are available by auction in 2023 (excluding reserve units).</p> |
| Trading rules | Unlimited banking and no borrowing |
| Use of offsets and linking | <p>At present, no overseas units are eligible and any future use of approved overseas units by participants will be bound by the overall limit. The NZ ETS is not linked to systems in other jurisdictions.</p> <p>Units from post-1989 forests may be used to meet compliance obligations without any quantity limit. This means that the ETS caps net, rather than gross, emissions.</p> |
| Other features | <p>Reforms adopted in 2020 that introduced auctioning also established a cost containment reserve (CCR) and an auction reserve price (ARP). The CCR releases a fixed volume of NZUs into auctions if the unit price reaches a trigger price. After being triggered in 2021 and 2022, the trigger price has been raised substantially, with two tiers of NZUs available at NZ\$173 and NZ\$216 in 2023. The ARP is NZ\$60 in 2023. Both the CCR triggers and ARP will rise over time, with the ARP reaching NZ\$79 and CCR tiers NZ\$226 and NZ\$283 in 2028.</p> <p>A Confidential Reserve Price operates in addition to the ARP. The methodology is set by the Minister, based on prevailing prices in the secondary market.</p> <p>In the energy sector, surrender obligations generally apply upstream at the point of fuel production or import, but large fuel users can opt in to surrender obligations with a carve-out of the upstream obligation.</p> |
| Penalties for non-compliance | Three times the market price plus the surrender requirement for failing to submit allowances on time. Adjusted penalties will apply for other types of infringements. |
| Use of revenues | Since 2022, ETS auction revenue has been directed to a Climate Emergency Response Fund to support emissions reductions initiatives under the government's Emissions Reduction Plan. |



Major Developments

In July 2022, the independent Climate Change Commission provided the government with its first annual advice on NZ ETS unit and price settings, covering the 2023-27 period. The Commission recommended that in order to align settings with the emissions budgets that had been set earlier that year, unit supply

should be tightened and price controls should be raised. In a move that surprised the market, the government in December 2022 decided not to accept the Commission's advice, and instead maintained settings close to the previous status quo. In making this decision, the government cited concerns that a higher CCR trigger price might act as a magnet for market prices, causing cost of living concerns.

In May 2023, Lawyers for Climate Action NZ challenged the government's decision in the High Court. The case was resolved quickly, with the government admitting that the correct process for deciding ETS settings, specified in the Climate Change Response Act, had not been followed. The government revised its decision, and by the end of July announced it would adopt the Commission's recommended ETS settings, while also updating them to incorporate the Commission's 2023 advice that extends settings to 2028.

In parallel, in June 2023 the government launched a consultation on whether the role of forestry in the ETS should change. This followed advice from the Climate Change Commission that the government amend the ETS to provide more focus on gross emissions reductions, alongside maintaining incentives for forestry. Decisions will not be taken until after the general election in October, but both major political parties have signalled an intention to amend forestry settings in some manner. Given the significant role of forestry in the NZ ETS, this is a source of uncertainty for the market.

The timing of introduction of agricultural emissions pricing is currently uncertain. A legislated backstop exists for ETS compliance obligations to begin in 2025; however the government's focus has been on negotiating a separate pricing system for farm-level emissions as an alternative to the NZ ETS. Depending on the outcome of the October general election, agricultural pricing could be delayed until 2030.

In 2023, the government also passed legislation to update baseline for free allocation to emissions intensive trade exposed companies and advanced a new regime for market governance.

Market Commentary

See Figure 1 on page 4.

NZU prices trended up over the second half of 2022, from the mid-NZ\$70s to peak at almost NZ\$90 in December. However, the government's decision to reject the Climate Change Commission's advice regarding auction settings saw prices taper back down, as the market was caught in a long position. Prices were bouncing between NZ\$50-60 apiece by mid-2023, but plummeted further to NZ\$34 following the publication of a government consultation on removing forestry from the NZ ETS and creating a new, separate market for the removals units.

However, the government's quick action following the outcome of the judicial review into the decision to reject the Commission's proposal on auction settings in July – earlier than participants had expected – ended the downfall. NZU prices have settled in a \$60-70 range since August.



As a result of the turmoil, NZU auctions in March, June and September all failed to clear. Units are carried forward to subsequent auctions a maximum of four times, after which they are cancelled. There is a possibility that the new government – following the country's 14 October election – could either not enforce a confidential reserve price, in which case the NZ\$60 auction reserve price is the de facto floor, or even tweak the settings.

Figure 1. Spot NZU closing prices (11 Oct 2021 to 10 Oct 2023).



Source: Jarden

Useful Links

[New Zealand Emissions Trading Register](#)
[New Zealand Climate Change Commission](#)
[Climate Change Response Act 2002](#)
[NZ ETS Auctions](#)

References

[New Zealand Emissions Trading Scheme](#) – Ministry for the Environment
[NZ ETS Review](#) - Ministry for the Environment
[Climate Change \(Auctions, Limits, and Price Controls for Units\) Regulations 2023](#)
[Guide to the New Zealand Emissions Trading Scheme – March 2022 update](#) – Motu Economic and Public Policy Research
[Ināia tonu nei: a low emissions future for Aotearoa](#) – Climate Change Commission
[Emissions Reduction Plan](#) – Ministry for the Environment



Authors

Katie Kouchakji
Communications Advisor & ANZO Coordinator, IETA
kouchakji@ieta.org



Christina Hood
Head, Compass Climate
christina.hood@compassclimate.com



Nigel Brunel
Head of Commodities, Jarden
nigel.brunel@jarden.co.nz