

New Zealand Emissions Trading Scheme (NZ ETS)

General Information

<p>Summary</p>	<p>Status: ETS in force</p> <p>Jurisdictions: New Zealand</p> <p>The NZ ETS was launched in 2008, and covers all sectors of the economy, including forestry as a source of both emissions and units. However nitrous oxide and methane emissions from agriculture currently only have reporting obligations and no surrender obligations.</p> <p>The first statutory review was completed in 2011 and the NZ ETS was amended in 2012. A second review of the NZ ETS began in December 2015 and concluded in July 2017. The latest review was conducted in two stages:</p> <p>The first stage of this review resulted in a decision to phase out the “one-for-two” transitional measure over three year from the beginning of 2017, so that all NZ ETS covered sectors will have full surrender obligations from 2019.</p> <p>The second stage of the review looked at the overall design and operation of the NZ ETS in the 2020s, with a view to ensuring it could help New Zealand meet its first Nationally Determined Contribution under the Paris Agreement. In July 2017, the Government adopted a package of four in-principle decisions: To introduce auctioning, to develop a different price ceiling measure, to limit the volume of international units once the NZ ETS reopens to international markets, and to coordinate decisions on the supply settings in the NZ ETS over a rolling five-year period. Options for simplified forestry-sector accounting are still under discussion and further policy decisions are expected in 2018.</p> <p>The NZ ETS was originally designed to be fully linked to international carbon markets under the Kyoto Protocol. However, as of 1 June 2015, international units were no longer accepted for compliance and the NZ ETS became a domestic-only system. As indicated by New Zealand’s NDC, reestablishing a link to high integrity international carbon markets will form part of New Zealand’s strategy for meeting its 2030 target.</p> <p>Official Climate Change Information on the NZ ETS Climate Change Response Act 2002 (as at 1 January 2013) Climate Change Response (Emissions Trading and Other Matters) Amendment Bill (2012)</p>												
<p>Overall GHG emissions (excluding LULUCF)</p>	<p>Emissions: 80.2 MtCO₂e (2015)</p>												
<p>Overall GHG emissions by sector</p>	<table border="1"> <thead> <tr> <th>Sector Name</th> <th>MtCO₂e</th> </tr> </thead> <tbody> <tr> <td>Agriculture</td> <td>38.4</td> </tr> <tr> <td>Energy (excl. transport)</td> <td>17.8</td> </tr> <tr> <td>Transport</td> <td>14.7</td> </tr> <tr> <td>Industrial processes and other product use</td> <td>5.3</td> </tr> <tr> <td>Waste</td> <td>4.0</td> </tr> </tbody> </table>	Sector Name	MtCO ₂ e	Agriculture	38.4	Energy (excl. transport)	17.8	Transport	14.7	Industrial processes and other product use	5.3	Waste	4.0
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<p>Overall GHG reduction target</p>	<p>By 2020: 5% reduction from 1990 GHG levels (unconditional target).</p>												

	<p>By 2030: 30% reduction from 2005 GHG levels (equivalent to 11% reduction from 1990 GHG levels) (NDC of New Zealand).</p> <p>By 2050: 50% reduction from 1990 GHG levels.</p>
Type of ETS	Mandatory with voluntary opt-in
Cap and trajectory	<p>Type of Cap: If auctioning is introduced, then a cap on the supply of NZUs from free allocation and auctioning will be set.</p> <p>The NZ ETS was originally designed to operate within the international cap on developed country emissions provided by the Kyoto Protocol and has therefore operated without a specific domestic cap. This accommodated carbon sequestration from forestry activities and a full link to the international Kyoto Protocol carbon markets. As allowance supply is now restricted to New Zealand Units (NZUs), and future access to international units is will be subject to quantitative limits, the NZ ETS is expected to have its own fixed cap in the future.</p> <p>NZUs are issued either as free allocation to Emissions Intensive Trade Exposed (EITE) activities or for domestic removal activities (i.e. forestry). This means that as long as NZU prices remain below the fixed price offer level (NZD 25/NZU [EUR 15.17/NZU]), the annual cap is equivalent to the quantity of free allowances and removal units issued (see Allocation).</p> <p>The NZ ETS legislation includes provisions to introduce auctioning of New Zealand Units (NZUs) within an overall cap on non-forestry sectors. This would cap the amount of allowances (it will not limit the volume of NZUs representing removals from forestry or other removal activities). In future this will combine with a quantity limit on international units to provide the NZ ETS with an overall cap on emissions.</p>
Carbon Price	<i>Current Allowance Price (per t/CO₂e):</i> NZD 21.10 (approx. USD 15.47) (secondary market price of 26 February 2018)

ETS Size

Emissions covered by the ETS	0.52
GHG covered	CO ₂ , CH ₄ , N ₂ O, SF ₆ , HFCs and PFCs
Sectors covered and thresholds	<p>Sectors were gradually phased-in over time.</p> <p>2008: Forestry (mandatory: deforesting pre-1990 forest land, voluntary: post-1989 forest land).</p> <p>2010: Stationary energy (various thresholds), industrial processing (various thresholds) and liquid fossil fuels (various thresholds).</p> <p>2013: Waste (except for small and remote landfills) and synthetic GHGs (various thresholds). Synthetic GHGs not in the NZ ETS are subject to an equivalent levy.</p> <p>Biological emissions (methane and nitrous oxide) from agriculture must be reported, but face no surrender obligations.</p>
Number of liable entities	<p>2,360 entities registered, of which 2,290 have surrender obligations (as of June 2017).</p> <p>206 entities with mandatory reporting and surrender obligations.</p> <p>2,084 entities with voluntary reporting and surrender obligations; mostly for post-1989 forestry activities.</p> <p>70 entities with mandatory reporting without surrender obligations; mostly for agricultural activities.</p>

	A liable entity in the NZ ETS is defined as a person carrying out an activity that falls under the scope of the ETS.
Point of regulation	<p>The point of obligation is generally placed upstream.</p> <p>Some large businesses that purchase directly from mandatory NZ ETS participants can choose to opt into the NZ ETS rather than have the costs passed down from their suppliers.</p>

Phases & Allocation

Compliance period	<p>One year for most sectors.</p> <p>Participants registered for post-1989 forestry have mandatory five year compliance periods; however they may choose to report emissions and removals more frequently.</p>
Trading period	<p>For most sectors the NZ ETS has year-on-year allocations and surrender obligations.</p> <p>For post-1989 forestry participants, annual reporting of emissions and removals is optional, with five-year mandatory reporting periods. As a result, unit entitlement transfers and surrender obligations for these participants correspond to when they choose to report their emissions.</p>
Allocation	<p>Emissions Intensive and Trade Exposed (EITE) activities: Intensity-based allocation for 26 eligible activities (industrial): 90% free allocation for highly EITE activities (1,600 tCO₂e/NZD 1 million of revenue [EUR 652,740]); 60% free allocation for moderately EITE activities (800 tCO₂e/NZD 1 million of revenue [EUR 652,740]).</p> <p>Under the one-for-two transitional measure, free allocation volumes to EITE activities were halved to reflect the 50% compliance obligation. In line with the phase out of the transitional measure, allocations for EITE activities have increased from 1 January 2017, with full allocations applying from 1 January 2019 (see Price Management Provisions).</p> <p>Post-1989 forestry sector and other removal activities: See 'offsets and credits'.</p> <p>In the year to June 2017, 5.5 million NZUs were allocated to industrial participants, and 9.5 million NZUs were granted for removal activities, compared to a total of 22.4 million certificates surrendered in this period.</p> <p>Forestry and fisheries sectors: Owners of pre-1990 forest land received a one-off free allocation of NZUs to partially compensate for the impact of the introduction of the NZ ETS on land use flexibility. Fishing quota owners were also compensated for rising fuel costs with a one-off free allocation.</p> <p>In 2012, the NZ ETS legislation was amended to allow the introduction of auctioning of NZUs within an overall cap on non-forestry sectors. In July 2017, an in-principle decision was taken to develop and introduce an auctioning mechanism. The mechanism is planned to be developed by 2012.</p>

Flexibility

Banking and borrowing	<p>Banking is allowed except for those units that were purchased under the fixed price option (see 'price management provisions').</p> <p>Borrowing is not allowed.</p>
Offsets and credits	<p>Qualitative Limit: As of 1 June 2015, international units are not eligible for surrender in the NZ ETS.</p> <p>NZUs are granted to participants that voluntarily register in the scheme for removal activities.</p>

	<p>Forestry Removal Activities: Participants are entitled to receive one NZU per ton of removals for registered post-1989 forest land. If the forest is harvested or deforested, units must be surrendered to account for the emissions, and if the participant chooses to deregister from the scheme, NZUs equivalent to the number received must be returned.</p> <p>Other Removal Activities: participants are entitled to receive one NZU per ton of removal from recognized industrial processes, e.g. embedding GHGs in certain products, exporting some products or destroying bulk synthetic GHGs. Entitlements were reduced by half, in line with the one-for-two transitional measure. This is set to increase to full entitlements by 1 January 2019 concurrent with the phase-out of the one-for-two measure (see Price Management Provisions).</p> <p>In the year to June 2017, 9.5 million NZUs were transferred to participants for removal activities (forestry removal activities - 7.7 million, and other removal activities - 1.8 million).</p> <p>Since January 2013, pre-1990 forest landowners have the option to offset deforestation on their land by planting an equivalent new forest elsewhere in New Zealand (under given conditions).</p>
Provisions for price management	<p>Transitional measures were implemented in 2009 to help firms adjust to the carbon cost. These included: (a) one-for-two surrender obligation for non-forestry sectors (one allowance could be surrendered for every two tons of emissions); and (b) a NZD 25 fixed price option (USD 18), which acts as a price ceiling.</p> <p>These measures were assessed in the most recent NZ ETS review. As a result the one-for-two measure is being phased out over the three years from 2017. The one-for-two measure, effectively a 50% surrender obligation, has been increased to 67% from 1 January 2017, to 83% from 1 January 2018 and will increase to full surrender obligations from 1 January 2019. Allocations and entitlements for EITE activities and other removal activities will increase concurrently. The current fixed price option will remain in place until a new price ceiling measure is developed and introduced.</p>

Compliance

Monitoring, Reporting, Verification (MRV)	<p>Reporting frequency: Most sectors are required to report annually.</p> <p>Verification: Self-reporting supplemented by a programme of second and third-party audits run by the regulator (approach is consistent with NZ income tax auditing procedures). Participants must seek third party verification if they apply for the use of a unique emissions factor.</p> <p>Other: Post-1989 forestry participants are required to report emissions at the end of each five year 'mandatory emissions reporting period', with the option to report annually as well.</p>
Enforcement	<p>An entity that fails to surrender emission units when required to, will have to surrender units and pay a penalty of NZD 30 (EUR 18.38) for each unit.</p> <p>Entities can be fined up to NZD 24,000 (EUR 14,702) for failure to collect emissions data or other required information, calculate emissions and/or removals, keep records, register as a participant, submit an emissions return when required, or notify the administering agency or provide information when required to do so.</p> <p>Entities can also be fined up to NZD 50,000 (EUR 30,630) for knowingly altering, falsifying or providing incomplete or misleading information about any obligations under the scheme, including emissions return. This penalty and/or imprisonment of up to five years also apply to entities that deliberately lie about obligations under the NZ ETS to gain financial benefit or avoid financial loss.</p>

Other Information

Institutions involved

Ministry for the Environment

	<p>Environmental Protection Authority</p> <p>Ministry for Primary Industries</p> <p>New Zealand Customs Service</p> <p>New Zealand Transport Agency</p>
Linkage with other schemes	<p>Until 1 June 2015, the NZ ETS was indirectly linked to other systems (e.g. the EU ETS) via the international Kyoto Protocol Flexible Mechanisms. Since then, the NZ ETS has been a domestic-only system. The recent review of the NZ ETS resulted in a range of in-principle decisions that will make the NZ ETS more similar to emissions trading schemes in other countries, which will make it more compatible for international linking in the future.</p>

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