

## New Zealand Emissions Trading Scheme

### General Information

<p>Summary</p>	<p><b>Status:</b> ETS in force</p> <p><b>Jurisdictions:</b> New Zealand</p> <p>The New Zealand Emissions Trading Scheme (NZ ETS) was launched in 2008. Originally designed to cover the whole economy, it has the broadest sectoral coverage of any ETS, including forestry as a source of both emissions and units. Biological emissions from agriculture, however, currently have only reporting obligations and no surrender obligations. The ‘Climate Change Response Act 2002’ sets the legislative framework for the NZ ETS.</p> <p>The NZ ETS was conceived as a nested system under the Kyoto Protocol, with full links to international carbon markets. However, as of 1 June 2015, 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>Year in Review</p>	<p>Based on the second review of the NZ ETS, decisions were taken in 2018 to introduce several integrated measures to cap and manage unit supply to align the supply of units in the NZ ETS with New Zealand’s emission reduction targets. These decisions include introducing an auctioning mechanism, a cost containment reserve (CCR) to replace the fixed price option ceiling, limits on international units (if and when the NZ ETS reopens to international markets), and a coordinated decision-making process for setting unit supply over a rolling five-year period with annual updates. For the forestry sector, provisions for permanent forests are to be introduced, as well as other technical improvements.</p> <p>Further policy reforms are to be decided in 2019. Reforms under consideration include: simplified forestry-sector accounting options, a potential price floor mechanism, as well as options for the phase-down of free allocation to emissions intensive and trade exposed (EITE) industries. Options for strengthening the NZ ETS market governance framework and improving the penalties and compliance regime are also expected.</p> <p>Legislation amending the ‘Climate Change Response Act 2002’ is expected to be presented to Parliament in mid-2019, so that the reforms may be implemented in 2020.</p> <p>The ‘Zero Carbon Bill’ proposes putting in place the core building blocks to give certainty to a long-term approach to climate change. The bill is expected to be introduced in the first half of 2019. An Interim Climate Change Committee was established in 2018 to lay the groundwork on key issues, including how surrender obligations could best be arranged if agricultural CH<sub>4</sub> and N<sub>2</sub>O emissions enter the NZ ETS.</p>						
<p>Overall GHG emissions (excluding LULUCF)</p>	<p><b>Emissions:</b> 78.7 MtCO<sub>2</sub>e (2016)</p>						
<p>Overall GHG emissions by sector</p>	<table border="1"> <thead> <tr> <th>Sector Name</th> <th>MtCO<sub>2</sub>e</th> </tr> </thead> <tbody> <tr> <td>Agriculture</td> <td>38.7</td> </tr> <tr> <td>Energy (excluding transport)</td> <td>17.7</td> </tr> </tbody> </table>	Sector Name	MtCO <sub>2</sub> e	Agriculture	38.7	Energy (excluding transport)	17.7
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	Sector Name	MtCO <sub>2</sub> e
	Road transport	13.6
	Industry	4.8
	Waste	3.8
Overall GHG reduction target	<p><b>BY 2020:</b> 5% reduction from 1990 GHG levels (unconditional target)</p> <p><b>BY 2030:</b> 30% reduction from 2005 GHG levels (equivalent to 11% reduction from 1990 GHG levels) (NDC)</p> <p><b>BY 2050:</b> 50% reduction from 1990 GHG levels</p>	
Carbon Price	<p><i>Current Allowance Price (per t/CO<sub>2</sub>e):</i> NZD 22.71 (USD 15.71) (average secondary market price in 2018; updated prices available <a href="#">here</a>)</p>	

## ETS Size

Emissions covered by the ETS	0.51
GHG covered	CO <sub>2</sub> , CH <sub>4</sub> , N <sub>2</sub> O, SF <sub>6</sub> , HFCs, and PFCs
Sectors covered and thresholds	<p>Sectors were gradually phased in over time.</p> <p><b>2008:</b> Forestry (mandatory: deforesting pre-1990 forest land; voluntary: post-1989 forest land).</p> <p><b>2010:</b> Stationary energy (various thresholds), industrial processing (various thresholds), and liquid fossil fuels (various thresholds).</p> <p><b>2013:</b> 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>Currently, biological emissions from agriculture must be reported, but face no surrender obligations.</p>
Point of regulation	<p>The point of obligation is generally placed upstream.</p> <p>Some large businesses that purchase fossil fuels 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>
Number of liable entities	<p>2,448 entities registered, of which 2,351 have surrender obligations (as of June 2018).</p> <p>221 entities with mandatory reporting and surrender obligations.</p> <p>2,156 entities with voluntary reporting and surrender obligations; most for post-1989 forestry activities.</p> <p>71 entities with mandatory reporting without surrender obligations; all for agricultural activities.</p> <p>No information available yet.</p>
Cap	<p>The NZ ETS was originally designed to operate without a specific domestic cap as this accommodated carbon sequestration from forestry activities and a full link to the international Kyoto Protocol carbon markets. Allowance supply was restricted to New Zealand Units (NZUs) in 2015. Potential future access to international units will be subject to quantitative limits. The NZ ETS will have its own fixed cap in the future. This would restrict the number of units supplied into the scheme, in line with New Zealand's GHG reduction targets. It is expected that a process will be established for setting unit supply over a rolling five-year period with annual updates.</p>

## Phases & Allocation

Trading period	<p>For most sectors the NZ ETS has annual 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><b>Free Allocation:</b></p> <p><b>EITE Activities:</b> Intensity-based allocation for 26 eligible activities. Highly EITE activities (over 1,600 tCO<sub>2</sub>e/NZD 1 million of revenue [USD 0.69 million]) receive 90% free allocation. Moderately EITE activities (over 800 tCO<sub>2</sub>e/NZD 1 million of revenue [USD 0.69 million]) receive 60% free allocation. 6.9 million NZUs were issued from June 2017 to June 2018.</p> <p><b>Post-1989 Forestry Sector and Other Removal Activities:</b> NZUs are granted to participants that voluntarily register in the scheme for removal activities, as outlined below. There is no limit on the number of units that can be granted for removal activities.</p> <p><b>Forestry Removal Activities:</b> Participants are entitled to receive one NZU per tonne of CO<sub>2</sub> removed 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. 18.3 million NZUs were issued for forest removal activities from June 2017 to June 2018.</p> <p><b>Other Removal Activities:</b> Participants are entitled to receive one NZU per tonne of removal from recognized industrial processes, including export of products that embed carbon and export of HFCs and PFCs. 2.2 million NZUs were issued for other removal activities from June 2017 to June 2018.</p> <p><b>Forestry and Fisheries Sectors:</b> Owners of pre-1990 forest land, as well as owners of fishing quotas, received a one-off free allocation of NZUs when the NZ ETS was implemented to partially compensate for the impact of the ETS.</p> <p><b>Auctioning:</b> In 2018 the government decided to develop and introduce an auctioning mechanism, within an overall cap on non-forestry sectors. The first auctions are expected in 2020.</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). Borrowing is not allowed.</p>
Offsets and credits	<p><b>QUALITATIVE LIMIT:</b> Units from Kyoto Protocol flexible mechanisms were eligible for use in the system with no restrictions until 2015. As of 1 June 2015, international units are not eligible for surrender in the NZ ETS.</p>
Market Stability Provisions	<p><b>Transitional Measures:</b> Two measures were implemented in 2009 to help firms adjust to the carbon cost:</p> <p>(1) One-for-two surrender obligation for non-forestry sectors (one allowance could be surrendered for every two tonnes of emissions);</p> <p>(2) A NZD 25 (USD 17.30) fixed price option, which acts as a price ceiling.</p> <p>After the second NZ ETS review, the one-for-two measure was phased out and entities have faced full surrender obligations since 1 January 2019.</p>

**Reserve:** The fixed price option will remain until it is replaced with a CCR incorporated into the auctioning mechanism. Allowances from the CCR will be auctioned if a predetermined trigger price is reached. The price trigger and reserve quantity are still to be determined. Any allowances released from the reserve will be backed by an equivalent tonne of removals.

## Compliance

Compliance Period	<p>One year*</p> <p>*Participants registered for post-1989 forestry have mandatory five-year compliance periods (with the option to report emissions annually).</p>
Monitoring, Reporting, Verification (MRV)	<p><b>REPORTING FREQUENCY:</b> Most sectors are required to report annually.</p> <p><b>VERIFICATION:</b> Self-reporting supplemented by a program of second- and third-party audits run by the regulator. Participants must seek third party verification if they apply for the use of a unique emissions factor.</p>
Enforcement	<p>An entity that fails to surrender emissions units when required to must surrender the units and pay a penalty of NZD 30 for each unit (USD 20.76) that was not surrendered by the due date. In certain circumstances the penalty may be reduced.</p> <p>Entities can be fined up to NZD 24,000 (USD 16,607) on conviction 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 (USD 34,598) on conviction 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> <p>A new “infringement offence regime” is expected to be established from 2020 for minor offences. Infringement offences will result in financial penalties for offenders but not convictions.</p>

## Linking

Links with other Systems	<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.</p> <p>The current reforms will make the NZ ETS more similar to ETSs in other countries, which will make it more compatible for international linking in the future.</p>
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## Other Information

Institutions involved	<p>Ministry for the Environment; Environmental Protection Authority; Ministry for Primary Industries; New Zealand Customs Service; New Zealand Transport Agency</p>
Evaluation / ETS review	<p>The ‘Climate Change Response Act 2002’ includes provisions statutory independent reviews of the operation and effectiveness of the NZ ETS every five years. The first review took place in 2011-2012, and the second review took place in 2015-2017.</p>

	Public consultation on proposed amendments to the 'Climate Change Response Act' following the second review was undertaken in 2018 in order to support implementing proposed changes.
Revenue	No information available yet.
Implementing Legislation	<a href="#">Climate Change Response Act 2002 - Part 4 'New Zealand greenhouse gas emissions trading scheme'</a>

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