

New Zealand Emissions Trading Scheme

General Information

ETS Description

The New Zealand Emissions Trading Scheme (NZ ETS) was launched in 2008 and is a central climate change mitigation policy for the country. It covers roughly half of New Zealand's GHG emissions. The "Climate Change Response Act 2002" sets the legislative framework for the NZ ETS and incorporates all of New Zealand's key climate legislation under one Act.

The cap is set in a top-down process to align with New Zealand's 2050 net zero targets and associated emissions budgets. Covered entities must surrender allowances for all their reported emissions.

The NZ ETS has broad sectoral coverage, including forestry, stationary energy, industrial processing, liquid fossil fuels, waste, and synthetic GHGs. Allocation is based primarily on auctioning, which began in March 2021. Free allocation is granted only for emissions-intensive and trade-exposed (EITE) activities and is based on output- and intensity-based benchmarks. Uniquely to the NZ ETS, the forestry sector has both surrender obligations and the opportunity to earn units for emissions removals.

Currently, biological emissions from agriculture have reporting obligations without surrender obligations. Under the current legislation, emissions from agriculture will face a carbon price by 2026, either through the NZ ETS or a separate pricing mechanism. However, the new government has committed to repealing this legislation to prevent agriculture becoming part of the NZ ETS, and alternatively developing a separate system solely for the sector.

Extensive legislative reforms of the NZ ETS were implemented in 2020 to improve its design and operation and enable it to better support New Zealand's international and domestic emissions reduction obligations.

ETS Status

in force

Jurisdictions

New Zealand

Year in Review

2023 saw the continued development of the NZ ETS. The supply of units to the NZ ETS was tightened, bringing the cap trajectory in line with New Zealand's net-zero targets. Unit supply settings, as well as auction reserve price settings for 2024 to 2028, were updated in September in accordance with a court order made following a successful legal challenge against the original settings. The new settings tighten unit supply, while also doubling the 2024 auction reserve price floor to NZD 64 (USD 39) and the Cost Containment Reserve (CCR) trigger price to at least NZD 184 (USD 112).

Four auctions were undertaken throughout the year, with a total of 15 million units for sale, as well as another 8 million units available from the CCR. However, none of the auctions cleared, meaning no allowances were sold at auction in 2023. In line with the NZ ETS auctioning regulations, any units that were unsold after the last auction of 2023 are not available for sale at any subsequent auction.

A government-led review opened consultations on the design of the NZ ETS. The review followed recommendations from the independent Climate Change Commission to improve incentives for gross emissions reductions while managing exotic forests planted under the scheme. National elections in October 2023 brought about a change of government, which closed the review of the NZ ETS.

A system of farm-level emissions reporting was being developed in preparation for pricing biological GHG emissions from agriculture. In August, the former government announced plans to implement a levy from 2025. However, the new government has stated it will progress pricing agricultural emissions by no later than 2030, and will also repeal the provisions in the Act which would bring the sector into the NZ ETS from 2026 to allow time to develop this new system.

Amendments to update industrial allocation settings became law through the “Climate Change Response (Late Penalties and Industrial Allocation) Amendment Act” in August 2023. The Act also tightens the eligibility criteria for new activities seeking to receive free emission units. The government is now collecting data to inform updates to allocative baselines. Changes to regulations are expected to follow in late 2024.

Sectoral coverage

Forestry
Maritime
Waste
Domestic Aviation
Transport
Buildings
Industry
Power

Revenue usage

General budget, including debt reduction

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO₂e)

79.8

GHG reduction targets

By 2030: 50% reduction of net emissions below gross 2005 levels (NDC); 10% reduction of biogenic methane emissions below 2017 levels (Climate Change Response Act 2002, through an amendment in 2019)

By 2050: Reduce net emissions of all GHGs (except biogenic methane) to zero; reduce biogenic methane emissions to 24-47% below 2017 levels (Climate Change Response Act 2002, through an amendment in 2019)

Current Allowance Price (per t/CO₂e)

Updated prices available [here](#)

Size & Phases

Covered emissions (2021)

48.00%

Verified ETS Emissions

36.90MtCO₂e

GHGs covered

CO₂, CH₄, N₂O, SF₆, HFCs, and PFCs

Phases

The NZ ETS has no fixed trading periods or phases.

Cap or total emissions limit

In 2024, the cap is 27.9 MtCO₂e.

The Climate Change Response Act 2002 requires the government to set a cap on emissions covered by the NZ ETS, based on the five-yearly emissions budgets and announced over a rolling five-year period with annual updates.

The government updated regulations for unit supply settings in September 2023, setting the annual cap for the years 2024-2028. The cap limits the number of New Zealand Units (NZUs) that may be released to the market from auctioning, industrial allocation, and the CCR, as well as from any international units (not currently allowed). In setting supply limits, the government also considers the stockpile of banked allowances already in circulation and projected unit supply from removal activities.

There is no limit on NZUs generated from removal activities. These are forecast to be 15 million units in 2024, mainly generated in the forestry sector.

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 NZUs in 2015. No decisions have been made on potential future access to and use of international units.

Sectors and thresholds

INCLUSION THRESHOLDS:

Sectors were gradually phased in between 2008 and 2013. Thresholds for participation are typically low.

- Forestry (mandatory: deforesting pre-1990 forest land; voluntary: post-1989 forest land)
- Stationary energy (various thresholds)
- Industrial processing (various thresholds)
- Liquid fossil fuels (various thresholds)
- Waste (except for small and remote landfills)
- Synthetic GHGs (various thresholds); synthetic GHGs not covered by the NZ ETS are subject to an equivalent levy

Biological emissions from agriculture must be reported at the processor level but face no surrender obligations at present. The current legislation includes an 'ETS backstop' measure, to set a price on agricultural emissions by 2026 through the NZ ETS.

A partnership between the government and the agricultural sector, called "He Waka Eke Noa", was established to prepare for an alternative pricing mechanism for the sector, including the development of on-farm accounting and reporting systems for GHG sources and sinks.

In August 2023, the former Labour government announced plans to introduce an agricultural carbon levy from 2025. However, the newly-elected coalition government has changed the start date to no later than 2030. A final decision on the future of the mechanism is expected in early 2024.

Point of regulation

Upstream (power, aviation, buildings, forestry, transport); point source (industry, waste).

For all fossil fuels, the point of obligation is generally upstream. 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.

Type of entities

Companies

Number of entities

4,114 entities are registered as participants in the NZ ETS as of October 2023, of which:

- 246 have mandatory reporting and surrender obligations
- 3,911 have voluntary (opt-in) reporting and surrender obligations, most of which are for post-1989 forestry removal activities

Note that some organizations have both mandatory and voluntary reporting and surrender obligations.

There are 79 entities with mandatory emissions reporting who do not have surrender obligations, all of which are for agricultural processing activities.

Allowance Allocation & Revenue

Allowance allocation

Proportion of allowances offered at auction in 2023: 54%

15 million units were made available at auction in 2023, but none were sold.

FREE ALLOCATION:

Leakage protection/Industrial free allocation: Free allocation is provided, based on output and intensity-based benchmarks, for 26 eligible industrial activities. Activities are deemed eligible if both EITE criteria are met. Highly emissions-intensive activities (over 1,600 tCO₂e per NZD 1 million [USD 610,000] of revenue) receive 90% free allocation. Moderately emissions-intensive activities (over 800 tCO₂e per NZD 1 million [USD 610,000] of revenue) receive 60% free allocation. An activity is deemed to be trade-exposed if there is transoceanic trade in the good produced.

6.1 million NZUs were allocated for industrial EITE activities 2022.

Industrial allocation settings are being reformed to address over-allocation. The government is collecting data to inform updates to allocative baselines. Changes to regulations are expected in late 2024.

Industrial free allocation is being phased down. A minimum annual phase-down rate of 0.01 across all industrial activities applies from 2021 to 2030. That rate will increase to 0.02 for the years 2031 to 2040, and to 0.03 for 2041 to 2050. The minimum phase-down rate could be adjusted for activities that are considered at lower risk of carbon leakage alongside other criteria as set in legislation .

AUCTIONING: Auctioning was introduced in 2021. The volume of NZUs made available for auctioning is set on an annual basis, five years in advance (see 'Cap' section). The annual quantity is split between the quarterly auctions. In 2023, 15 million allowances were made available for auctioning, plus an additional 8 million allowances in the CCR, however, no allowances were sold in 2023.

Auctions follow a sealed-bid, single-round format. The clearing price is set at the lowest successful bid and NZUs are sold to all successful bidders at this price, providing it is not below the confidential reserve price (see 'Market Stability Provisions' section). Otherwise, the auction fails and all allowances on offer are rolled forward to the next auction within the same calendar year or cancelled if it is the last auction of that year.

ALLOWANCES GRANTED FOR REMOVALS:

Post-1989 forestry sector and other removal activities: NZUs are granted to participants that voluntarily register in the scheme for removal activities.

Forestry removal activities: Participants are entitled to receive one NZU per tCO₂ removed for registered post-1989 forest land. If the forest is harvested or deforested, units must be surrendered to account for the emissions. If the participant chooses to deregister from the scheme, NZUs equivalent to the number received must be returned. 12.0 million NZUs were issued for forest removal activities for the 2022/2023 reporting year.

Other removal activities: 2.1 million allowances were granted for other removal activities, such as producing a product with embedded GHGs, for the 2021/2022 reporting year.

Total Revenue

NZD 5.1 billion (USD 3.1 billion) since beginning of program
NZD 34.7 million (USD 21.3 million) in 2023

2023

Use of Revenues

NZ ETS cash revenues from the sale of emission units in auctions will be used to fund general tax relief as a 'climate dividend'.

Flexibility & Linking

Offset credits

The use of offset credits is not allowed.

Units from Kyoto Protocol flexibility mechanisms were eligible for use in the system with no restrictions until June 2015, but have since been ineligible. Access to high-integrity international carbon markets is likely to be part of New Zealand's strategy to meet its 2030 target. The government can decide to allow international units as part of the annual unit supply-setting process. However, only units from government-approved sources and those meeting environmental integrity standards would be eligible and subject to quantitative limits.

Banking and borrowing

Banking is allowed

Borrowing is not allowed

Links with other Systems

The NZ ETS is not linked with any other system.

Compliance

Compliance mechanism

Covered entities must surrender one allowance per tCO₂e emitted for all their covered emissions.

Compliance Period

For most sectors, the NZ ETS has annual surrender obligations. For post-1989 forestry participants, annual reporting of emissions and removals is optional, with five-year mandatory reporting periods. As a result, unit allocations and surrenders for these participants occur in the year they choose to report their emissions.

Monitoring, Reporting, Verification (MRV)

REPORTING FREQUENCY: Most sectors are required to report annually; the deadline is the end of March to submit an Annual Emissions Return (emissions report).

VERIFICATION: MRV follows a system of self-reporting supplemented by a program of official government audits. Each year a sample of NZ ETS participants are selected for compliance review. Third-party verification is not typically required for emissions reports. However, participants must seek third-party verification if they apply for the use of a unique emissions factor, as opposed to using the default factors supplied by the government.

Enforcement

An entity that fails to submit an emissions report by the due date must pay a fine equal to the number of units involved, multiplied by the current unit price and a "culpability factor".

An entity that fails to surrender or repay emissions units when required must surrender the units and pay a cash penalty of three times

the current market price for each unit that was not surrendered by the due date. Entities can be fined up to NZD 24,000 (USD 14,640) 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 Annual Emissions Return when required, or notify the administering agency or provide information when required to do so.

Entities can also be fined up to NZD 50,000 (USD 30,500) on conviction for knowingly altering, falsifying, or providing incomplete or misleading information about any obligations under the scheme, including in the Annual Emissions Return report. This penalty and/or imprisonment of up to five years also applies to entities that deliberately lie about obligations under the NZ ETS to gain financial benefit or avoid financial loss.

Market Regulation

Market Stability Provisions

COST CONTAINMENT RESERVE: If a predetermined trigger price is reached at auction, a specified number of allowances from the CCR is additionally released for sale. Based on advice from the Climate Change Commission, each year the government updates the CCR trigger price, together with other auction supply settings (see 'Cap' section).

TRIGGERS: At the start of 2023, the CCR trigger was NZD 80.64 (USD 52.41). The latest update in September 2023 set the CCR trigger price for the years 2024 to 2028 (also applying to the final auction of 2023). The trigger price was increased and adjusted to a two-tier system, with the lower trigger at NZD 184 (USD 112) and the upper trigger at NZD 230 (USD 140) in 2024. These triggers will then rise to NZD 226 (USD 140) and NZD 283 (USD 175) by 2028.

In 2023, the volume of the CCR was set at 8 million allowances. The trigger price was not reached during 2023, so none of these were released to market. Currently, the volume of the reserve is set at 7.7 million in 2024, dropping annually to 5.4 million in 2028.

PRICE FLOOR: With the start of auctioning, the government introduced a price floor operating through a reserve price or minimum accepted bid at auction.

In addition to the hard auction reserve price floor, the government introduced a confidential reserve price. This is set by referencing prices from the secondary market and uses a confidential methodology to determine a reserve price below which units cannot be sold. If it is set higher than the hard auction reserve price, then it becomes the new reserve price floor for that auction.

TRIGGERS: At the start of 2023, the hard auction reserve price floor was NZD 33.06 (USD 21.49). At the latest update of September 2023, the price floor was increased to NZD 64 (USD 39) in 2024, rising to NZD 79 (USD 48) by 2028.

Market Design

MARKET PARTICIPATION: Any individual or organization can own and trade NZUs, if they hold an account with the NZ ETS Registry.

MARKET TYPES:

Primary: Auctions are operated jointly by NZX (New Zealand Exchange) and the European Energy Exchange (EEX) and are held four times a year. Any NZ ETS Register Account Holder can participate in the auctions.

Secondary: Most NZUs are traded on the secondary market. Trades can take place directly between companies (OTC) or via a trading platform. Trades can be on a spot basis or through forward contract.

LEGAL STATUS OF ALLOWANCES: Allowances are not financial products in New Zealand law and, as a result, there is currently no single integrated market governance framework that would manage risks of misconduct in the NZ ETS. The government has work underway on options to improve market governance.

Other Information

Institutions involved

Ministry for the Environment: Responsible for establishing the regulatory framework of the NZ ETS.

Environmental Protection Authority: Responsible for the NZ ETS registry and compliance.

Ministry for Primary Industries: Responsible for the forestry sector under the NZ ETS.

Climate Change Commission: Independent body providing official annual advice on NZ ETS settings.

Regulatory Framework

[Climate Change Response Act 2002](#)—Part 4 New Zealand greenhouse gas emissions trading scheme

Note: to keep New Zealand's key climate change legislation under one act, the Climate Change Response Act incorporates both the "Climate Change Response (Emissions Trading Reform) Amendment Act 2020", and the "Climate Change Response (Zero Carbon) Amendment Act 2019". The "Zero Carbon Act" details domestic targets to 2050, establishes the Climate Change Commission, and mandates a process of setting and meeting five-year national emission budgets.

Evaluation / ETS review

The Climate Change Response Act 2002 includes provisions for reviews of the operation and effectiveness of the NZ ETS. These reviews were originally required every five years, but the timing is now discretionary. The first review took place in 2011-2012, and the second review took place from 2015 to 2017.

A third review of the NZ ETS was opened in early 2023. Following the 2023 General Election, this was closed by the new government.

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