International Carbon Action Partnership

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, 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. The agricultural sector used to face processor level reporting obligations with the future possibility of facing compliance obligations under the NZ ETS, but this is no longer the case.

ETS Status

in force

Jurisdictions

New Zealand

Year in Review

From 2011 until November 2024, companies carrying out certain agricultural activities had an obligation to report their emissions to the NZ ETS at the processor level. The *He Waka Eke Noa* partnership between the government and the agricultural sector had been established to deliver a pricing mechanism outside of the NZ ETS for the sector, with a 'backstop' measure to price agricultural emissions through the NZ ETS at the processor level in 2025, followed by pricing at the farm-level in 2027.

This legislation was repealed in 2024, removing agriculture activities from the NZ ETS. A new Pastoral Sector Group will replace the *He Waka Eke Noa* partnership. The government plans to price agricultural emissions (through a mechanism other than the NZ ETS) by no later than 2030.

In June 2024, the government commissioned an independent ministerial advisory panel of experts to review the latest science about biogenic methane and provide an up-to-date evidence base about methane's warming impact. This report was delivered in December 2024 and ministers will consider the findings alongside the Climate Change Commission's advice on New Zealand's 2050 targets in 2025.

Unit supply settings, as well as auction reserve price settings for 2025 to 2029, were updated in September. The cap (which limits the number of units from auctioning, industrial allocation, and the cost containment reserve - CCR) was reduced from 27.9 million in 2024 to 19.1 million in 2025. The 2025 auction reserve price floor is NZD 68 (USD 41.17), and the first CCR trigger price is NZD 193 (USD 116.86).

Four auctions were undertaken in 2024, with 14.1 million units for sale, as well as another 7.7 million units available from the CCR. Two of the auctions cleared, with 3 million units sold in March 2024 and 4 million in December 2024, all at the floor price of NZD 64 (USD 38.75).

In line with the NZ ETS auctioning regulations, any units that were unsold after the last auction of 2024 are not available for sale at any subsequent auction.

In December 2024, the government updated baselines for activities eligible for industrial allocation, to better reflect the actual emissions intensity of those activities. The regulations containing the new baselines came into force as of January 2025 and will impact the final allocations firms receive for 2024. The updates bring the industrial allocation system more in line with its purpose.

Sectoral coverage

Agriculture and/or forestry fuel use
Forestry
Maritime
Mining and extractives
Waste
Domestic Aviation
Transport
Buildings
Industry
Power

Revenue usage

General budget, including debt reduction

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO2e)

78.4 MtCO2e (2022)

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)

Average auction price: NZD 64 (USD 38.75)

Average secondary market price: NZD 59.31 (USD 35.91)

Updated prices available here

Size & Phases

Covered emissions (2022)

44.00%

Verified ETS Emissions

34.20MtCO_2e

GHGs covered

CO2, CH4, N2O, SF6, HFCs, PFCs

Cap or total emissions limit

The NZ ETS cap limits the number of New Zealand Units (NZUs) that may be released to the market from auctioning, industrial allocation, and from the CCR, as well as from any international units (not currently allowed). There is no limit on NZUs generated from removal activities. The NZ ETS cap thus limits the volume of net emissions that are emitted by ETS regulated entities, without imposing a limit on gross emissions within the ETS.

In 2025, the cap is 19.1 $MtCO_2e$.

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 2024, setting the annual cap for the years 2025 to 2029. In setting supply limits, the government also considers the stockpile of banked allowances already in circulation and projected unit supply from removal activities.

NZUs generated from removal activities are forecast to be 13.8 million units in 2025, 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

SECTORS: Sectors were gradually phased in between 2008 and 2013.

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

From 2011 until November 2024, companies carrying out certain agricultural activities had an obligation to report their emissions to the NZ ETS at the processor level. The *He Waka Eke Noa* partnership between the government and the agricultural sector had been established to deliver a pricing mechanism outside of the NZ ETS for the sector, with a 'backstop' measure to price agricultural emissions through the NZ ETS at the processor level in 2025, followed by pricing at the farm-level in 2027.

This legislation was repealed in 2024, removing agriculture activities from the NZ ETS. A new Pastoral Sector Group will replace the He Waka Eke Noa partnership. The government plans to price agricultural emissions (through a mechanism other than the NZ ETS) by no later than 2030.

Types of fuel covered*:* petrol, diesel, aviation gasoline, jet kerosene, light fuel oil, heavy fuel oil. Emissions from fuel used for international aviation and marine transport are exempt.

INCLUSION THRESHOLDS: 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

* Detailed threshold information can be found in Schedule 3 of the Climate Change Response Act 2002 and in the Climate Change (General Exemptions) Order 2009

Point of regulation

Upstream (power, aviation, buildings, forestry, forestry fuel use, 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

4,617 entities were registered as participants in the NZ ETS as of the end of December 2024, of which:

- 165 entities have mandatory reporting and surrender obligations for 176 activities*
- 4,452 entities have voluntary (opt-in) reporting and surrender obligations for 4,650 activities*, 4,427 entities are registered as forestry.

*Some entities have obligations under multiple activities.

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

Allowance Allocation & Revenue

Allowance allocation

Proportion of allowances offered at auction in 2024: 51%

14.1 million units were made available at auction in 2024, and seven million 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 tCO_2e per NZD 1 million [USD 605,494] of revenue) receive 90% free allocation. Moderately emissions-intensive activities (over 800 tCO_2e per NZD 1 million [USD 605,494] of revenue) receive 60% free allocation. An activity is deemed to be trade-exposed if there is transoceanic trade in the good produced.

In 2023, 5.7 million NZUs were allocated for industrial EITE activities.

In December 2024, the government updated the baselines for activities eligible for industrial allocation, to better reflect the actual emissions intensity of those activities. The regulations containing the new baselines came into force from January 2025 and will impact the final allocations firms receive for 2024. The updates bring the industrial allocation system more in line with its purpose.

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 2024, 14.1 million allowances were made available for auctioning, plus an additional 7.7 million allowances in the CCR. Seven million NZUs were sold in 2024.

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. Any units that remain unsold after the last auction of the year are not available for sale at any subsequent auction.

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 tCO_2 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. 20 million NZUs were issued for forest removal activities in 2023.

Other removal activities: 2.1 million allowances were granted in 2023 for other removal activities, such as producing a product with embedded GHGs.

* Under the new "averaging" method for post-1989 forests, allowances are granted only up to the long-term average carbon stock, but therefore do not need to be surrendered at harvest.

Auctioning share

51%

Total Revenue

NZD 5.6 billion (USD 3.7 billion) since the beginning of the program
NZD 480.9 million (USD 291.2 million) in 2024

2024

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 may 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. NZUs do not expire.

Borrowing is not allowed.

Links with other Systems

The NZ ETS is not linked with any other system.

Until 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 an exclusively domestic system.

Other carbon pricing instruments in the jurisdiction

Carbon tax: Synthetic GHG levy

Compliance

Compliance mechanism

Covered entities must surrender one compliance unit per tCO_2e 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: 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.

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".

Penalties and enforcement

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 14,531.86) 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 30,274.70) 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 (CCR)

Instrument type: Price-based instrument

Functioning: If a predetermined trigger price is reached at auction, a specified number of allowances from the CCR are additionally released for sale. The CCR follows a two-tier system, with a specific number of allowances available for auction at each trigger. The government updates the CCR trigger prices each year, together with other auction supply settings (see 'Cap' section).

At the start of 2025, the first CCR trigger price is NZD 193 (USD 116.86), with a total of 2.6 million units available. The second trigger price is NZD 242 (USD 146.53), with 4.5 million units available. These triggers will rise annually to reach NZD 235 (USD 142.29) and NZD 294 (USD 178.01) respectively in 2029.

In 2024, the volume of the CCR was set at a total of 7.7 million allowances for both triggers. The trigger price was not reached during 2024, so none of these were released to market. Currently, the volume of the reserve is set at 7.1 million in 2025, dropping annually to 4.7 million in 2029.

PRICE FLOOR

Instrument type: Price-based instrument

Functioning: 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.

The hard auction reserve price floor is NZD 68 (USD 41.17) in 2025, rising annually to NZD 82 (USD 49.65) in 2029.

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*

* 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 from 2011 to 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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