Ministry for the Environment
Manatū Mō Te Taiao

Further Information: Removing the Requirement for NZ ETS Settings to Accord with New Zealand's Nationally Determined Contribution under the Paris Agreement

Overview

On 4 November 2025, the Government announced its intention to remove the provision in the Climate Change Response Act 2002 (CCRA) that requires New Zealand Emissions Trading Scheme (NZ ETS) settings to 'accord with' Aotearoa New Zealand's nationally determined contributions (NDCs) under the Paris Agreement.

This decision was announced alongside a range of proposed changes to the CCRA. Read more about these changes on our website: Government announces a series of changes to NZ's climate change law.

This document provides more information on the planned change to the NDC accordance test, including several frequently asked questions

The NZ ETS is our main tool to reduce emissions domestically

- The Government has been clear about its commitment to meeting New Zealand's climate change targets, including emissions budgets and the 2050 net zero target.
- The Government has reinforced its commitment to achieving climate change targets by making reduced greenhouse gas emissions one of nine priority public service targets.
- The NZ ETS is the Government's main tool for reducing emissions and meeting these targets. This is laid out in New Zealand's second emissions reduction plan.
- Over recent years, the Government has taken steps to address the oversupply of New Zealand Units (NZUs) in the NZ ETS. This year the Government decided not to follow the Climate Change Commission's recommendation to add 14 million NZUs to future NZ ETS auctions, in order to, amongst other reasons, increase the likelihood of achieving New Zealand's emissions budgets.

More information about the proposed change to the NZ ETS accordance test

- The CCRA requires the Government to make annual decisions on NZ ETS unit volumes and price control settings (known as NZ ETS settings). When the Government does so, the CCRA requires the Minister of Climate Change to consider whether the proposed ETS settings ‘accord with’ domestic emissions budgets and the 2050 target, as well as with our international climate change targets, our NDCs.
- Every year, the Ministry for the Environment (the Ministry) prepares options for the Minister of Climate Change and evaluates whether the proposed options meet this accordance test. This evaluation is publicly released after each NZ ETS settings decision.
- The Government has decided to remove the NDC component from the accordance test from 2026. This is to ensure the NZ ETS remains focused on the task of managing domestic emissions reductions and removals. The decision was also the result of concerns raised by officials about statutory uncertainty.
- The legal requirement for NZ ETS settings to ‘accord with’ New Zealand’s domestic emissions budgets and 2050 target remains unchanged.
- The CCRA does not prevent the Government from taking decisions that achieve more emissions reductions than necessary to meet the requirements of the Act.
- Further information on this change is available in appendix 5 of the Ministry’s regulatory impact statement.

Next steps

- The proposed removal of the NDC component of the accordance test is expected to be introduced to Parliament and passed before the end of 2025. The timing of the decision ensures that the market receives a clear signal about the statutory considerations that will be applied to next year’s NZ ETS settings decisions.
- The annual NZ ETS settings process will operate in 2026 under a similar timeline to 2025. The Climate Change Commission is currently working on its advice. Once this is received, the Minister of Climate Change will consult on potential options. We anticipate that this consultation will take place in the first half of 2026. Under the current legislation, changes must be in place by September 2026.
- The Government has also announced that it plans to move to a biennial NZ ETS settings process. This change is intended to provide additional certainty to the ETS market by reducing the number of regulatory decisions. Subject to the CCRA Amendment Bill passing, this means that no settings decisions would be made in 2027.

Frequently asked questions

What is the NDC accordance test?

Under the current legislation, the Government must make annual NZ ETS settings decisions which 'accord' with both our domestic and international emissions reduction targets. This means they must be set at a level that supports New Zealand to reach its current domestic and international targets, including our NDCs.

Every year, the Ministry provides the Government with advice on its options for NZ ETS settings. This advice includes an accordance test, which sets out the rationale for why the Ministry considers the options accord with the NDC, domestic emission budgets and the 2050 target.

The Government has agreed to remove the NDC accordance test for the decisions taken in 2026 onwards. This means that from next year, NZ ETS settings decisions will only be required to 'accord with' domestic emissions budgets and the 2050 target.

Although the requirement to accord with the NDC will be removed, the Government will still have the option to make NZ ETS settings decisions that contribute to our NDC.

Why has the Government decided to remove the NDC accordance test?

This change is being made to ensure the NZ ETS remains focused on reducing domestic emissions. It was also the result of concerns raised by officials about the risks created by statutory uncertainty.

The Government intends to pass this change into legislation before the end of 2025. Once legislated, the change is planned to apply from the 2026 NZ ETS settings process onwards.

What part of the CCRA will be amended to make this change?

Section 30GC of the CCRA will be amended to remove the reference to the NDC in s30GC(2)(a). This is the section which specifies the NDC accordance test. Consequential technical amendments will also be made.

Why did you not consult on this change?

The Government wants to ensure this change is in place ahead of next year's NZ ETS settings process so that the market has the clarity it needs. The practicalities of passing legislation before that process begins in early 2026 means it was not possible to consult on these changes.

Consulting on an issue like this could have also led to market movements. On balance, the Government decided to proceed without consultation.

What will this mean for 2026 NZ ETS settings?

The NZ ETS settings process will continue under a similar timeline to this year. The Climate Change Commission will provide advice on NZ ETS settings and the Minister of Climate Change will consult on options. Subject to the passage of legislation, the NZ ETS settings decision will not be required to ‘accord with’ the NDC.

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