

Vote Environment 2025/26 (Minister of Climate Change)

- The A3 summarises the portion of Vote Environment appropriations that the Minister of Climate Change is responsible for and excludes appropriations the Minister for the Environment is responsible for.
- The first graph shows the appropriation trend for the Emissions Trading Scheme (ETS), which are classified as non-Departmental appropriations. This is the biggest dollar value category in the Vote with \$2.239 billion in budget for 2025/26. The right-hand side of the A3 provides a brief description of the ETS components and how those components make up the \$2.239 billion, and how they have moved since last year. The Allocation of New Zealand Unit (NZU) appropriation is based on \$100 per unit. Actual expenses will be recognised at market price at the time of expense recognition. NZU price of \$57.40 as of 31 March 2025 was used for forecasting purposes. At the bottom of the right-hand side is a graph of the market price for the NZUs.
- The second graph shows the appropriation trend for the non-ETS Climate Change Departmental and Non-Departmental appropriations, and the commentary below the graph provides a summary of the major movements between the 2024/25 (Forecast) and 2025/26 (Budget).

Key Assumptions supporting the ETS graph

The individual components of the graph are summarised below, with a further table showing the trend in Allocation units and unit price assumption used.

	Supplementary Estimates	Forecast	Budget			
	24/25	24/25	25/26	26/27	27/28	28/29
ETS Graph analysis (\$000)						
Allocation of New Zealand Units	1,476,303	1,193,518	2,045,700	2,384,100	2,478,200	2,522,700
Impairment of Debt Relating to Climate Change Activ	147,000	-	147,000	147,000	147,000	147,000
Loss on Sale of New Zealand Units	40,000	22,070	40,000	40,000	40,000	-
Administration of New Zealand Units held on Trust	177	177	177	177	177	177
Emissions Trading Scheme	7,627	7,627	6,785	6,785	6,562	6,562
Total ETS Expenditure	1,671,107	1,223,392	2,239,662	2,578,062	2,671,939	2,676,439
Allocation of Expense analysis						
Units allocated per year (figure in '000)	20,793	20,793	20,457	23,841	24,782	25,227
Price per unit (\$)	71	57.40	100	100	100	100
Allocation of New Zealand Units \$000	1,476,303	1,193,518	2,045,700	2,384,100	2,478,200	2,522,700

The key reason for the increase in the Allocation of NZUs appropriation for 2025/26 and outyears is primarily due to the price used for valuing NZUs for appropriation purposes. This increase is to accommodate the uncertainty in the market price of NZUs.

Further, the Ministry for Primary Industries anticipates increases in allocation of NZUs to Post-1989 forestry from 2026/27 and outyears resulting from increased post-1989 forestry registrations in the ETS. Therefore, slightly increasing the cost of 'Allocation of New Zealand Units'

Why Does the Government have a Liability for ETS Scheme

The Crown has gifted/allocated an emission 'right' NZUs to participants that absorb emissions. NZUs have a market value, derived from their value in meeting the surrender obligations that arise from emitting a tonne of CO₂-equivalent that each NZU represents. There is an expectation that the Government will honour the rights or value that NZUs confer on those that hold them. For this reason, when the Government allocates an NZU to NZ ETS participants without charge, this transaction is recorded as an expense on the Crown's operating statement at that time, with a liability created on its balance sheet.

The number of allocated and auctioned NZUs outstanding in the market as of 30 April 2025 is nearly 128 million units, with a market price of \$49.25 each. This represents a total liability of \$6.3 billion. The current market price is around \$54.75 per unit. This has increased the ETS liability by approximately \$0.7 billion to \$7.0 billion at 28 May 2025.

The analogy of gift vouchers. In giving these away for free, the issuer creates an expense (because they have value, so there is a loss) and a liability (as at some point they'll will need to be exchanged or honoured (for an asset, i.e. a bit of inventory).