

# Climate policy and the NZ ETS

This is part of a series of fact sheets prepared for the Environment Committee's 2019/20 Estimates examination of Vote Environment.

## The Government is undertaking work to strengthen and improve the NZ ETS

The New Zealand Emissions Trading Scheme (NZ ETS) is the Government's principal policy instrument to reduce greenhouse gas emissions. The work on it will support the implementation of the Paris Agreement and increase the transparency of the NZ ETS and rates of compliance with it.

### Role of the NZ ETS team

The NZ ETS team is responsible for developing, monitoring, and reviewing the Climate Change Response Act 2002 (CCRA), in particular the NZ ETS.

The NZ ETS will play a vital role in New Zealand meeting domestic and international climate change targets, and transitioning to a low-emissions and climate-resilient economy.

### Work to strengthen and improve the NZ ETS

Cabinet has approved amendments to the CCRA that will improve the NZ ETS.

A new unit supply framework will be established for the NZ ETS. This will enable the Government to put a cap on the number of New Zealand Units (NZUs) supplied to the NZ ETS, and to manage these decisions over five yearly periods. Key elements of this framework include:

- introducing auctioning to the NZ ETS
- limiting participants' use of international units, if the NZ ETS reopens to high integrity international carbon markets
- replacing the current price ceiling with a cost containment reserve
- making changes to the penalties regime in the NZ ETS, and important operational and technical improvements
- improving the NZ ETS market governance framework
- phasing down industrial allocation. At the same time, improvements have been made to the way forestry is treated in the NZ ETS. These changes are important to promote additional forest planting in New Zealand.

- The changes to the NZ ETS will provide more consistent and transparent decision-making around unit supply. They will ensure a reliable carbon price that provides the incentive to reduce emissions and plant new trees, and supports New Zealand to meet its emission reduction targets.

## Funding

### NZU appropriation

- The ETS has a large, non-departmental appropriation to cover the allocation of units.
- The ETS results in significant liability on the Crown accounts because all NZUs issued to participants are recognised as a liability at the current NZU price (this is updated monthly at the current market price).
- The reported Crown NZ ETS liability was \$2,717 million as of January 2019, calculated using an NZU price of \$25.05.
- Approval was sought in December 2018 to increase the appropriation 'Loss on Sale of New Zealand Units' for the 2018/19 financial year.
- This appropriation allows the Crown to recognise the loss on the sale of NZUs when NZ ETS participants opt to use the Fixed Price Option. This is the current NZ ETS price ceiling that allows participants to pay \$25 to the Crown for each tonne of emissions they produce, in lieu of surrendering NZUs.
- The appropriation allows for the loss on sale if the NZU price increases to \$30.
- The loss on sale appropriation for the 2018/19 financial year is \$189.3 million.

### Supporting a fit-for-purpose auctioning system in the NZ ETS

- Cabinet has agreed to introduce the auctioning of NZUs.
- Auctioning will allocate NZUs in the NZ ETS carbon market while raising funds for the Crown. An auction platform will be developed with the aim of allowing operation to commence in late 2020.

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