ETS 2012 Amendments: Key Changes for Participants and Industrial Allocation Recipients

The Government has made amendments to the New Zealand Emission Trading Scheme (ETS) through the passage of the Climate Change Response (Emissions Trading and Other Matters) Amendment Act 2012. This information sheet provides guidance on the key changes for ETS participants and industrial allocation recipients.

Key changes for participants

Transition phase

Continuation of 'one for two' surrender obligation after 2012

The Government will maintain the 'one for two' surrender obligation after 2012. Non-forestry ETS participants are required to surrender one emission unit for every two tonnes of emissions.

This decision was made in light of the current level of uncertainty around international action on climate change and the continuing economic recovery. No end date has been specified at this point.

Continuation of fixed price option

The $25 fixed option will continue after 2012, with no end date specified at this point. Instead of buying units in the carbon market, ETS participants are currently able to meet their surrender obligations by buying NZUs from the Government at a fixed price of $25 per New Zealand Unit (NZU).

It is considered that uncertainty in the future international carbon price, particularly after 2015, creates a risk of carbon price spikes.

While the fixed price option remains in place, the current ban on exports of NZUs from non-forestry sectors will also continue.

Sector impacts

The current 'one for two' surrender obligation will continue after 2012. It will also apply to the waste and synthetic greenhouse gas sectors (SGG), including the SGG levy, when their obligations begin in 2013.

The option to pay a fixed price of $25 per NZU will continue after 2012.

Supply of NZUs after 2012

The Government intends to increase the supply of NZUs by selling them by auction. The supply of NZUs by auction and through allocation will be capped, with the cap based on an agreed net emissions target.

ETS participants can meet their obligations by surrendering NZUs and eligible international units.

Global warming potentials

In light of the change to our international reporting requirements, the Government has updated the treatment of global warming potentials in the ETS and under the SGG levy.

As part of its international obligations, New Zealand reports on its greenhouse gas emissions. Currently, this reporting uses the global warming potentials published in the Second Assessment Report of the Intergovernmental Panel on Climate Change (IPCC).

In 2011, New Zealand and other countries agreed that from 1 January 2013, a set of updated global warming potentials will be used for the international reporting and accounting of greenhouse gases. These global warming potentials arise from the IPCC Fourth Assessment Report.[1]

Sector impacts

For landfill operators and underground coal miners, the emission factors for methane will rise, increasing surrender obligations.

For industrial allocation recipients, allocation may increase where coal is commonly used as part of an industrial activity.

For the SGG sector the rise in global warming potentials will:

- decrease the emission factor for sulphur hexafluoride (SF_6), leading to a reduction in the surrender obligation for SF_6 users
- increase surrender obligations for bulk importers of hydrofluorocarbons (HFC) and perflourocarbons (PFC)
- increase the number of units gained for removal of HFC and PFC
- increase costs under the SGG levy.

Detailed information on changes for the SGG sector is available in the information sheet *ETS 2012 Amendments: Synthetic Greenhouse Gases*.

ETS review provisions

The previous ETS review provisions did not allow for flexibility for the Government to review the ETS or parts of the ETS at the most appropriate time.

To address this concern, the Government has removed these provisions and replaced them with a discretionary power for the Minister of Climate Change Issues to initiate a review of the operation and effectiveness of the ETS at any time and by any method. The first discretionary review has been signalled to occur in 2015.

Other changes

The Government has also introduced the following amendments:

- placing an ETS obligation on the combustion of crude oil or oil products by a miner
- extend the opt-in provisions for liquid fossil fuels from covering only obligation jet fuels to all obligation liquid fossil fuels.

Changes for industrial allocation recipients

The Government has suspended the phase-out of industrial allocation until ETS participants face full surrender obligations. This also applies to the phase-out of agricultural allocation. Industrial allocation was previously to be phased out at a nominal rate of 1.3 per cent annually from 2013.

Two additional emissions sources are now taken into account in determining eligibility for allocation, and in calculating allocative baselines.

These are fugitive coal seam methane (FCSM) and stationary energy use of liquid fossil fuel (LFF). Previously these emissions were not included when calculating eligibility or levels of industrial allocation.

The Government will also amend the regulations so the “manufacture of steel from cold ferrous feed” will be classed as a highly emissions-intensive, trade-exposed activity. This activity was previously classed as moderately emissions-intensive.

[1] Available at www.ipcc.ch/publications_and_data/ar4/wg1/en/ch2s2-10-2.html.

Further information

Further information on the Government's changes to the ETS, including Q&As and information on implications for other sectors, can be found at: http://www.climatechange.govt.nz/emissions-trading-scheme/.

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