



OIAD-128

9(2)(a)

Dear 9(2)(a)

On 13 September 2021, you contacted the Treasury requesting the following under the Official Information Act 1982 (the Act):

In the 2021/22 estimates for the Vote, the allocation of New Zealand Units (NZUs) reflects the changes in the volume of units allocated and the forecast price of units. It also includes the loss on sale of NZUs. Both items are referenced to M12 and A15.

Could you please advise:

- *The nature of the liabilities being recognised and the accounting standards used to quantify them?*
- *How the liabilities reconcile to New Zealand's obligations under both the Kyoto and Paris agreements?*
- *How the liabilities reconcile to setting of the overall limit (also known as the 'cap') on NZUs supplied to the market, accepting that the cap does not limit NZUs provided for emissions removals*
- *The basis on which NZU prices are forecast?*
- *Whether there are other elements of the issue, trading and redemption of New Zealand Units that impact on other elements of this Vote or others?*

As you will be aware, on 23 September 2021 your request was transferred to the Ministry for the Environment (the Ministry) for response. I have provided responses to your questions below.

The nature of the liabilities being recognised and the accounting standards used to quantify them?

To be clear, the allocation of emission units appropriation is not a liability. The allocation appropriation allows the Crown to transfer emission units to private individuals for forestry removals, other removal activities, and for industrial allocation.

The Crown records a provision ("the Emissions Trading Scheme (ETS) liability") for units issued. The liability recognised is the stockpile of units held in private accounts of the participants, valued at NZ unit spot market price at the end of the reporting date. This meets the accounting standards requirements of the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Note that the ETS liability increases through the year as units are allocated and sold by Government auction. It decreases substantially when emission units are surrendered to the Government.

How the liabilities reconcile to New Zealand's obligations under both the Kyoto and Paris agreements?

The ETS liability has no relationship to New Zealand's international obligations. The ETS was set up to help reduce emissions and assist New Zealand to meet its international obligations. This is achieved by establishing a price on emissions, which creates a financial incentive for emitters to reduce their emissions.

Emission units allocated to people who increase removals by growing trees or exporting emissions supports the achievement of New Zealand's obligations under the Paris Agreement, because those activities result in lower national emissions.

How the liabilities reconcile to setting of the overall limit (also known as the 'cap') on NZUs supplied to the market, accepting that the cap does not limit NZUs provided for emissions removals

The allocation appropriation is not related to the overall limit setting. Appropriation allows the Government to allocate units to all eligible participants over the period.

However, forecasts of industrial allocation and other removals components, funded by the allocation appropriation, are included in the ETS cap setting because these are sources of supply. You can find an explanation of how the ETS cap includes adjustment for those sources as well as adjustment for supply from the stockpile (the 'ETS liability') on the Ministry's website at: environment.govt.nz/what-government-is-doing/key-initiatives/ets/nz-ets-market/setting-unit-limits-in-the-nz-ets/.

The basis on which NZU prices are forecast?

The Ministry does not forecast NZU prices. The prices for NZUs used to calculate the NZ ETS forecast are assumed to remain constant over the forecast period and are based on the current market prices at the time of the forecast.

Whether there are other elements of the issue, trading and redemption of New Zealand Units that impact on other elements of this Vote or others?

There are a range of appropriations to the Ministry for Primary Industries, Environmental Protection Authority and the Ministry for the Environment for the operation and improvement of the emissions trading scheme, including auctioning, but these are not connected to the trading of emission units.

The Ministry recognises the ETS revenue, expense and liability in Vote Environment on behalf of the Crown.

The ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate freely or sell to entities. The allocation of NZ Units creates a provision. An expense is recognised in relation to the allocation of free units. The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters.

The Government has also begun selling a limited volume of NZUs directly to the market via auction. NZUs purchased through auctions result in cash receipts for the Crown and an increase in the provision. The ETS provision represents the tradeable NZUs outstanding that will be accepted as emitters honour the emissions obligations under the NZ ETS.

The provision is revalued at NZ Unit spot market price at the end of the reporting date.

You have the right to seek an investigation and review by the Office of the Ombudsman of my decision to withhold information relating to this request, in accordance with section 28(3) of the Act. The relevant details can be found on their website at: www.ombudsman.parliament.nz.

Please note that due to the public interest in our work the Ministry for the Environment publishes responses to requests for official information on our [OIA responses page](#) shortly after the response has been sent. If you have any queries about this, please feel free to contact our Ministerial Services team: ministerials@mfe.govt.nz.

Yours sincerely

Electronically approved by Lisa Daniell

Lisa Daniell
Director - Climate Mitigation

Released under the provisions of
the Official Information Act 1982