



Te Arotake Mahere Hokohoko Tukunga Review of the New Zealand Emissions Trading Scheme Frequently Asked Questions

Introduction

The Government ran a series of webinars between 27 and 30 July to support the public and Iwi/Māori to understand the proposals to change the New Zealand Emissions Trading Scheme (NZ ETS) and to redesign the NZ ETS permanent forest category.

During these sessions, officials responded to questions asked by the webinar participants. We have selected some of the most frequently asked questions relating to the NZ ETS review to publish here as they will support greater understanding of the proposals.

A recording of the webinars, presentations and the NZ ETS review discussion document can be found on the Ministry for the Environment's website. The site can be accessed by either clicking on the link below or copying the text into your internet browser.

<https://consult.environment.govt.nz/climate/nzets-review/>

You can also find more information about the redesign of the NZ ETS permanent forest category online at:

<https://www.mpi.govt.nz/consultations/proposals-to-redesign-the-permanent-forest-category-in-the-emissions-trading-scheme>

We are seeking everyone's view and encourage you to make an **online submission by 11 August 2023 via our [consultation webpage](#)**.

Following consultation, the Government will carefully consider feedback provided through submissions. Any changes to the NZ ETS will be subject to further public consultation on detailed design of proposals and Cabinet agreement.

Objectives

1. Does the Government have a preferred price path?

Advice from the Climate Change Commission suggests that current prices have been too low to drive gross emissions reductions. The review of the NZ ETS is not seeking to establish, or set, a specific price path for either emissions or removals at this time and the Government is not consulting on a specific price path. We are consulting on whether or not the NZ ETS needs to change to continue to drive gross emissions reductions while also supporting removals.

See page 33 of the discussion document, "What is a strong and stable NZ ETS price signal for gross reductions?"

Targets & impacts

2. Did you anticipate the instability in the market caused by uncertainty this discussion document has caused?

The price for New Zealand Unit (NZU) fluctuates in response to a range factors, including regulatory certainty.

The government recognises the importance of regulatory certainty for NZ ETS participants. One of the purposes of the review is to provide greater certainty for NZ ETS participants over the long term. The review is particularly focused on price certainty; the options proposed by the government are intended to stabilise NZU prices and mitigate longer term volatility in the market.

In 2021, the Climate Change Commission provided advice¹ to the Government to prioritise gross emissions reductions in the NZ ETS and manage the amount of exotic forest planting driven by the scheme. The Government has a statutory obligation to consider the Commission's advice – and the NZ ETS review is part of this.

In 2022, the Government released New Zealand's first emissions reduction plan² that committed to assessing whether NZ ETS changes are needed to balance gross and net emissions reductions (Action 5.2.1). This is being done through the NZ ETS review.

See page 26 of the discussion document "Expected market dynamics".

3. Why does the discussion document indicate that we will not be able to meet Aotearoa New Zealand Nationally Determined Contribution (NDC) targets through domestic action?

Aotearoa New Zealand has international obligations under the Paris Agreement. This target is the Nationally Determined Contribution (NDC). Our NDC for 2021-2030 requires a 50% reduction of net emissions below 2005 by 2030. This is a very ambitious target to ensure that we contribute to global efforts to limit temperature increases to 1.5°C.

¹ <https://ccc-production-media.s3.ap-southeast-2.amazonaws.com/public/Inaia-tonu-nei-a-low-emissions-future-for-Aotearoa/Inaia-tonu-nei-a-low-emissions-future-for-Aotearoa.pdf>

² <https://environment.govt.nz/assets/publications/Aotearoa-New-Zealands-first-emissions-reduction-plan.pdf>

In addition to the NDC, we have domestic emissions budgets which set out the total quantity of emissions allowed to be released in Aotearoa during an emissions budget period. The current emissions budget covers 2022-2025.

As the NDC is significantly more ambitious than our domestic emissions budgets, we are anticipating that we will need offshore mitigation to meet this target.

Work is underway across agencies to consider how we can meet the 2030 NDC and the costs of doing so. The NZ ETS plays a role in meeting the NDC, and this consultation seeks views on how it effectively and efficiently complements progress to meet our domestic emissions budgets.

4. Why are you relying on purchasing overseas units?

No decisions have been made on how offshore mitigation will be used to meet the forecast gap between net emissions and the first NDC. At this time, we do not know how much demand there will be for offshore mitigation, nor how expensive it will be as international carbon markets are still relatively immature.

You can find more information about the NDC in the [Climate Economic and Fiscal Assessment 2023](#).

Modelling & evidence

5. What evidence and assumptions are used in the models presented in the discussion document?

To support the consultation, the Government published a technical summary of the modelling and the assumptions used in the review as well as the model itself, which can be viewed on our [consultation webpage](#).

6. What about the Climate Change Commission's (the Commission) advice?

In 2021, the Commission provided advice³ to the Government to prioritise gross emissions reductions in the NZ ETS and manage the amount of exotic forest planting driven by the scheme.

In 2022, the Government released New Zealand's [first emissions reduction plan](#)⁴ that committed to assessing whether NZ ETS changes are needed to balance gross and net emissions reductions (Action 5.2.1). This is the focus of the NZ ETS review.

Increased levels of exotic afforestation in response to a rising NZU price and the subsequent registration of this land in the NZ ETS could have long-term implications for the NZ ETS and its ability to maintain a price that encourages emissions reductions.

The Commission has recommended that the NZ ETS be amended to strengthen incentives for gross emissions reductions by 31 December 2024. The Minister of Climate Change is required to consider and respond to this advice.

³ <https://ccc-production-media.s3.ap-southeast-2.amazonaws.com/public/Inaia-tonu-nei-a-low-emissions-future-for-Aotearoa/Inaia-tonu-nei-a-low-emissions-future-for-Aotearoa.pdf>

⁴ <https://environment.govt.nz/assets/publications/Aotearoa-New-Zealands-first-emissions-reduction-plan.pdf>

7. Why do the forecasts indicate the NZU price will fall?

Some market participants and commentators have indicated that the number of NZUs currently available to the market may be less than what is required by emitters. However, the Commission assessed that there is a large surplus of units within the NZU stockpile, suggesting there is liquidity in the market. Furthermore, we anticipate that the number of NZUs from forestry will exceed the demand in the medium to long-term, which is likely to result in the NZU price reducing.

As investment decisions for afforestation are taking place now, we need to consider our medium and long-term approach as a priority to provide long-term certainty.

8. What is the basis for the afforestation projections?

To support the consultation, the Government published a technical summary of the modelling used in the review, which can be viewed on our [consultation webpage](#).

There are three forestry projections used in the modelling for the review.

- Exogenous estimates (**shown in Figure 14, page 24**): the base projection uses the findings of the [Afforestation Deforestation Intentions Survey](#)⁵ carried out at the end of 2021 (and published in May 2022). The survey was undertaken when NZU prices were around \$65 - \$68 and it estimated 63,300 hectares of exotic afforestation in 2022. These have been extended beyond the two years in the survey and MPI has used these in producing its projections.
- Endogenous estimates: The other projections combine MPI data for existing forests with projections of new afforestation using a modelled response to price using a formula estimated by Manley⁶ with parameter values shown in Table 3 in the technical summary report. The results shown include:
 - an illustrative example of forestry's response to the Commission's demonstration price pathway (if those prices were maintained at a high level of unit supply) (**Figures 15 and 16, pages 25**);
 - an illustrative example of modelled forestry supply based on the estimated NZ ETS price path under the status quo settings (e.g., the price of NZUs declines from 2023 to 2050 due to high levels of NZU supply coming from forestry) (**Figure 17 and 18, pages 26 and 27**).

Options

9. Why does the discussion document present only four options? Were other options considered?

The discussion document sets out high-level options which are drawn from a variety of sources including the advice provided by the Commission.

⁵ <https://www.mpi.govt.nz/dmsdocument/52405-Afforestation-and-Deforestation-Intentions-Survey-2021>

⁶ Manley B. 2021. Afforestation Economic Modelling Final Report. MPI Technical Paper No: 2022/02. Available at: <https://www.mpi.govt.nz/dmsdocument/50302-Afforestation-Economic-Modelling-Report>

We are aware that there may be other approaches as well as further refinement of each option. We are keen to hear your views on the options as well as any alternative approach.

If the next government decides to go ahead with amending the NZ ETS we will consult again on the detailed design of proposals.

Chapter 6 of the discussion document discusses the options.

10. Would changing industrial allocation make the NZU more stable?

The Government provides allocations of emission units to industry for activities that are both emission-intensive and trade-exposed (EITE) - referred to as 'industrial allocation'. This recognises that NZ ETS costs might affect the international competitiveness of some businesses.

In 2021, we consulted on a range of options to improve industrial allocation policy. In July 2022, the Government announced plans to introduce changes to industrial allocation policy in the NZ ETS. The Bill enabling these reforms is now progressing through the House. For more information on these changes please visit:

<https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/ets/participating-in-the-nz-ets/overview-industrial-allocation/#:~:text=The%20Government%20provides%20allocations%20of,international%20competitiveness%20of%20some%20businesses.>

Option 1 in the discussion document contemplates changes to existing levers in the NZ ETS to stabilise prices, including further changes to industrial allocation.

11. What about other forms of sequestration, how will they be incorporated into the NZ ETS?

The Government has committed to using a mix of policies to help achieve Aotearoa New Zealand's climate goals, including driving emissions removals.

Chapter 7 of the discussion document sets out possible impacts of including a wider range of removals in the NZ ETS, and refers to ongoing work programmes across government that relate to carbon removal efforts.

12. How do the options improve incentives for removals with co-benefits, for example native afforestation?

Table 7 in the discussion document provides a summary of the assessment of each option to improve the incentive for removals with co-benefits. This table is provided below for ease.

Table 7: Opportunities to incentivise removals under different options

Option	Opportunities to incentivise removals with co-benefits
1. Use existing NZ ETS levers to strengthen incentives for net emissions reductions	No opportunities are available under option 1.
2. Create increased demand for removal activities to increase net emissions reductions	Under option 2, the Government could offer a higher price for removal activities that provide co-benefits, such as biodiverse, indigenous forests. There is also likely to be

Option	Opportunities to incentivise removals with co-benefits
	greater demand in overseas carbon markets for NZUs from removal activities that provide multiple benefits.
3. Strengthen incentives for gross emissions reductions by changing the incentives for removals	In option 3, the government could look to strengthen the incentives for specific removal activities that offer co-benefits, by allowing emitters to meet their NZ ETS obligations with units from these activities.
4. Create separate incentives for gross emissions reductions and emissions removals	In option 4, the government could buy removals from indigenous forests at a premium price, or there could be a requirement for emitters to purchase and surrender units from indigenous forests.

The Government is also seeking feedback on proposals to manage afforestation by redesigning the NZ ETS permanent forest category. That discussion document is seeking views on which forests should be allowed in the permanent forest category and how these forests should be managed. To read that discussion document and to provide feedback please visit:

<https://consult.environment.govt.nz/climate/nz-ets-permanent-forestry-category-redesign/#:~:text=There%20are%20three%20key%20decisions,should%20permanent%20forests%20be%20managed%3F>

The Government has also committed to a wider work programme on encouraging greater levels of native afforestation through the first emissions reduction plan.

13. How will the interest of foresters already registered in NZ ETS be protected?

If the Government decides to make changes to the NZ ETS, we will need to consider how this impacts forestry participants that are already registered in the NZ ETS. We welcome your feedback and suggestions on how you think this should occur. Any changes to the NZ ETS will be subject to further public consultation which will detail how the interests of NZ ETS registered forests will be managed.

Implication for Iwi/Māori

14. What are the implications for Iwi/Māori and have these been appropriately considered?

The proposals in the review will present a range of opportunities and challenges for whānau, hapū, iwi and Māori. Some of these are presented within Chapter 4 of the discussion document.

We have heard that the NZ ETS, particularly the permanent forest category, presents a significant opportunity for economic development. We have also heard that communities are suffering from the effects of climate change, and we need an ambitious climate response.

The NZ ETS's primary purpose is to support New Zealand's climate response. This consultation is asking how we make sure it is fit for this purpose. We are keen to hear from you how the NZ ETS can achieve its primary purpose and deliver broader Māori aspirations.

More information on relevant work programmes

Government Investment in Decarbonising Industry (GIDI) Fund supports energy efficiency, and the switch from fossil fuels to cleaner renewable energy sources across the industrial and commercial sectors. GIDI is part of the government's Climate Emergency Response Fund and is funded via proceeds from the NZ ETS. A total of \$650m (\$1b over 7 years) was allocated as part of Budget 2022. For more information please visit: https://www.eeca.govt.nz/co-funding/industry-decarbonisation/about-the-government-investment-in-decarbonising-industry-fund/?gclid=EAlalQobChMI_P3KioCDgAMV2ieDAX1phwH9EAAYASAAEgKqFvD_BwE

The recently published **National Policy Statement for Indigenous Biodiversity (NPSIB)** provides direction to councils to protect, maintain and restore indigenous biodiversity requiring at least no further reduction nationally. For more information please visit: <https://environment.govt.nz/publications/national-policy-statement-for-indigenous-biodiversity/>

The Government is exploring whether a **biodiversity credit system** could help to incentivise the protection and restoration of native wildlife in Aotearoa New Zealand. The consultation closes on 3 November 2023. For more information please visit: <https://consult.environment.govt.nz/biodiversity/nz-biodiversity-credit-system/>

The Government recently announced amendments to the **National Environmental Standards for Plantation Forestry (NES-PF)**. For more information please visit: <https://www.mpi.govt.nz/forestry/national-environmental-standards-plantation-forestry/>

The Government is currently considering its response to the recommendations developed by the **Ministerial Inquiry into Land Use (the Inquiry)**. The Inquiry was announced following Cyclones Hale and Gabrielle, which caused significant damage to people, land, property and infrastructure in the Tairāwhiti/Gisborne and Wairoa Districts earlier this year. Further information on the Inquiry's recommendations and full report can be found at: <https://environment.govt.nz/what-government-is-doing/areas-of-work/land/ministerial-inquiry-into-land-use/>

The **Equitable Transitions Strategy** is focused on Aotearoa New Zealand's transition to a low emissions future. For more information please visit: <https://www.mbie.govt.nz/business-and-employment/economic-development/just-transition/>

He Waka Eke Noa – Primary Sector Climate Action Partnership seeks to implement a framework by 2025 to reduce agricultural greenhouse gas emissions and build the agriculture sector's resilience to climate change. For more information please visit: <https://hewakaekenoa.nz/>

The **maximising forest carbon** will run from 2022 to 2026. It will undertake extensive research into carbon storage in different forest types and how carbon storage can be better measured, including the use of remote sensing technology. For more information please visit: <https://www.mpi.govt.nz/funding-rural-support/environment-and-natural-resources/environment-and-climate-change-research/>

For more information on **2023 NZ ETS settings decisions** please visit <https://consult.environment.govt.nz/climate/annual-updates-nz-ets-unit-settings-2023/>