

Consultation Document

Annual Updates to New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2026

Ngā Whakahou Ā-tau ki ngā Tepe me ngā Tautuhinga Whakatau Utu mō ngā Wae mō te Kaupapa Hokohoko Tukunga o Aotearoa 2026



Ministry for the
Environment
Manatū Mō Te Taiao



Te Kāwanatanga o Aotearoa
New Zealand Government

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Contents

Executive summary	6
About this consultation	7
Scope	7
Structure	7
How to have your say	8
Closing date for submissions	8
What happens next?	8
Other consultations	8
Background	9
The role of the ETS	9
Annual process for unit limits and price control settings	10
Framework review	11
Recent secondary market price dynamics	12
Commission advice on ETS settings	12
Market advisory group	13
How we assessed the options	14
Objectives – accordancy test	14
Criteria	14
How we developed the options	16
ETS settings analytical model	16
ETS market model	18
How we use both models together	18
Key options for 2026 settings	19
Unit limits	19
Price controls	22
Implications for market dynamics and emissions budgets	25
Impacts on the economy and households	29
Assessing the options	31
Additional questions	35
Adjustments to the EB2 cap	35
Adjustments to provisional EB3 cap	35
Range of surplus estimates	36

Ongoing surplus adjustment	36
Further feedback on analytical model for calculating unit limits	37
Biennial settings	37
Consultation questions	38
How to have your say	39
Timeframes	39
How to provide feedback	39
For more information	40
Publishing and releasing submissions	40
Appendix 1: Analytical model	41
Appendix 2: Aligning criteria with mandatory considerations for settings	52
Appendix 3: Detailed impacts of options for New Zealand Emissions Trading Scheme settings	53

Tables

Table 1:	Criteria for assessing options for ETS settings	15
Table 2:	Options for auction volumes, 2027–31 (million NZUs)	20
Table 3:	Phased auction volumes options, 2027–31 (million NZUs)	21
Table 4:	Proposed price control settings for the next five years, 2027–31	25
Table 5:	Assessment of options	33
Table A1.1:	Share of emissions allocated to ETS and non-ETS sectors, 2027–31 (Mt CO ₂ e)	43
Table A1.2:	Technical adjustments to unit limits, 2027–31 (million NZUs)	43
Table A1.3:	Adjustment to unit limits to account for industrial allocation volumes, 2027–31 (million NZUs)	44
Table A1.4:	The Commission’s 2026 surplus estimate (million NZUs)	45
Table A1.5:	The Ministry’s 2026 surplus estimate (million NZUs)	47
Table A1.6:	The Ministry’s surplus estimates and corresponding auction volume options	47
Table A1.7:	Adjustment to unit limits to account for discrepancy adjustment, 2027–31 (million NZUs)	48
Table A1.8:	Calculation of base auction volumes 2027–31, for option 2 and higher auction volume option (million NZUs)	49
Table A1.9:	Calculation of base auction volumes 2027–31, for option 3 (million NZUs)	50
Table A1.10:	Phased base auction volumes 2027–31, for options 1 to 3 (million NZUs)	51
Table A2.1:	Considerations for determining unit limits and price control settings	52
Table A3.1:	Estimated Emissions Trading Scheme cost to households (2026 dollars and as percentage of gross income)	53
Table A3.2:	Estimated impacts of each option on different groups	54

Figures

Figure 1:	The five-year rolling process for unit limits and price control settings	11
Figure 2:	NZU secondary market spot price and auction price floors, January 2022 to May 2026	12
Figure 3:	Analytical approach to developing ETS unit limits and price control settings	16
Figure 4:	Supply and demand, assuming auctions clear from 2027 onwards, option 1 and option 2	26
Figure 5:	Projected price paths for options 1 to 3	27
Figure 6:	Projected NZU stockpile under options 1 to 3 and ‘no auction’ scenario	27
Figure 7:	Projected net emissions in EB2 and EB3 under options 1 to 3	28

Executive summary

Every year, the Government is required to review settings for the New Zealand Emissions Trading Scheme (ETS) auctions for the next five years. It must decide on the appropriate supply of New Zealand Units (NZUs or units) and price control settings that align with New Zealand's emissions budgets and 2050 target.

As part of this annual process, the Government must consider the advice and recommendations of He Pou a Rangi | Climate Change Commission (the Commission). The Commission's advice is that the Government should offer 14.7 million units over the 2027–31 settings period. This is based on maintaining status quo auction volumes for the second emissions budget (EB2) period and setting 2031 auction volumes on the basis that the surplus of units in the market has been depleted by then.

The Commission highlighted that, although auction volumes could be increased in line with the Government's emissions budgets, offering those volumes in the current circumstances might undermine market confidence. It also highlighted the risk of an NZU shortfall towards the end of the 2020s, which could result in rapidly rising and volatile NZU prices.

Alongside the Commission's option, we are consulting on two additional options.

Option	Total auction volumes 2027–31	Rationale
Option 1: Commission-recommended auction volumes	14.7 million	Status quo EB2 volumes most appropriate as increasing volumes in current circumstances might undermine market confidence. 2031 volumes set based on surplus being depleted and EB3 cap of 28.9 Mt CO ₂ e.
Option 2: Government-recommended auction volumes	13.0 million	Status quo EB2 volumes, matching Commission recommendation and rationale. 2031 volumes reduced based on tighter provisional EB3 cap of 24.8 Mt CO ₂ e.
Option 3: Lower auction volumes	7.7 million	Reduces volumes across the EB2 period to further draw down the stockpile, improving the likelihood of meeting budgets. 2031 volumes similar to option 2.

We seek your feedback on all three options for auction volumes.

The Commission has recommended making **no change** to price control settings, other than for routine inflation adjustments. It advises that they are consistent with the range of emissions prices we will likely need to meet New Zealand's domestic emissions reduction targets.

We agree with this recommendation, and we now seek your feedback.

About this consultation

This consultation seeks your views on options for annual updates to the New Zealand Emissions Trading Scheme unit limits and price control settings (ETS settings) for 2027–31.

The ETS is the key tool to help New Zealand meet its emissions budgets and the 2050 target. Updating ETS settings regularly helps New Zealand stay on track to meet those domestic emissions reduction targets.

This is the sixth year of updating the settings, since 2020. They must be updated by the end of September each year, after consultation.¹

The Climate Change Response Act 2002 (CCRA) establishes the process for updating ETS settings. It requires that they accord with New Zealand's emissions budgets and the 2050 target. If the settings do not strictly accord with the emissions budgets, any departure must be justified with reference to the considerations listed in the CCRA (see [Objectives – accordance test](#)). Collectively, these are the 'accordance test'.

The options presented here have been assessed against the accordance test, based on currently available evidence and information (see [Accordance with emissions budgets](#)).

The Ministry for the Environment is seeking your feedback on these options. We are also asking if you have other options, with supporting evidence, that meet the accordance test.

Scope

This consultation focuses on options for ETS unit limits and price control settings for 2027–31.

The consultation does not:

- reassess New Zealand's level of, or commitment to, its international obligations, emissions budgets or 2050 target (which the proposed changes are intended to support)
- include any changes to the framework or purpose of the ETS, as provided for in the CCRA
- include options for reforming the CCRA.

The options presented are based on the information and decisions that are available at the time of writing, including the amended second emissions reduction plan (ERP2) and the 2025 Greenhouse Gas Inventory.

Structure

In this consultation document, we have elevated the major, overarching question on the appropriate auction unit settings and price controls. Below this, we highlight other important questions on methodology that will help inform this and future ETS settings decisions. The appendices support these questions and decisions. They give more details on how we reached decisions and information that can support your feedback.

¹ This reflects the current legal requirement. However, the Government is proposing to shift to biennial ETS settings.

A separate [technical annex](#) has more details on the modelling used to inform ETS settings decisions.

How to have your say

The Government welcomes your comments on this consultation. The questions throughout the document are a guide only, and all comments are welcome. See the [Consultation questions](#) for the full list. You do not have to answer them all. To ensure your point of view is clearly understood, you should explain the reasons for your views and give supporting evidence if needed.

Closing date for submissions

Send in your submission by **11:59pm, 12 July 2026**.

The consultation documents, and further details on how to make a submission, are available at <https://consult.environment.govt.nz/climate/nz-ets-unit-settings-and-regulatory-updates-2026>.

If you have questions or want more information about the policy proposals or the submission process, please email ETSconsultation@mfe.govt.nz.

What happens next?

Once we have considered submissions, the Minister of Climate Change will make decisions. Any new regulations or amendments to existing regulations will then be published in the *New Zealand Gazette* by 30 September 2026 and will come into force from 1 January 2027.

Other consultations

The Ministry for the Environment is also seeking feedback on proposed changes to the ETS regulations 2026. See the [Proposed changes to the ETS regulations 2026 consultation document](#) for more information.

Background

The role of the ETS

The New Zealand Emissions Trading Scheme (ETS) is the Government's key tool to help New Zealand meet its:

- **international obligations** under the United Nations Framework Convention on Climate Change and its Paris Agreement
- **2050 target:** net zero greenhouse gas emissions (except biogenic methane) and a 14 percent to 24 percent reduction in biogenic methane²
- **emissions budgets:** a set of interim targets to reach the 2050 emissions reduction target. Emissions budgets set the total quantity of net emissions allowed to be released during an emissions budget period.³

The ETS supports emissions reductions by:

- requiring businesses to measure and report on their greenhouse gas emissions
- pricing emissions and removals to financially incentivise emissions reductions and removals
- requiring businesses to surrender one 'emissions unit' – a New Zealand Unit (NZU or unit) – to the Government for each tonne of emissions they are responsible for under the ETS
- rewarding removal activities (mainly forestry) with one unit for each tonne of emissions removed from the atmosphere
- limiting the number of units supplied into the ETS through auctioning and industrial allocation.

ETS participants can access units from several sources:

- government auctions of units
- government allocation of units to agreed emissions-intensive and trade-exposed firms (industrial allocation)
- removal activities that generate units (mainly forestry)
- the stockpile of units – banked units that originated from the above sources and that can now be traded and ultimately surrendered by emitters. This includes 'surplus' units, which are not held for future surrender or other purposes, and thus may be sold freely into the market.

The Government sets the number of units and reduces the number supplied into the ETS over time, through auctions and industrial allocation. This limits the total volume of net emissions for ETS participants, in line with New Zealand's domestic emissions reduction targets.

² More specifically, a 14 percent to 24 percent reduction below 2017 biogenic methane emissions by 2050, including a 10 percent reduction below 2017 biogenic methane emissions by 2030. The 2050 biogenic methane target was changed from a 24 percent to 47 percent reduction in December 2025, as part of the Climate Change Response (2050 Target and Other Matters) Amendment Act 2025.

³ For more information, see: Ministry for the Environment. [Emissions budgets and the emissions reduction plan](#). Retrieved 15 May 2026.

Participants can buy and sell units among themselves. The unit price reflects supply and demand in the ETS. This price signal allows businesses to make economically efficient choices about how and when to reduce emissions and increase removals.

Annual process for unit limits and price control settings

Under the Climate Change Response Act 2002 (CCRA), ETS unit limits and price control settings (ETS settings) for the next five years are made through an annual update process to the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020.⁴

At present, the settings are informed by previous tests of accordance with emission targets and are prescribed for only the next four years. The Government needs to decide on settings for the full five-year period by re-evaluating accordance against domestic emissions reduction targets and considering new information.

The unit settings must accord with New Zealand's emissions budgets and the 2050 target.⁵

Unit limits include:

- a limit on the units available by auction (auction volumes)
- a limit on approved overseas units – currently zero
- an overall limit on units – which consists of units available by auction and industrial allocation and approved overseas units.

The price control settings for units are:

- the auction price floor – the price below which the Government will not sell units at auction
- cost containment reserve (CCR) trigger prices – the prices at which additional units will be released if an auction's interim clearing price reaches or exceeds this level
- CCR volumes – the number of units that will be released if the trigger price is reached.

Unit limits help constrain the supply of units into the ETS over time. This limits the quantity of net emissions that can occur, in line with New Zealand's domestic emissions reduction targets.

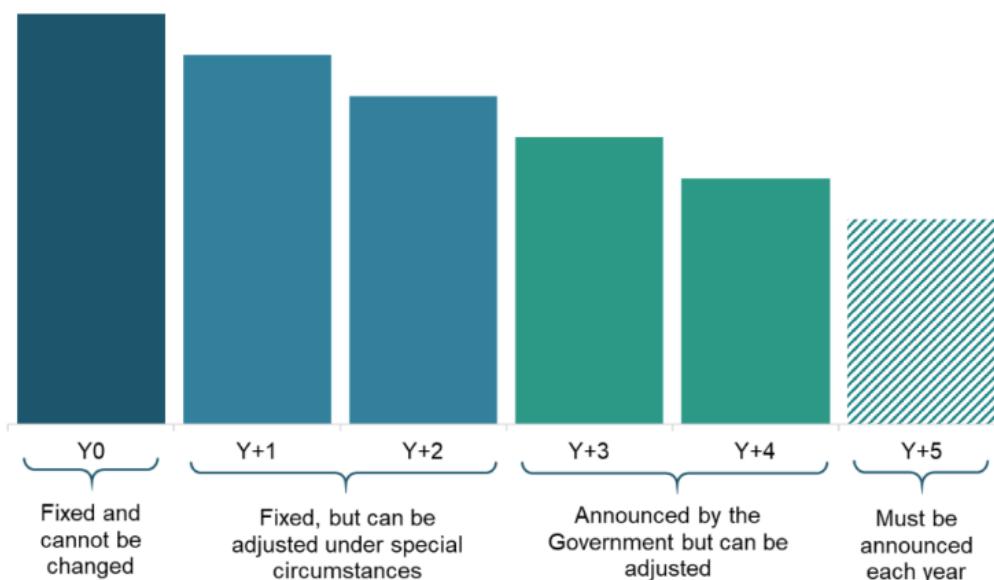
Price controls set a minimum and maximum price for auctions for the next five years, providing a forward-looking 'price corridor'.

⁴ This reflects the current legal requirement. However, the Government is proposing to shift to biennial ETS settings. The current legal requirement is reflected throughout this document.

⁵ Unit settings were also previously required to accord with New Zealand's nationally determined contributions. This requirement was removed as part of the Climate Change Response (2050 Target and Other Matters) Amendment Act 2025.

This five-year look-ahead period (figure 1) provides regulatory certainty to ETS participants, supporting investment decisions and market stability. To increase certainty, these updates are generally intended to exclude changes to unit settings for the first two years (ie, 2027 and 2028, from this year). Changes can only be made in specified circumstances for these first two years, for example, if a change significantly affects one of the matters the Minister of Climate Change (the Minister) must consider when recommending changes to settings.⁶

Figure 1: The five-year rolling process for unit limits and price control settings



Framework review

In late 2025, the Ministry for the Environment (the Ministry) led a targeted review of the frameworks and analytical tools used to develop advice on ETS settings.⁷ This was done with the close participation of He Pou a Rangi | Climate Change Commission (the Commission).

The review found the overall advisory and analytical frameworks for ETS settings were fit for purpose, but identified several opportunities for improvement for the Ministry and the Commission. These have been incorporated into the Commission’s advice and the Ministry’s settings process, and include:

1. Enhancing communication of key judgements and assumptions, helping decision-makers understand their options and the trade-offs.
2. Improving clarity in how market conditions have been considered and addressing potential sources of confusion.
3. Managing surplus uncertainty and addressing risk.
4. Continually improving analytical tools and approaches.

⁶ See section 30GB(5) of the CCRA, which includes: “(b) the Minister is satisfied that the amendment is justified by ... (i) a change that has significantly affected any matter that the Minister was required to consider under section 30GC when recommending the limits and price control settings that are to be amended”.

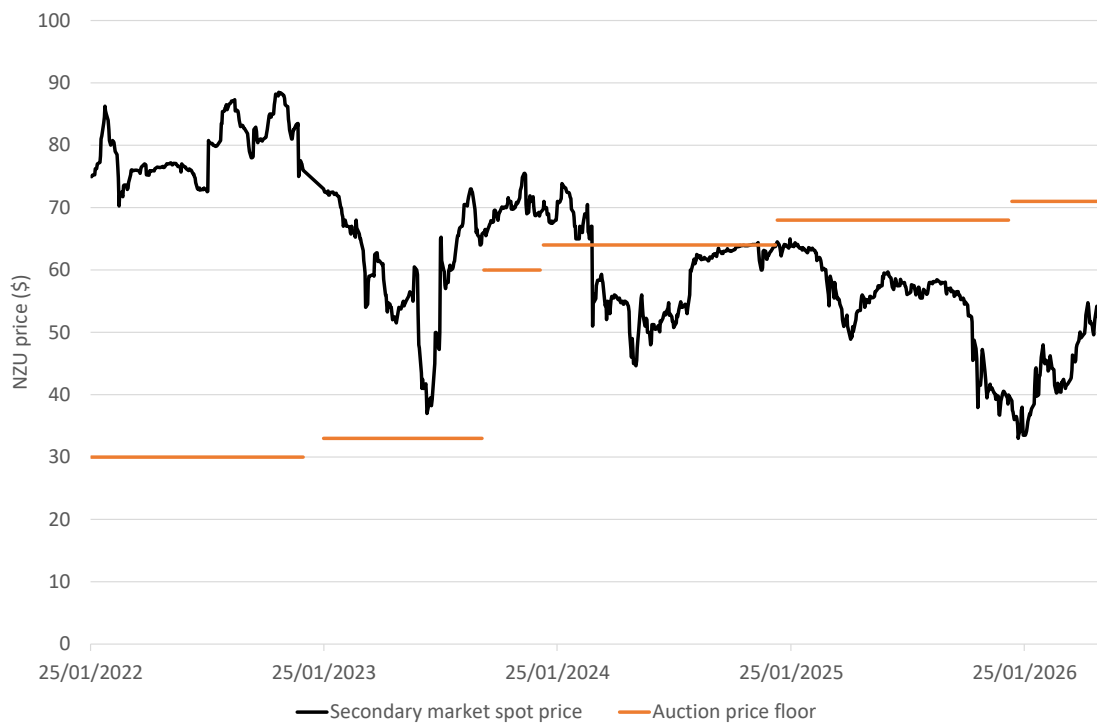
⁷ Ministry for the Environment. [Opportunities to Improve New Zealand Emissions Trading Scheme Advisory Frameworks and Tools](#). Retrieved 21 May 2026.

Recent secondary market price dynamics

Following Government announcements in November 2025 of changes to the CCRA, there was a material decline in the NZU price and an increase in volatility. Market commentators have attributed the market reaction to reduced market confidence, following several government climate decisions, particularly the change to the 2050 biogenic methane target, removal of plans to price agricultural emissions, and the removal of the requirement for ETS settings to accord with New Zealand’s nationally determined contributions. Although there has been a recovery recently, the NZU price currently remains well below the auction price floor.

The current gap between the NZU price and the auction price floor, and the fact that no 2025 ETS auctions, or 2026 auctions to date, have cleared, suggests that the market remains well supplied in the short term. Market commentators have pointed to a disconnect between current prices and long-term supply and demand fundamentals. They have noted that recent dynamics could indicate the market is more sentiment driven and focused on short-term factors.

Figure 2: NZU secondary market spot price and auction price floors, January 2022 to May 2026



Source: Jarden, Ministry for the Environment

Commission advice on ETS settings

The Commission is required to give annual advice on ETS settings. The Minister must consider the Commission’s advice when recommending updates to settings. If there are any differences between the Commission’s recommendations and those made by the Minister, the Minister must table a report in Parliament to explain the reasons for those differences.

The Commission's advice on ETS settings was published in April 2026.⁸ The Commission highlighted that, although it could be possible to increase auction volumes in line with the Government's emissions budgets, offering those volumes at a time of low market sentiment might further undermine market confidence. It also highlighted the risk of an NZU shortfall towards the end of the 2020s, which could result in rapidly rising and volatile NZU prices. It noted that, if this eventuates, it could unintentionally drive emissions reductions through plant closures and reduced production, rather than by incentivising investments in lower emissions technologies. However, the Commission did also acknowledge uncertainty in the likelihood and possible timing of any shortfall.

Its major recommendations this year are that the Government should:

- maintain the current auction volumes through to 2030, and set 2031 auction volumes on the basis that the surplus of units in the market has been depleted by then
- offer 14.7 million units over the 2027–31 settings period
- prepare to address the risk of a unit shortfall in future years
- extend current price control settings to 2031, with inflation adjustments from 2029.

The Commission also recommended that, if there is no ETS settings update in 2027 because of a shift to biennial settings decisions, the Government should consider adding a new temporary lower CCR tier to mitigate the risk of a shortfall in 2028. The Government has recently announced that the planned shift to biennial ETS settings will take place after the ETS settings update in 2027. For that reason, this recommendation has not been considered.

We are seeking feedback on options for ETS settings. These include the Commission's recommended approach.

Market advisory group

In advance of public consultation, the Government sought insights from a market advisory group, consisting of a small number of ETS market stakeholders that the Ministry engaged with individually.

The Ministry gave members a range of potential ETS settings scenarios without indicating any preference. The group provided views on ETS market perspectives, and potential impacts and reactions to different scenarios. This helped inform the options included in the consultation.

The Ministry did not provide members with any summary of their feedback or information about how their views were used.

⁸ He Pou a Rangī | Climate Change Commission. [NZ ETS unit limits and price control settings for 2027–2031](#). Retrieved 24 April 2026.

How we assessed the options

Objectives – accordance test

The Climate Change Response Act 2002 (CCRA) requires that New Zealand Emissions Trading Scheme (ETS) settings must accord with New Zealand’s:

- 2050 target, which is:
 - net zero emissions of all greenhouse gas emissions other than biogenic methane by 2050
 - a 14 percent to 24 percent reduction below 2017 biogenic methane emissions by 2050,⁹ including a 10 percent reduction below 2017 biogenic methane emissions by 2030
- emissions budgets, which are stepping stones along the path to the 2050 target.

ETS settings must strictly accord with New Zealand’s 2050 target, meaning there is a very high probability that settings constrain emissions to levels necessary to meet the target.

For emissions budgets, the settings do not have to strictly accord if the discrepancy is justified after considering matters prescribed in the CCRA.¹⁰ Even if deviating from strict accordance, the settings must still accord, meaning there is a good probability that settings constrain emissions to the levels necessary to meet the targets.

A key part of assessing accordance is considering the role of the ETS in achieving the 2050 target and emissions budgets.

Following the passing of the Climate Change Response (2050 Target and Other Matters) Amendment Act 2025, ETS settings are no longer required to accord with New Zealand’s nationally determined contributions under the Paris Agreement.

Criteria

To assess the options, we used a set of criteria (table 1). These align with the mandatory considerations for updating New Zealand Unit (NZU or unit) settings, as prescribed in the CCRA (see [appendix 2](#) for how they align). They are identical to the criteria used last year.

The first two criteria apply to both unit limits and price control settings. The third and fourth apply to price control settings only.

We have put more weighting on the criterion ‘likelihood of incentivising (net) emissions reductions’. This is because it relates the most closely to the overarching objective.

⁹ This was changed from a 24 percent to 47 percent reduction in December 2025, as part of the Climate Change Response (2050 Target and Other Matters) Amendment Act 2025.

¹⁰ See section 30GC(5) of the CCRA.

Table 1: Criteria for assessing options for ETS settings

Criterion	Description
<p>Likelihood of incentivising (net) emissions reductions</p>	<p>The ETS must accord with New Zealand’s emissions budgets and the 2050 target, which all require a mix of gross emissions reductions and removals. Settings should provide a price signal to incentivise emissions reductions and removals.</p> <p>Because the surplus stockpile could impede the achievement of emissions reductions and increase the risk of not meeting budgets, options that risk continuing the surplus stockpile beyond the intended drawdown date will rate negatively for this criterion.</p>
<p>Support for proper functioning of the ETS</p>	<p>The ETS should operate in a transparent and durable manner, so that participants can form expectations about supply and demand, to support investment in reducing emissions.</p> <p>The restrictions on how settings are updated allow for changes in response to new information, while maintaining regulatory predictability. Options that undermine this standard approach will rate negatively for this criterion.</p> <p>This criterion also includes ETS participants being able to attain and surrender NZUs to meet their obligations.</p> <p>The ETS must function properly, to effectively play its role in meeting domestic emissions reduction targets.</p>
<p>Support for NZU prices consistent with the level and trajectory of international emissions prices</p>	<p>There are two reasons for considering the level and trajectory of international emissions prices.</p> <ul style="list-style-type: none"> • International emissions prices provide a way of comparing New Zealand’s contribution with that of other countries in the global effort towards addressing climate change, notwithstanding fundamental differences between individual emissions pricing schemes. • Offshore mitigation could be needed to meet New Zealand’s nationally determined contributions, in addition to reducing emissions domestically.
<p>Management of overall costs to the economy and households</p>	<p>Settings influence, and can help manage, the costs of the ETS to the economy, households, sectors and regions.</p>

How we developed the options

We used two major approaches together to determine options for unit settings that would meet the accordance tests and goals of the New Zealand Emissions Trading Scheme (ETS):

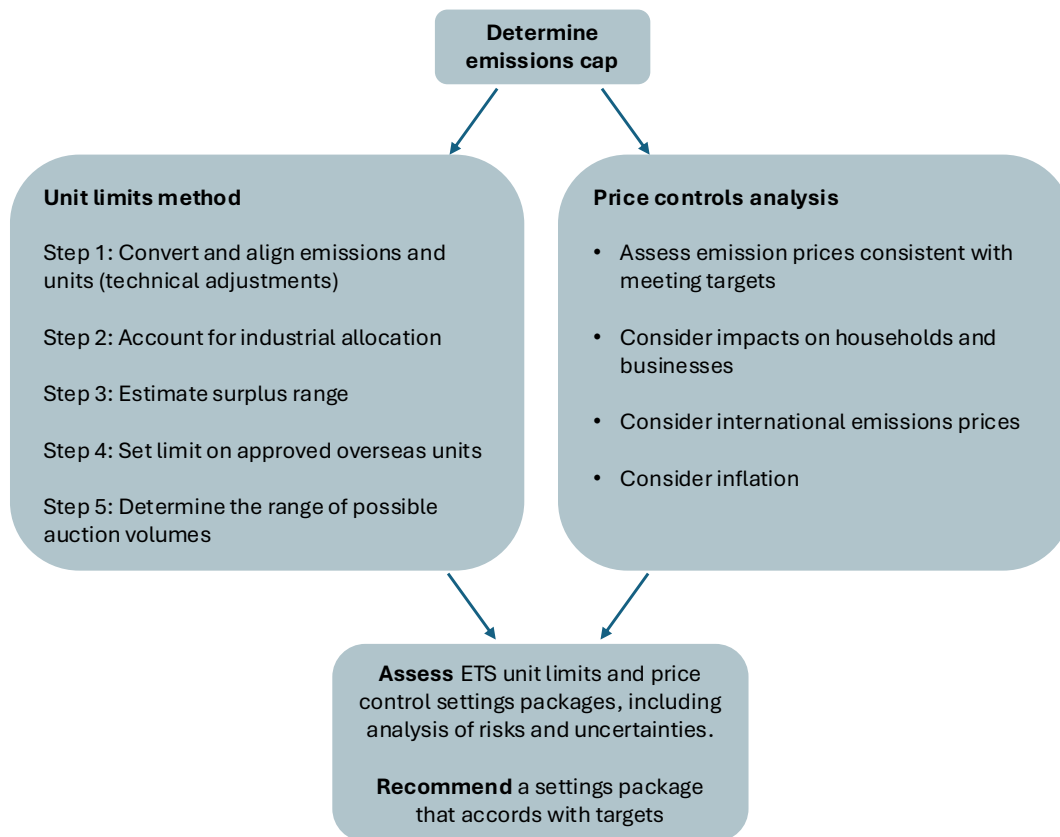
- ETS settings analytical model
- ETS market model.

ETS settings analytical model

The analytical model applies a series of steps to determine possible packages of auction volumes and price controls that align with New Zealand’s emissions budgets and 2050 target. It further refines the ‘seven steps methodology’ that the Government and He Pou a Rangi | Climate Change Commission (the Commission) used between 2020 and 2025 to determine appropriate unit limits.

The analytical model is not a fundamental reworking of the seven steps. It is more focused on better communicating the calculations and judgements applied through the process to determine auction volumes and price controls. Figure 3 provides an overview.

Figure 3: Analytical approach to developing ETS unit limits and price control settings



Source: He Pou a Rangi | Climate Change Commission

The starting point of the analytical model is determining the emissions cap or 'ETS cap' for the settings period. The 'ETS cap' is the total level of net emissions allowed under the ETS for the settings period, aligned with New Zealand's emissions budgets and taking into account emissions in non-ETS sectors. It is needed to inform both auction volumes and price controls. Caps can also be determined for emissions budget periods, for example, the second emissions budget (EB2) cap sets the total level of net emissions allowed under the ETS for the EB2 period.

Based on the emissions cap, we determined appropriate auction volumes using five steps.

1. Make technical adjustments – converting and aligning emissions and units.
2. Account for industrial allocation volumes.
3. Estimate the New Zealand Unit (NZU or unit) surplus.
4. Set the approved overseas unit limit.
5. Determine the range of possible auction volumes.

We also:

- evaluated price controls through modelling and other analysis, to ensure they remain consistent with emissions budgets
- assessed the overall settings package of auction volumes and price controls, to ensure it accords with emissions budgets and the 2050 target.

[Appendix 1](#) shows more detail on the analytical approach, methodology and assumptions.

Addressing the unit surplus stockpile

A large quantity of units – around 136 million as at December 2025 – is banked in private accounts. These provide liquidity to the market and help to reduce price volatility. However, the current number of banked units presents a risk to achieving emissions budgets.

Some of the banked NZUs are held to meet current and future surrender liabilities, or for other reasons (eg, hedging against future market price increases). Others are estimated to be held for investment purposes and can be more readily sold when market price expectations change – these are considered 'surplus'. Emitters could use surplus units to emit more greenhouse gases than would otherwise be permitted under the ETS cap. This could cause challenges in meeting emissions budgets.

To reduce this risk, we need to manage the surplus. The Government has agreed to set unit limits, with the aim of reducing the surplus to zero by 2030. All recent ETS settings decisions have reflected this decision. This is reflected in steps 3 and 5 of the ETS settings analytical model.

As in previous years, significant uncertainty remains about the size of the surplus, largely driven by limited robust empirical evidence. To account for the uncertain size and dynamic nature of the surplus, the analytical approach now allows for a range of possible surplus estimates.

Managing the surplus stockpile through steps 3 and 5 does not address any risks that the remaining stockpile could pose to achieving emissions budgets. Although the surplus is considered the most liquid component of the stockpile, and poses the most risk to achieving emissions budgets, parts of the non-surplus stockpile are also expected to have some liquidity and could become available in response to price signals.

ETS market model

The ETS market model estimates supply and demand for NZUs under different conditions, and can generate price projections based on supply and demand.^{11, 12}

The model estimates emissions reductions and removals, and the flow of units in and out of the stockpile, by endogenously relating these changes to different prices. It sets an objective for the market (minimising the stockpile by 2050 while meeting demand every year) and uses price to optimise supply and demand relative to that objective.

2024 was the first year we used this model to support decisions about settings. We are continuing to refine and improve the model and how we use it to support analysis of the ETS. For more details and recent updates, see the [technical annex](#). The annex also includes further sensitivity analysis to supplement the modelling insights in this consultation document.

We appreciate the feedback on the model received to date and welcome any further input from participants.

How we use both models together

The market model and analytical model are fundamentally different, although with considerable overlap. Both provide insights into the ETS.

- The analytical model is one way to identify unit settings that satisfy the accordance tests.
- The market model explores potential implications of different unit and price control settings and informs impact analysis.

Using both models together can help overcome the shortcomings of each. It also provides a more robust overall assessment of the merits and trade-offs of the three options in this consultation. As with all models that attempt to simplify complex real-world interactions, there is a high degree of uncertainty. The sensitivity analysis touches on some of this. For more details, see the [technical annex](#).

¹¹ For the original documentation on the market model, see: Ministry for the Environment. 2023. *Review of the New Zealand Emissions Trading Scheme: Summary of modelling*. Wellington: Ministry for the Environment.

¹² The latest documentation on the market model is in the [technical annex](#).

Key options for 2026 settings

Unit limits

We are presenting three options for auction volumes over the next five years. Two broadly align with status quo auction volumes. The third further tightens auction volumes.

Option 1: Commission-recommended auction volumes – 14.7 million units across 2027–31.

Option 2: Government-recommended auction volumes – 13.0 million units across 2027–31.

Option 3: Lower auction volumes – 7.7 million units across 2027–31.

Options 1 and 2: Status quo approach

Options 1 and 2 take the same approach for volumes in the second emissions budget (EB2) period – maintain status quo auction volumes of 11.7 million New Zealand Units (NZUs or units) across 2027–30. These auction volumes align strongly with EB2. They reflect a balance between continuing to strengthen New Zealand’s position to meet EB2 and managing the risk of undersupply later in the EB2 period (see [Risk of undersupply](#)).

Both options also reflect the current state of the market, with recent auctions not clearing and the current market price sitting well below the auction price floor. This suggests that the market remains well supplied through the secondary market and supports maintaining relatively tight auction volumes.

Options 1 and 2 differ in their 2031 volumes. He Pou a Rangi | Climate Change Commission (the Commission) recommends making **3.0 million units** available for auction in 2031. The Government recommends making **1.3 million units** available for auction in 2031. The Government is recommending reduced auction volumes in 2031 based on a tighter provisional third emissions budget (EB3) cap (see [Adjustments to provisional EB3 cap](#)).

Option 2 is the Government’s recommended auction volumes option. It balances constraining auction volumes to support meeting domestic emissions reduction targets while maintaining the proper functioning of the ETS. It also uses the most appropriate provisional EB3 cap, based on Ministry for the Environment (the Ministry) analysis. However, final decisions have not yet been made. Consultation feedback on the overall auction volume options, and underpinning assumptions and methodological changes, will inform the final ETS settings decisions.

Option 3: Lower auction volumes

Option 3 reduces auction volumes across the EB2 period, compared with the status quo. This option reflects a larger stockpile drawdown, compared with the status quo, based on the Ministry’s high surplus stockpile estimate.¹³ By further reducing the stockpile, a key risk to meeting emissions budgets, option 3 strengthens the likelihood of achieving EB2 and EB3, but, by restricting auction volumes, could increase the risk of undersupply (see [Risk of undersupply](#)).

¹³ See [appendix 1](#) on step 3 and step 5, for further detail on stockpile drawdown ranges.

Option 3 has similar 2031 auction volumes than the Government-recommended auction volumes option.

Option 3 involves changes to the first two years of the settings period. The Climate Change Response Act 2002 (CCRA) only allows years 1 and 2 to be changed in certain circumstances. We consider that changes to the years 1 and 2 could be justified based on the recent price volatility impacting on the proper functioning of the ETS.¹⁴ However, changing settings for the first two years does reduce the predictability of ETS settings, impacting the proper functioning of the ETS.

Question

1. Do you have any comments on whether changes to the first two years of ETS settings could be justified on the basis of the proper functioning of the ETS?

Table 2 shows the auction volumes across the settings period for each option.

Table 2: Options for auction volumes, 2027–31 (million NZUs)

Option	Year					2027–31
	2027	2028	2029	2030	2031	
Option 1: Commission-recommended auction volumes	4.3	3.3	2.4	1.7	3.0	14.7
Option 2: Government-recommended auction volumes	4.3	3.3	2.4	1.7	1.3	13.0
Option 3: Lower auction volumes	2.1	1.8	1.5	1.2	1.1	7.7

Aligning the timing of supply to market needs

Recent market signals suggest that the market is currently well supplied and does not require auction volumes in the short term, with the current ETS price remaining well under the auction price floor. Some commentators have questioned the need to hold auctions in this context.

At the same time, several market commentators and the Commission have noted that the ETS market may be undersupplied towards the end of the 2020s, and in general may be more short-term focused. Given this, there is a risk that, if auction volumes go unsold in 2026 and 2027, it may become unnecessarily challenging for firms to secure the NZUs needed to meet their surrender obligations. If auctions do not clear in both 2026 and 2027, the risk of undersupply may increase considerably in the late 2020s.

To address both concerns, one option would be to shift the proposed 2027 auction volumes into 2028–30 (the remaining years of EB2) when analysis suggests they are more likely to be needed. This would not affect the overall volumes, only their distribution within the settings period. Table 3 shows how this could be achieved under either option 2 or option 3.

As with option 3, this would require changing settings for the first two years of the period. The justification for changing the first two years matches that outlined in option 3. This change would also reduce predictability, but, because the change is more significant, it would have a greater impact on the proper functioning of the ETS.

¹⁴ See CCRA section 30GB(5) and section 30GC(5)(b).

Table 3: Phased auction volumes options, 2027–31 (million NZUs)

	Year					2027–31
	2027	2028	2029	2030	2031	
Option 2: Government-recommended auction volumes – phased	0.0	4.6	3.9	3.2	1.3	13.0
Option 3: Lower auction volumes – phased	0.0	2.6	2.2	1.8	1.1	7.7

Question

- Do you have any comments on the possibility of shifting 2027 volumes to 2028–30, to better manage the risk of undersupply later in the EB2 period?

Option considered but not included

In addition to the options presented in this consultation, the Government also analysed the possibility of an option with higher auction volumes, based on a central estimate of the surplus stockpile. Under such an option, 21.6 million units could be auctioned over the settings period, an increase of 8.6 million units over the Government-recommended auction volumes. However, in our view, increasing auction volumes would not be appropriate given current market conditions, and keeping auction volumes tight would better support efforts to meet emissions budgets. The Commission considered but did not recommend a similar option based on a central estimate of the surplus stockpile.

Risk of undersupply

The risk of temporary undersupply resulting in an NZU shortfall in the late 2020s has been raised by both market experts and the Commission. An NZU shortfall could drive future volatility and short-term price rises that are out of step with what is necessary to meet emissions budgets. The Commission has highlighted that this could unintentionally drive emissions reductions through plant closures and reduced production, rather than by incentivising investments in lower emissions technologies.

The risk of undersupply is a key factor in determining the most appropriate auction volume option. The extent of the risk depends largely on the size of the surplus stockpile, the liquidity of the remaining non-surplus stockpile, and the timing of forestry units entering the market, all of which are highly uncertain. The Commission has highlighted that it is currently uncertain whether and when this risk could eventuate.

The Government assesses this risk as currently manageable and that increasing auction volumes based on current signals of undersupply would be premature. It is the Ministry’s view that the non-surplus stockpile, which includes the hedge positions of firms and foresters, will continue to provide some liquidity to the market and mitigate the risk of temporary undersupply. For more details, see [Implications for market dynamics and emissions budgets](#), and the [technical annex](#). The Government will continue to monitor the market for signals of undersupply, to inform 2027 ETS settings decisions.

If those signals strengthen, the Government can increase auction volumes to prevent an NZU shortfall and the associated negative impacts. However, this would likely require changing the first two years of settings and run counter to recent settings decisions. Changing direction and

increasing auction volumes at short notice could negatively affect predictability and the proper functioning of the ETS. This means it is still important to set auction volumes appropriately in this year's settings decision.

The Commission also recommended that, if there is no ETS settings update in 2027 because of a shift to biennial ETS settings decisions, the Government should consider adding a temporary lower cost containment reserve (CCR) tier to mitigate the risk of undersupply in 2028. The Government has recently announced that the planned shift to biennial ETS settings will take place after the ETS settings update in 2027. For that reason, we have not considered this recommendation this year. However, if ETS settings do move to a biennial process, and the risk of undersupply increases, this could be considered more as part of the 2027 ETS settings process.

We seek feedback on the benefits and trade-offs of the move to biennial settings in the [Additional questions](#) section.

Questions

3. Do you have any comments on the likelihood of undersupply later in the EB2 period?
4. Do you have any suggestions for how the Government can manage the risk of undersupply later in the EB2 period?

Price controls

It is important to consider recommendations on unit limits and price controls as a package. Our [proposed options on unit limits](#) do not include changes to price control settings, beyond adjustment for inflation.¹⁵

The role of price controls

Auction price controls provide the Government with additional tools to manage the supply of units. The settings do not set the NZU price but can influence that price by withholding units from, or adding units to, the market.

Price controls act as a safety valve to prevent the auction price from going too low (which could lower the secondary market NZU price below what is needed to meet domestic emissions reduction targets) or too high (unnecessarily impacting on the cost of living and the economy). They also signal the price pathway likely to be needed to meet future targets. Price controls apply only to government auctions and not the secondary market.

¹⁵ The only additional possible change would be if under option 2 or option 3 the Government chose to shift the 2027 volumes to later years (see [Aligning the timing of supply to market needs](#)). In that scenario, cost containment reserve volumes for 2027 would be set to zero.

Auction price controls include:

- the auction price floor¹⁶ – the Government will not sell units at auction below this price and the confidential reserve price¹⁷
- cost containment reserve (CCR) trigger prices – additional NZUs will be released if an auction’s interim clearing price reaches or exceeds one or both of these prices
- CCR volumes – the number of NZUs that will be released if the trigger price is reached.

The auction price floor stays at a prescribed value for each auction within the year. It prevents additional units from being sold if the market is so well supplied that businesses are not willing to pay a price aligned with domestic emissions reduction targets.

The CCR exists to manage the risk from shocks and unforeseen events that may result in extremely high prices in the ETS. It functions by releasing more NZUs into an auction where prescribed prices have been met. In 2023, the Government adopted the Commission’s recommended two-tier design for the CCR. This means there are two trigger prices – each with its own CCR.

The auction price floor and CCR trigger prices should, together, set out a price corridor that allows units to enter the market at prices that accord with New Zealand’s domestic emissions reduction targets.

Auction price floor and CCR trigger prices

The Commission has concluded that the auction price floor and CCR trigger prices remain fit for purpose. It recommended that existing levels remain unchanged (apart from routine inflation adjustments to figures from 2029 onwards). It also recommended extending both to 2031, based on the existing 3 percent annual growth rate.

Auction price floor

The evidence in the Commission’s 2025 advice suggested that prices around or above the current auction price floor are needed to support emissions reductions necessary to meet EB2 and EB3. The Commission has highlighted that this remains relevant and has not sufficiently changed. The Commission recommends extending the price floor by one year, based on the existing 3 percent annual growth rate and adjusting for inflation.

We agree with the assessment that the current price floor remains fit for purpose. Although current secondary market prices are below the current auction price floor, this could be a signal that the market is currently oversupplied. The auction price floor helps limit supply until the oversupply is addressed. Ministry modelling suggests that pricing is likely to return to above the auction price floor within the settings period, because the auction volumes are expected to be needed alongside industrial allocation, stockpile, and forestry units to meet compliance demand.¹⁸ Maintaining the auction price floor will also support the Government’s key objectives of supporting confidence in the ETS and encouraging investment in decarbonisation.

¹⁶ In its advice, the Commission refers to the auction price floor as the auction reserve price.

¹⁷ The confidential reserve price functions to prevent the sale of units at a price materially below prevailing secondary market prices. It can be different at each auction and is not revealed to the public. This price is not set alongside other ETS settings and is not being consulted on.

¹⁸ For more detail, see [Implications for market dynamics and emissions budgets](#).

CCR trigger prices

The Commission reiterated its 2025 findings. Specifically, that there is a risk that trigger prices may be too low to allow for the high NZU prices needed to meet EB3 through additional gross emissions (if afforestation follows the trajectory projected in ERP2). However, additional afforestation in the next few years could help meet EB3 at a relatively lower price. The key uncertainties identified in the Commission's 2025 advice have not been resolved, and it therefore still considers it too early to tell whether the CCR levels need to be increased. It once again advised maintaining and extending current CCR trigger prices (adjusted for inflation) until it is clearer whether current trigger prices are too low. We agree with the Commission's findings.

The Commission also recommended that, if there is no ETS settings update in 2027 because of a shift to biennial ETS settings decisions, the Government should consider adding a temporary lower CCR tier to mitigate the risk of a shortfall in 2028. As explained above, we have not considered this recommendation but may explore it in future.

Below we outline potential adjustments to the auction price floor and CCR trigger price levels for inflation and extended to 2031. In our view, the rationale for maintaining current price controls holds for all unit limits options.

We seek your feedback on this approach.

Cost containment volumes

The CCR volumes need to be large enough for the CCR to perform its function of bringing down the auction price when it gets too high. Where prices are so high, there is a risk that the higher cost will be passed on to consumers, potentially putting pressure on household budgets.

In its 2026 advice, the Commission recommended maintaining CCR volumes for 2027–30, plus an extension to 2031. It noted that there has been no new evidence suggesting existing CCR volumes are inappropriate, and that retaining existing volumes would support regulatory predictability and remain in accordance with EB2 and EB3.

As with last year, there is no indication that changes to CCR volumes are necessary. We consider the current volumes sufficient for the CCR to perform its role, without risking accordance with emissions budgets if the CCR is triggered. This applies for all unit limits options.

Because the existing CCR volumes were based on a surplus estimate, which is intended to be drawn down by 2030, there is no existing volume to use for 2031. For 2031, the Commission proposes a volume based on the declining trajectory of the volumes currently in regulation. We agree with the Commission's recommendation.

Summary of price control settings

Table 4 shows the proposed price control settings for all options.

Table 4: Proposed price control settings for the next five years, 2027–31

	2027	2028	2029	2030	2031 (new)
Auction price floor	\$75	\$78	\$83	\$88	\$92
CCR tier 1	\$213	\$224	\$239	\$251	\$264
CCR tier 2	\$267	\$280	\$298	\$313	\$328
Tier 1 volume (million NZUs)*	2.1	1.9	1.7	1.4	1.2
Tier 2 volume (million NZUs)*	3.8	3.4	3.0	2.5	2.3
Total CCR volume (million NZUs)*	5.9	5.3	4.7	3.9	3.5

*If, under option 2 or option 3, the Government chose to shift the 2027 volumes to later years, tier 1, tier 2 and total CCR volumes for 2027 would be 0.

Questions

5. Do you have any comments on the proposed auction price floor?

6. Do you have any comments on the proposed cost containment reserve prices or volumes?

Implications for market dynamics and emissions budgets

Short-term ETS market outcomes appear to be driven more by sentiment than by underlying fundamentals. Our modelling indicates increasing market tightness in the late 2020s. However, there is uncertainty as to when this will translate into auction clearance.

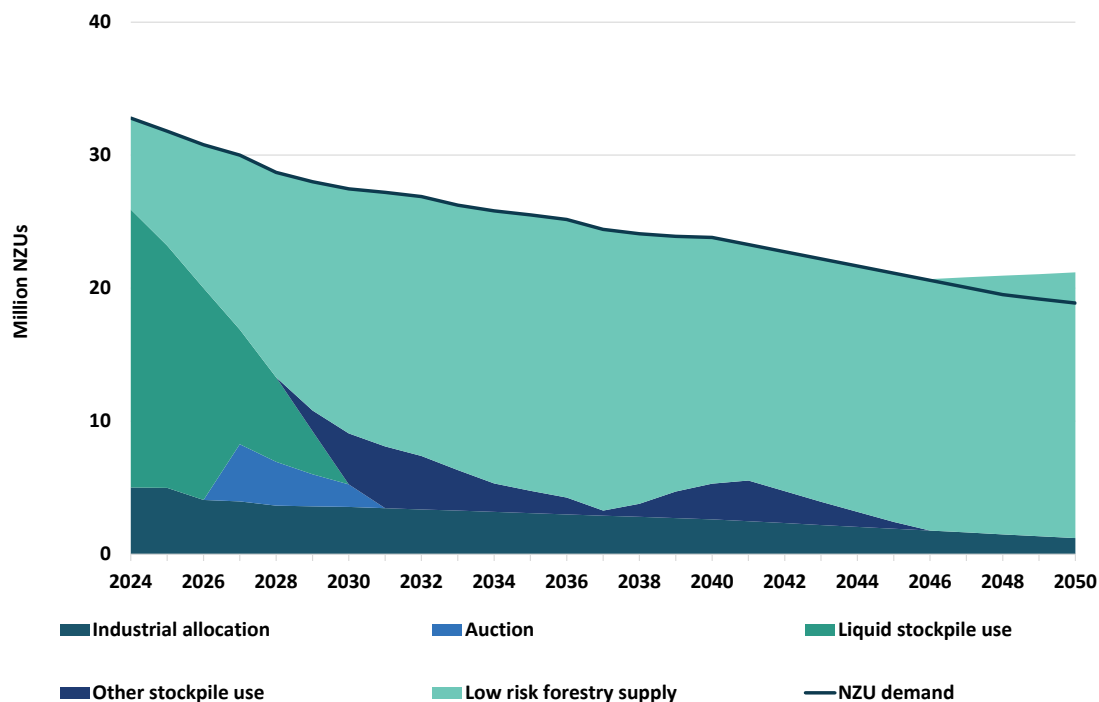
To model the impact of the auction volume options, our central approach is built on the explicit assumption that ETS prices remain around their current levels in 2026 before lifting to the auction floor from 2027. Alternatives, including a faster price rally or no price rally at all, are touched on below and explored in more detail in the [technical annex](#). As in previous years, we expect the ETS price to fall towards the price needed to incentivise exotic afforestation over the medium to long term (long-run marginal cost of forestry).

Figure 4 shows the mix of supply sources projected to meet compliance demand under option 1 and option 2 (status quo unit and price controls), and assuming our central short-run price pathway.

Option 3 (lower auction volumes) follows a broadly similar supply outlook. Compared with option 1 and option 2, the main differences are the extent of stockpile drawdown and the risk of higher prices.

These projections assume that auctions clear from 2027 to 2030, but the projected price falls below the auction price floor from 2031 in some cases. Because there will be a declining share of government supply (from industrial allocation and auctions) through the late 2020s, remaining NZU demand needs are met by the surplus, followed increasingly by low-risk forestry units.

Figure 4: Supply and demand, assuming auctions clear from 2027 onwards, option 1 and option 2



Source: Ministry for the Environment ETS market model

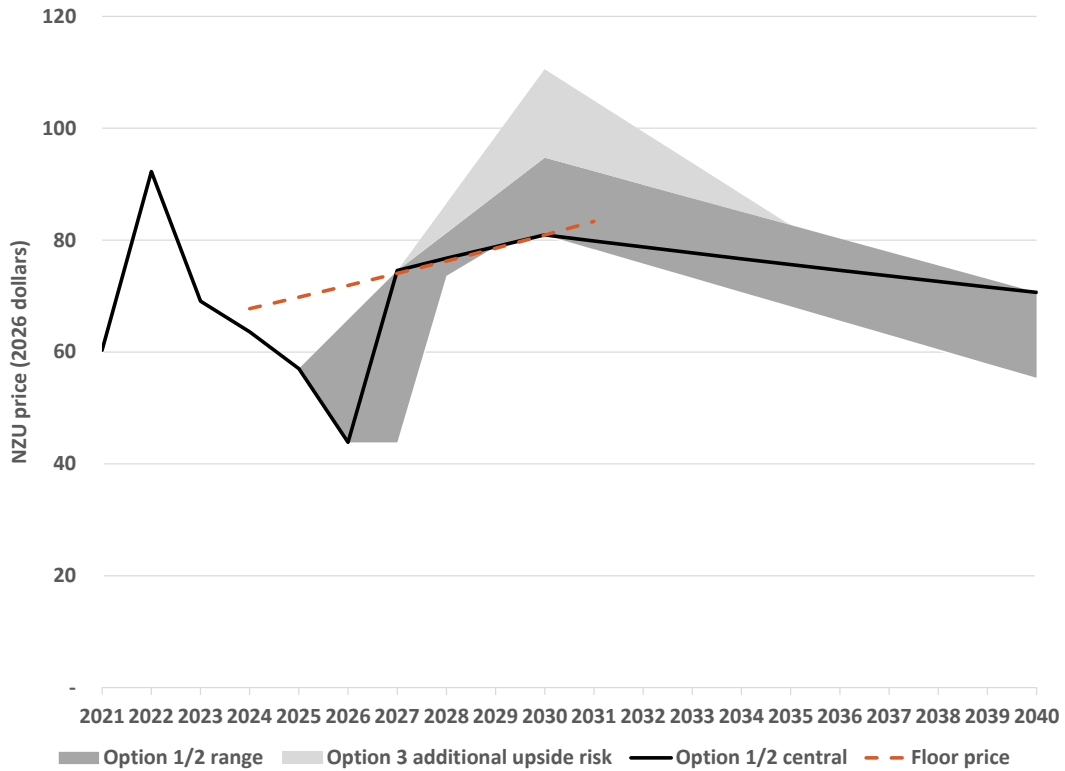
Our main scenarios did not provide strong evidence of a material undersupply developing under any of the considered options. However, analysis does suggest a higher risk of undersupply for option 3. The stockpile as of December 2025 was about 136 million NZUs, and our modelling indicates that, by 2030, the total stockpile remains a little under 100 million NZUs (more than three times compliance demand). The stockpile begins to increase again from this point as the high rates of afforestation in the early 2020s begin to generate NZUs in large volumes (figure 6).

The main caveat is that this analysis does not consider the potential effects of the timing of the forestry unit inflows and outflows typically observed within a mandatory emissions return period (MERP). Because forestry returns do not have to be filed until the end of the MERP period, forestry unit inflows and outflows may occur later than forecast. However, recently, a relatively high proportion of foresters have been filing voluntary returns annually. We judge that any remaining shortfall as a result of the fifth mandatory emissions return period (MERP5) timing effects could be absorbed with greater stockpile use.

Figure 5 shows the modelled price pathways for the three options. Across all options, prices are projected to recover to the auction price floor within the next one to two years and peak around 2030, before steadily declining towards the long-run marginal cost of forestry. In general terms, the longer prices are low in the near term (implying auctions do not clear), the higher they rise towards 2030 to offset the lost earlier auction supply. Reduced auction supply under option 3 is expected to put greater upward pressure on prices, all else equal, by tightening overall market supply, compared with option 1 and option 2. Sensitivity testing also pointed to higher prices under option 3. If the stockpile is more liquid than anticipated, this could alleviate some of the upward price pressure across all options, leaving the auction price floor as the main anchor.

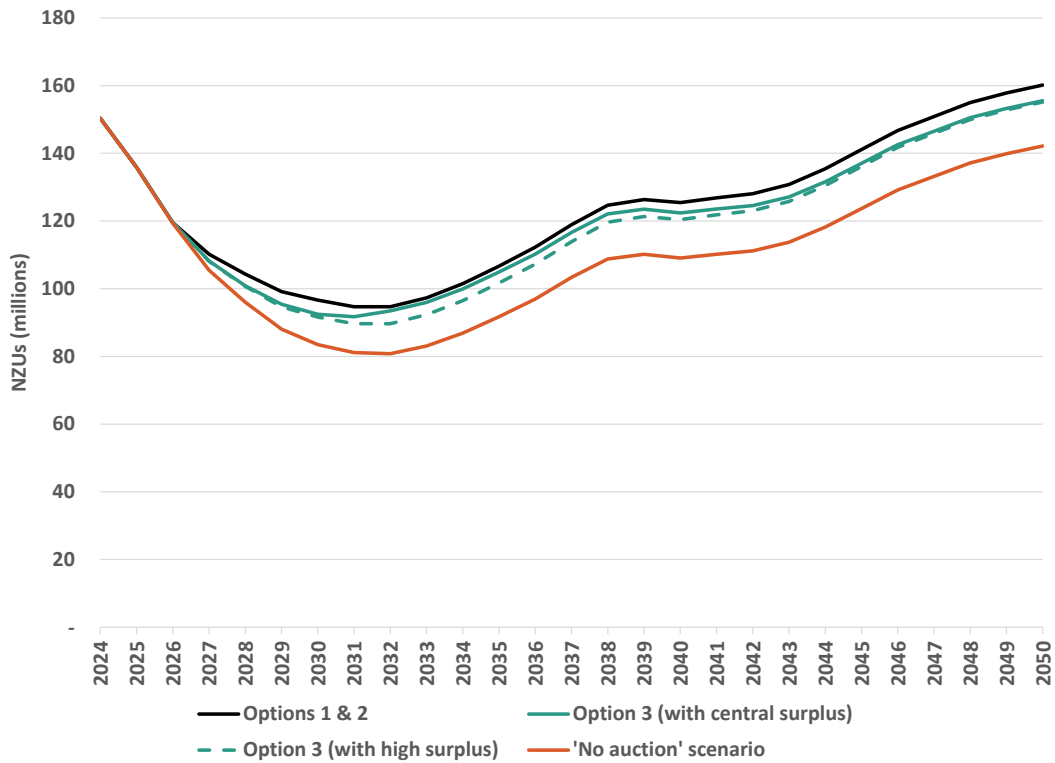
[Appendix 3](#) has more details on possible price pathways.

Figure 5: Projected price paths for options 1 to 3



Source: Ministry for the Environment ETS Market Model

Figure 6: Projected NZU stockpile under options 1 to 3 and 'no auction' scenario



Source: Ministry for the Environment ETS market model

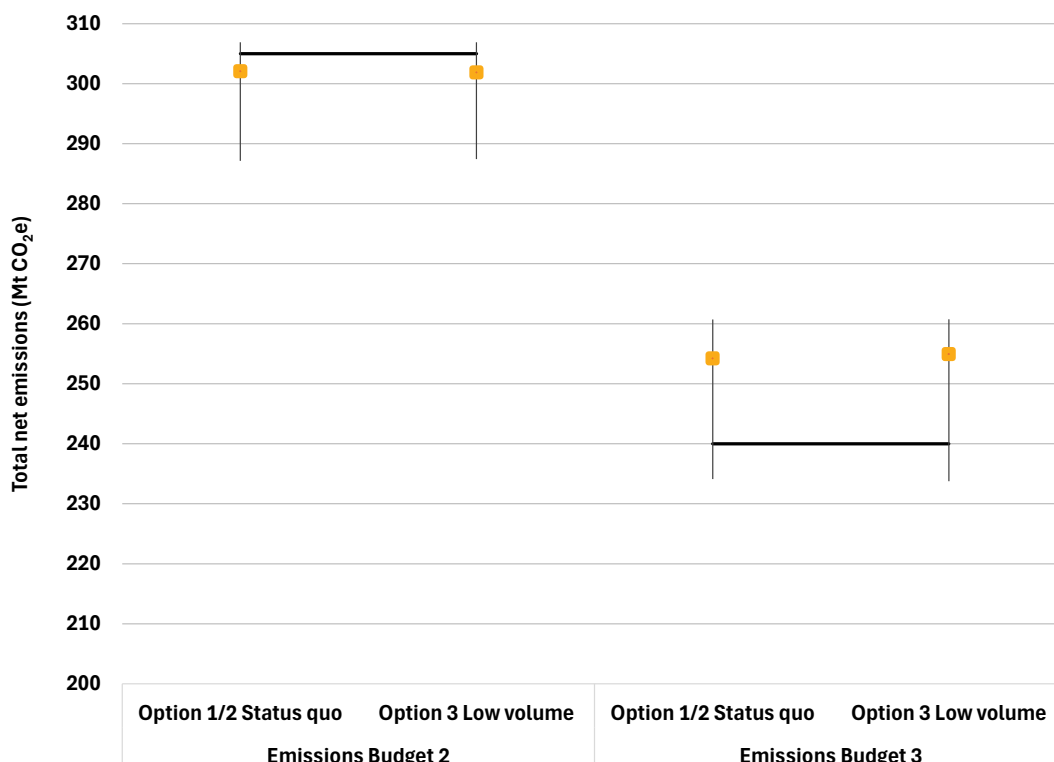
We also ran a ‘no auction’ scenario where prices remain around their current levels and, therefore, no auctions clear. Figure 6 shows that a relatively modest increase in stockpile drawdown would be needed to meet demand, holding other sources of supply unchanged. In this scenario, the total stockpile remains at more than 2.5 times annual demand in 2030. A possible takeaway is that prices already reflect long-term market fundamentals and could continue to remain at current levels if the overall stockpile remains sufficiently liquid.

Implications for total net emissions

The market model was not designed to estimate total net emissions – its focus is on net emissions covered by the ETS. However, we can combine the model outputs with other information to make high-level projections of total net emissions. Hence, emission estimates are communicated within ranges constructed from sensitivity analysis based on the price responsiveness ranges.¹⁹

Within these limitations, the analysis indicates all modelled auction volume options are likely to keep total net emissions (central projection) within the EB2 target range (figure 7). Conversely, it is highly probable that the total EB3 net emissions from all three options are above the EB3 threshold.

Figure 7: Projected net emissions in EB2 and EB3 under options 1 to 3



Source: Ministry for the Environment ETS market model

¹⁹ We also modelled total net emissions in the broad-based Emissions in New Zealand (ENZ) model used by the Government and Commission for climate mitigation policy analysis and projections. The results were broadly similar to those produced by the market model. See the [technical annex](#) for more information.

The EB3 emissions outcome reflects a continued stockpile drawdown in response to flat or falling future price expectations, offsetting the tightening auction unit supply over EB3. Even with this effect, as shown in figure 6, the total stockpile is expected to continue to increase post-2030 as forestry units steadily accrue. In these circumstances, it is difficult to construct a case that prices will remain sufficiently high for long enough to drive net emissions within the EB3 target using the ETS alone. The [Accordance with EB3](#) section outlines how the Government will identify strategic options across major emitting sectors alongside the ETS, to support and encourage emissions reduction and removals.

Impacts on the economy and households

Given the current economic environment and the increased strain on households from the Middle East conflict, it is particularly important to understand the impacts of ETS settings decisions on the economy and households.

The ETS works by placing a cost on emissions to businesses with obligations under the ETS. It incentivises greater reduction of gross emissions as businesses consider low-emissions alternatives that avoid that cost. The ETS affects various sectors of the New Zealand economy differently. It adds higher costs to activities that are more emissions intensive, while it provides an additional revenue stream for foresters who can earn NZUs.

Businesses may choose to offset this cost where they can, by investing in lower emissions technologies or processes, by increasing their prices to consumers or by reducing their costs. Reducing their costs could include reducing the number of employees. Higher prices passed on to consumers contribute to inflation and increase the cost of household essentials, such as fuel, electricity and food (largely through fuel costs embedded in production and transport). Households can switch to lower emissions alternatives to offset some of these costs.

Changes in ETS prices make relatively small contributions to consumer inflation, compared with other macroeconomic drivers. We estimate that a \$10 increase would increase annual consumer price inflation by 0.12 percentage points, assuming businesses pass on the costs in full and swiftly to consumers.

We estimate that a \$10 increase in the ETS price adds about \$98 per year to the average household's expenditure, mostly through its impacts on fuel and electricity prices. For lowest-income households, a \$10 increase adds about \$50 to \$60 per year; for highest-income households, \$140 to \$170 per year.

The price of NZUs is projected to increase over time across all options presented. Option 3 is expected to have larger price increases than option 1 and option 2 and correspondingly larger impacts on businesses and households. The impacts on consumer inflation are expected to be modest under all unit volume options, adding about 0.1 percent per year to inflation.

For further detail, see [appendix 3](#).

Impact on Māori

Māori, iwi and hapū are affected by the ETS in various ways. These groups have different interests and roles in the ETS. In addition, the Crown has a relationship with iwi and hapū as Treaty partners, including, for example, through post-settlement governance entities. NZU price and unit settings are likely to affect the following Māori interests.

- **Income from plantation forestry on Māori land in the ETS** – variable land ownership models (eg, iwi subsidiaries, Māori land incorporations and ahu whenua Māori land trusts) mean impacts on income are often shared across trustees and communities over generations, and can be either marginal or significant depending on the ownership model, history and geography of the land.
- **Costs for land-use change away from exotic forestry** – The ETS can be a cost barrier when shifting from exotic plantation (particularly pre-1990 forest) to other land uses (eg, natives or pastoral land uses). As Treaty of Waitangi settlements near completion, around 40 percent of New Zealand’s 1.8 million hectares of plantation forestry are estimated to be on Māori land. Most of this forest is pre-1990 forest land. ETS settings can influence these incentives by affecting the ETS price.
- **Incentives for land-use change to forestry** – Forestry in the ETS can provide an important land-use option on Māori land. The scheme can provide a source of revenue on remote or marginal land where other land uses are uneconomic (eg, permanent forestry). ETS settings can influence these incentives by affecting the ETS price.
- **Business profits and jobs tied to NZUs** – Māori own over \$6 billion in forestry assets (2023²⁰) and around one-third of the forestry workforce is Māori.²¹
- **Business profits and jobs in emitting sectors** – Māori are over-represented in emissions-intensive industries (mainly food processing and forestry) and significantly under-represented in low-emissions sectors.²²
- **Household living costs** – ETS price changes flow through to consumer prices; lower income households are more affected, and Māori are over-represented in these groups.
- **Impacts may be geographically uneven** – The impacts of ETS price changes may be concentrated in areas where Māori land ownership and employment in emissions-intensive sectors are higher.

Importance of stability and predictability

Feedback from ETS settings consultation in 2025 highlighted the need to better consider the impact of the rate of price change on firms and households and the impact of options on market confidence, including flow-on impacts.

The importance of market confidence to support long-term, intergenerational decisions was also a key theme in the Commission’s recent engagement with Māori stakeholders on ETS settings.

Price changes come with trade-offs across groups – for example, higher ETS prices can increase forestry returns while raising household costs. However, price volatility has negative impacts across all groups. Avoiding rapid price changes supports both household affordability and investment confidence, enabling decarbonisation and economic opportunities through the ETS. This is particularly important for Māori land owners who hold a higher proportion of marginal land (eg, remote or landlocked) with fewer alternative economic uses.

²⁰ Hillmare S, Reid A, Dixon H, McIndoe C, Wiradika S. 2024. *Te Ōhanga: The Māori Economy 2023*. Wellington: BERL.

²¹ Te Mata Raraunga. *GDP and Occupation Forecasting – Workforce Skills Shared Data Platform*. Retrieved 2 May 2026.

²² McMillan A, Riley H, Dixon H. 2021. *Māori economy emissions profile: Climate change mitigation impact on the Māori economy*. Wellington: Prepared for Ministry for Primary Industries by BERL.

The Government views the Government-recommended auction volumes (option 2) as best supporting the goal of a stable and credible ETS market while ensuring New Zealand is well positioned to meet its emissions budgets and targets. Amending the first two years of ETS settings may have negative impacts on stability and predictability because the market generally expects those years to be fixed. This is the case for option 3 and phasing options where 2027 auction volumes are shifted to later years.

Flow through of market confidence to the economy and households

The ETS market has recently shown a short-term focus and high sensitivity to government signals, including ETS settings. This means ETS settings, even with minimal changes, can have an impact on price, flowing through to the economy and households, due to the impact of settings on market sentiment.

Low market confidence risks reducing investment in decarbonisation and carbon removals, and can negatively affect land owners and those reliant on land-based income. For some Māori land owners, particularly larger iwi subsidiaries, this also affects wider communities that benefit from collectively held land. All else equal, we expect option 1 and option 2 to improve market confidence by supporting stability and providing greater predictability during broader economic uncertainty (eg, the Middle East conflict).

Option 3 may signal increased government ambition on emissions reductions, which could lift market confidence. However, this effect may be offset if lower volumes are seen as inconsistent with the Government's stated commitment to market stability in ERP2. In addition, novel approaches, such as shifting 2027 auction volumes to later years, could reduce market confidence because the market may perceive an increased likelihood of government intervention.

For more detail on expected impacts on different groups, see [appendix 3](#).

We acknowledge the possibility of gaps in our analysis, including on impacts specific to Māori.

As part of this consultation, we are interested in your views on our impact assessment, including views from different Māori groups.

Questions

7. Do you agree with our impact analysis? Are there any further impacts to consider that we have not captured in our analysis?

8. What are your views about the potential impacts of each option on Māori communities?

Assessing the options

Accordance with domestic emissions reduction targets

Later this year, we will make a full accordancy assessment to support final ETS settings decisions. However, our preliminary assessment and modelling suggest that all options included for consultation will meet the accordancy requirements under the CCRA when assessed.

Accordance with EB2

Ministry for the Environment modelling (see [Implications for market dynamics and emissions budgets](#)) shows all the options have a very high probability of achieving EB2 across the scenarios tested. Therefore, they are likely to meet the CCRA requirements.

Accordance with EB3

Current modelling shows that all options are likely to exceed EB3. All the options set unit limits to reduce the estimated surplus stockpile to zero before the start of the EB3 period (2031). They also keep price controls high to ensure volumes do not enter the market at a price below what is needed to achieve EB3. The Government will also explore additional policies to support meeting EB3, as explained below.

For those reasons, our current assessment is that all options are likely to accord, but not strictly accord, when formally assessed.

If an option accords, but does not strictly accord, the Minister of Climate Change must be confident that this deviation is justified after considering matters prescribed in the CCRA. The major reason justifying deviation is that adopting 2026 ETS settings that strictly accord with EB3 could run counter to the proper functioning of the ETS. It could require significant reductions in unit volumes between 2027 and 2031 that could impede participants' ability to obtain units to meet their compliance obligations, and is likely to lead to highly volatile prices.²³

Exploring additional policies to support meeting EB3

Alongside determining the appropriate ETS settings options for consultation, the Government recognises that, although the ETS remains a major tool for meeting emissions budgets, it is not expected to meet EB3 on its own. Additional options to support and encourage emissions reduction and removals across major emitting sectors will be needed, alongside the ETS, to achieve EB3. The Government has agreed to explore these options in advance of the third emissions reduction plan development, and will consider advice on this next year.

Accordance with 2050 target

All the options for consultation are in line with what is needed to meet EB2, and position New Zealand well to meet EB3, with the support of strategic options across major emitting sectors. These emissions budgets act as interim targets towards the 2050 target.

The 2050 target also includes 2030 and 2050 biogenic methane targets.

The ETS covers only a very small proportion of biogenic methane emissions. In addition, the ETS provides a price incentive that is neutral to how and where emissions reductions are achieved. By design, the ETS cannot target reductions in a particular sector or to a particular greenhouse gas. Together, these features mean the role of the ETS in meeting the biogenic methane targets is relatively limited. We therefore do not consider that progress towards these biogenic methane targets impacts the accordance of proposed ETS settings with the 2050 target.

For these reasons, all options are likely to strictly accord with the 2050 target.

²³ This relates to section 30GC(5)(b) of the CCRA, the proper functioning of the emissions trading scheme.

Overall assessment

Table 4 compares the three options against the assessment criteria. This is a preliminary assessment. Further analysis and consultation feedback on the changes will enable a more accurate assessment at the time of final settings decisions.

Table 5: Assessment of options

Criterion	Option 1: Commission-recommended auction volumes	Option 2: Government-recommended auction volumes	Option 3: Lower auction volumes
Likelihood of incentivising emissions reductions	0 Compared with option 2, option 1 has slightly higher auction volumes in the EB3 period. However, this difference is not expected to materially impact prices or emissions.	0 Compared with option 1, option 2 has slightly lower auction volumes in the EB3 period. However, this difference is not expected to materially impact prices or emissions.	0 Compared with option 1 and option 2, option 3 has reduced auction volumes during the EB2 period. This increases the likelihood of the surplus being fully drawn down by 2030 and could increase prices. However, modelling suggests there will be limited impact on emissions.
Support the proper functioning of the ETS	0 Option 1 and option 2 are expected to equally support the proper functioning of the ETS. The difference in EB3 volumes is not expected to materially impact the proper functioning of the ETS.	0 Option 1 and option 2 are expected to equally support the proper functioning of the ETS. The difference in EB3 volumes is not expected to materially impact the proper functioning of the ETS.	- Compared with option 1 and option 2, option 3 comes with a higher risk of undersupply during the EB2 period, which could risk the proper functioning of the ETS, were it to eventuate. However, we still expect this risk to be manageable. Changing settings for the first two years of the period also reduces predictability.
Support for consistency of NZU prices with the level and trajectory of international emissions prices*	0	0	0
Management of overall costs to the economy and households*	0	0	0
Overall assessment	0	0	-

* These assessment criteria only apply to price controls. Because price controls are identical for all options, all are evaluated as the same.

Key

++ Much better than the status quo

+ Better than the status quo

0 About the same as the status quo

- Worse than the status quo

-- Much worse than the status quo

Questions

9. Which is your preferred option?

10. What benefits or improvements could result from each option?

11. What are the challenges or risks of these options?

12. Do you prefer another option not outlined here? Please describe what it would involve.

Additional questions

Adjustments to the EB2 cap

As part of 2025 ETS settings decisions, the Government agreed to a second emissions budget (EB2) cap of 89.4 Mt CO₂e, based on second emissions reduction plan (ERP2) projections. Following that decision, we released the 2025 projections. Compared with ERP2 projections, these showed higher net emissions outside the New Zealand Emissions Trading Scheme (ETS) and lower net emissions within the ETS during the EB2 period.²⁴ In line with the Government's efforts to strengthen its position for meeting EB2, we propose to align the EB2 cap with the 2025 projections. This results in a tighter EB2 cap of 81.9 Mt CO₂e. This aligns with He Pou a Rangi | Climate Change Commission's (the Commission's) approach.

The proposed approach reflects an increase in ambition and is a departure from what was outlined in the 2025 ETS settings consultation's section on the EB2 cap, which suggested there would not be changes in response to projections or that shift the level of ambition.

Future policy work building on the [framework review](#) found that changes to ETS caps, in response to changes in projections of non-ETS emissions, may be required in some cases to maintain accordance with emissions budgets. It also identified that it could be appropriate to tighten caps based on updated projections, where a tightened cap better supports efforts to reduce emissions without overly burdening ETS-covered sectors.

Question

13. Do you have any comments on the proposal to update the EB2 cap, based on 2025 projections?

Adjustments to provisional EB3 cap

As part of 2025 ETS settings decisions, the Government agreed to a provisional third emissions budget (EB3) cap of 40.7 Mt CO₂e. As with EB2 emissions, 2025 projections showed higher net emissions outside the ETS and lower net emissions within the ETS during the EB3 period, when compared with ERP2 projections. Reflecting updated projections, we propose a provisional EB3 cap of 24.8 Mt CO₂e.

This figure is based on the 'with existing measures' (WEM) agricultural projections²⁵ and 'with additional measures' (WAM) projections for other non-ETS sectors. This differs from the Commission's approach, which used the 'with added measures' agriculture scenario B (WAM B), based on its presentation as the central projection in the amended ERP2.

²⁴ 2025 projections have been used to inform emissions budget caps, the analytical model and market models. They reflect the latest economy-wide update on projected emissions. Any changes to expected emissions since 2025 will be reflected in 2026 projections and considered as part of 2027 ETS settings decisions.

²⁵ The agriculture WEM projections used in our modelling include estimated impacts from the ERP2 afforestation on Crown land policy.

To determine the provisional EB3 cap and the Government-recommended auction volumes, we have taken a more conservative approach and used the WEM agriculture projection, as it reflects currently agreed policies. This does not reflect a view that the WAM B scenario will not eventuate. The cap is not final and can be adjusted in the future as policies or industry shifts impact projections.

Question

14. Do you have any comments on the proposal to update the provisional EB3 cap, based on 2025 projections?

Range of surplus estimates

Until last year, the central estimate of the surplus was a key factor in determining auction volumes. The decision in 2025 to retain the then status quo auction volumes implied a larger drawdown of the surplus than the central estimate. Furthermore, the ETS market is complex, and the relationship between the estimated surplus and observed market dynamics has not always been clear. As reflected in the updated analytical approach, this year, we explicitly acknowledge that a range of plausible surplus estimates could be used, and thus a range of plausible auction volumes.

Last year, the Government agreed to extend status quo volumes, reflecting the uncertainty in the surplus stockpile estimate and to best support accordance with domestic emissions reduction targets and proper functioning of the ETS. A different surplus estimate was not explicitly adopted, but the agreed auction volumes aligned with a higher than central surplus estimate drawdown – about 75 percent of the total surplus range. All else equal, a higher surplus drawdown results in lower auction volumes, and a lower surplus drawdown results in higher auction volumes.

We will use a similar approach this year. All options assume a higher surplus drawdown than the central estimate. A central estimate of the surplus resulted in a higher volume option that was considered but not formally included in consultation (see [Option considered but not included](#)).

Question

15. Do you have any comments on using a range of surplus estimates to inform unit limits options?

Ongoing surplus adjustment

The Commission has included small surplus reduction amounts after 2030 to account for expected decreases in hedging volumes and pre-1990²⁶ units over time. This decreases 2031 volumes by about 0.6 million units and decreases total EB3 volumes by about 2.2 million units.

We have not included this reduction in option 2 or option 3.

The ETS market model allows for ongoing stockpile drawdown throughout EB2 and into EB3 to reflect price expectations. This influences the modelling derived from that source, including the estimated impacts on overall emissions levels.

²⁶ Pre-1990 units are explained in [step 3 of appendix 1](#).

We will continue to consider this topic and seek your feedback on our current method. We will factor this into final ETS settings decisions following consultation.

Question

16. Do you have any comments on our approach to exclude ongoing surplus reductions after 2030?

Further feedback on analytical model for calculating unit limits

We have focused our discussion of the ETS settings analytical approach on the overall question on appropriate unit settings. We also addressed specific major decisions about surplus methodology.

However, we also invite any other feedback on the approach to any of the steps in the analytical model.

To enable this, we have provided more detail on each of analytical model steps in [appendix 1](#).

Questions

17. Do you have any additional comments on the calculations for any of the steps in the analytical model?

18. Do you have any evidence or information to support a different approach?

Biennial settings

In 2025, the Government agreed to move from annual ETS settings reviews to biennial ETS settings reviews. The intent was to give the market greater certainty by reducing the frequency of changes to auction volumes.

The undersupply risks raised by the Commission have highlighted that the move to biennial ETS settings comes with a trade-off of reducing responsiveness to risks that could appear between settings decisions, and possibly result in ETS settings that do not best match emerging market conditions.

We are keen to hear wider views on the benefits and trade-offs of the move to biennial ETS settings.

Questions

19. Do you support the shift to biennial ETS settings decisions?

20. What benefits and trade-offs do you see with a shift to biennial ETS settings decisions?

Consultation questions

The questions below are also listed under the relevant sections throughout the document.

Questions

1. Do you have any comments on whether changes to the first two years of ETS settings could be justified on the basis of the proper functioning of the ETS?
2. Do you have any comments on the possibility of shifting 2027 volumes to 2028–30, to better manage the risk of undersupply later in the EB2 period?
3. Do you have any comments on the likelihood of undersupply later in the EB2 period?
4. Do you have any suggestions for how the Government can manage the risk of undersupply later in the EB2 period?
5. Do you have any comments on the proposed auction price floor?
6. Do you have any comments on the proposed cost containment reserve prices or volumes?
7. Do you agree with our impact analysis? Are there any further impacts to consider that we have not captured in our analysis?
8. What are your views about the potential impacts of each option on Māori communities?
9. Which is your preferred option?
10. What benefits or improvements could result from each option?
11. What are the challenges or risks of these options?
12. Do you prefer another option not outlined here? Please describe what it would involve.
13. Do you have any comments on the proposal to update the EB2 cap, based on 2025 projections?
14. Do you have any comments on the proposal to update the provisional EB3 cap, based on 2025 projections?
15. Do you have any comments on using a range of surplus estimates to inform unit limits options?
16. Do you have any comments on our approach to exclude ongoing surplus reductions after 2030?
17. Do you have any additional comments on the calculations for any of the steps in the analytical model?
18. Do you have any evidence or information to support a different approach?
19. Do you support the shift to biennial ETS settings decisions?
20. What benefits and trade-offs do you see with a shift to biennial ETS settings decisions?

How to have your say

The Government welcomes your feedback on the issues set out in this consultation document. For the full list of questions throughout the document, see [Consultation questions](#). The questions are a guide only, and all comments are welcome. You do not have to answer all the questions. To ensure your point of view is clearly understood, you should explain the reasons for your views and give supporting evidence if needed.

Timeframes

This consultation opens on 12 June 2026 and closes at 11.59pm on 12 July 2026.

When the consultation period has ended, we will develop recommendations on changes to the [Climate Change \(Auctions, Limits, and Price Controls for Units\) Regulations 2020](#).

How to provide feedback

You can send your feedback in two ways:

- via Citizen Space, our consultation hub, available at <https://consult.environment.govt.nz/climate/nz-ets-unit-settings-and-regulatory-updates-2026>
- by writing your own submission.

If you want to send your own written submission, you can include this as an uploaded file in Citizen Space.

We request that you do not email or post submissions because this makes analysis more difficult. However, if you need to post a written submission, please send it to:

ETS settings consultation
Ministry for the Environment
PO Box 10362
Wellington 6143.

Please include:

- your name or organisation
- your postal address
- your telephone number
- your email address.

If you are emailing your submission, send it to etsconsultation@mfe.govt.nz as a:

- PDF
- Microsoft Word document (2003 or later version).

For more information

Please send any queries to:

Email: etsconsultation@mfe.govt.nz

Postal: ETS annual settings updates, Ministry for the Environment,
PO Box 10362, Wellington 6143

Publishing and releasing submissions

All or part of any written comments (including names of submitters) may be published on the Ministry for the Environment's website, environment.govt.nz. Unless you clearly specify otherwise in your submission, the Ministry will consider that you have consented to website posting of both your submission and your name.

Contents of submissions may be released to the public under the Official Information Act 1982 following requests to the Ministry for the Environment (including via email). Please advise if you have any objection to the release of any information contained in a submission and, in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information. We will take into account all such objections when responding to requests for copies of, and information on, submissions to this document under the Official Information Act.

The Privacy Act 2020 applies certain principles about the collection, use and disclosure of information about individuals by various agencies, including the Ministry for the Environment. It governs access by individuals to information about themselves held by agencies. Any personal information you supply to the Ministry in the course of making a submission will be used by the Ministry only in relation to the matters covered by this document. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that the Ministry may publish.

Appendix 1: Analytical model

The analytical model applies a series of steps to determine the possible packages of auction volumes and price controls that align with New Zealand's emissions budgets and 2050 target.

He Pou a Rangi | Climate Change Commission (the Commission) has published detailed technical materials about the methodology to support this year's settings decisions (see the Commission's website).²⁷ Its reports are as follows.

- *Advice on NZ ETS unit limits and price control settings for 2027–2031*: chapter 3: The NZ ETS emissions cap and chapter 4: Unit limits. This is a detailed discussion of the Commission's analysis using the analytical model and its implications for this year's advice on unit limits.
- *Technical Annex 1: Unit limit settings*: further information on the data, methodology and assumptions the Commission used to reach its final recommendations for unit limit settings. The same analysis underpins this consultation document.
- *Technical Annex 2: Forestry accounting*: further information on the Commission's analysis of the forestry emissions and removals included in the New Zealand Emissions Trading Scheme (ETS), compared to target accounting, as calculated by the ETS forestry model. This informs step 1 of the unit limits method.
- *Supporting spreadsheet: 2026 NZ ETS settings advice*: presents the data, analysis and calculations that informed the Commission's advice on unit limits.

This appendix does not attempt to duplicate this technical material. It is a summary of the analysis and options relevant to policy decisions.

Determine emissions cap

This first step sets out how New Zealand units (NZUs or units) should align with New Zealand's climate change goals (including emissions budgets and the 2050 target).

Adjustments from 2025 settings are required to account for methodological changes to the 2025 New Zealand's Greenhouse Gas Inventory (GHG inventory).

Methodological changes to the GHG inventory are refinements to how emissions are calculated, to reflect better data and information. They are not actions that have reduced emissions. Aligning with these changes keeps the ETS in line with New Zealand's international reporting and actual emissions levels.

This step allocates emissions budgets between the emissions and removals that the ETS covers and those it does not. It recognises that non-ETS emissions and removals will account for a portion of the emissions budget.

As with 2025 decisions, the budgets have been allocated to ETS and non-ETS sectors based on latest projections.

²⁷ He Pou a Rangi | Climate Change Commission. [NZ ETS unit limits and price control settings for 2027–2031](#). Retrieved 28 April 2026.

The following sources of emissions and removals are currently outside the ETS.

- **Agriculture** – biogenic methane (CH₄), nitrous oxide (N₂O) and carbon dioxide (CO₂) from fertiliser use.
- **Waste** – all waste emissions except CH₄ from municipal landfills.
- **Synthetic greenhouse gases** – some sources of emissions associated with certain goods and vehicles are priced through the Synthetic Greenhouse Gas Levy, instead of facing unit emissions surrender obligations. Some additional, very small sources (such as medical uses) are not covered by either pricing mechanism.
- **Industrial processes and product use** – several small emissions sources in the industrial processes and product use category of the GHG inventory, including:
 - non-energy products from fuels and solvent use
 - N₂O from medical applications
 - other uses of carbonate.
- **Forestry** – sources of removals outside of the ETS comprise the subset of post-1989 forest land that is not registered in the ETS. The Commission has assumed that all currently registered forest land will remain registered, and that all eligible post-1989 forests planted from 2019 will register or have already done so. This equates to allocating 100 percent of post-1989 forestry (both CO₂ removals from forest growth and emissions from deforestation) to the ETS sectors.

EB2 cap

As part of 2025 ETS settings decisions, the Government agreed to a second emissions budget (EB2) cap of 89.4 Mt CO₂e, based on second emissions reduction plan (ERP2) projections. Following that decision, 2025 projections were released, which, compared with ERP2 projections, showed higher net emissions outside the ETS and lower net emissions within the ETS during the EB2 period. In line with the Government's efforts to strengthen its position for meeting EB2, we propose to align the EB2 cap with the 2025 projections, which results in a tighter EB2 cap of 81.9 Mt CO₂e. This aligns with the Commission's approach.

EB3 cap

As part of 2025 ETS settings decisions, the Government agreed to a provisional third emissions budget (EB3) cap of 40.7 Mt CO₂e. As with EB2 emissions, 2025 projections showed higher net emissions outside the ETS and lower net emissions within the ETS during the EB3 period, compared with ERP2 projections. Reflecting updated projections, we propose a provisional EB3 cap of 24.8 Mt CO₂e.

This figure is based on a combination of the 'with existing measures' (WEM) agricultural projections²⁸ and 'with additional measures' (WAM) projections for other non-ETS sectors. This differs from the Commission's approach, which used the 'with added measures' agriculture scenario B (WAM B), based on its presentation as the central projection in the amended ERP2. To determine the provisional EB3 cap and the Government-recommended auction volumes, we have taken a more conservative approach and used the WEM agriculture projection, as it reflects currently agreed policies. This does not reflect a view that the WAM B scenario will not eventuate. The cap is not final and can be adjusted in the future as policies or industry shifts impact projections.

²⁸ The agriculture WEM projections used in our modelling includes estimated impacts from the ERP2 afforestation on Crown land policy.

Table A1.1 shows the updated allocated volume of emissions budgets to sectors in and outside the ETS.

Table A1.1: Share of emissions allocated to ETS and non-ETS sectors, 2027–31 (Mt CO₂e)

	Year					Total
	2027	2028	2029	2030	2031	
Total projected emissions, adjusted to meet EB3	63.4	60.1	57.2	54.9	50.5	286.1
Share of emissions budget allocated to non-ETS sectors	44.1	44.1	43.8	43.7	43.5	219.1
Share of emissions budget allocated to ETS sectors	19.3	16.0	13.4	11.2	7.0	67.0

Note: Totals may not add due to rounding.

Unit limits method

Step 1: Make technical adjustments – converting and aligning emissions and units

Emissions reported into the ETS for the sectors it covers are intended to align with emissions reported in the GHG inventory, because New Zealand uses inventory data to report progress towards domestic emissions reduction targets. Any accounting misalignment could mean too many, or too few, units are supplied into the market, risking over- or under-achieving the targets.

This year, we made two technical adjustments to better align emissions accounting with the ETS within waste and forestry. For **forestry**, there was a technical adjustment at 3.2 Mt CO₂e over 2027–31. This focuses on improving alignment between ETS accounting and target accounting, to better reflect actual removals and avoid overstating total unit estimates.

For **waste**, there was a technical adjustment at 1.1 Mt CO₂e over 2027–31. The adjustment accounts for ETS waste emissions that are lower than reported in the GHG inventory.

In 2025, the Government consulted on changing the default exotic forestry look-up tables, so that default NZU allocations to foresters align with latest scientific evidence on the sequestration from forests. If changes are made to those look-up tables, the allocation of NZUs to foresters will increase. This would require a technical adjustment, leading to fewer auctioned units. The Government will consider these changes in 2027. For that reason, no technical adjustment has been made for the proposed changes to default exotic forestry look-up tables this year. We will consider this again as part of 2027 ETS settings.

Table A1.2 outlines the update for this step.

Table A1.2: Technical adjustments to unit limits, 2027–31 (million NZUs)

Sector	Year				
	2027	2028	2029	2030	2031
Forestry	0.9	0.8	0.6	0.5	0.4
Waste	0.3	0.2	0.2	0.2	0.2
Total technical adjustment	1.2	1.0	0.9	0.7	0.5

Note: Totals may not add due to rounding.

Step 2: Account for industrial allocation volumes

The Government allocates units to businesses undertaking industrial activities that are prescribed as ‘emissions intensive’ and ‘trade exposed’. To ensure alignment with emissions budgets, industrial allocation units reduce the number of units the Government can sell at auction.

Forecast industrial allocation volumes for the coming five years are based on the existing allocative baselines and production levels of businesses in eligible activities.

Forecast industrial allocation is 18.3 million units over the period 2027–31, which is about 25 percent of the total emissions volume allocated to ETS sectors. This is about 2.1 million units lower over the next five years than forecast in 2025 settings. Among the more material updates are reductions in the forecast allocations for producing aluminium, iron and steel and methanol.

This change increases the number of units available by 2.1 million over the settings period, all else equal. Table A1.3 outlines the update for this step.

Methanex New Zealand is currently assumed to close at the end of 2027. Recent media reporting indicates that this closure may happen earlier than anticipated due to more rapid declines in natural gas extraction. We have not yet reflected a change in the closure timing, but could do so for final policy decisions if an earlier closure date is confirmed. Methanex New Zealand’s closing in 2026 would reduce forecast industrial allocation by 0.3 million NZUs in 2027.

Table A1.3: Adjustment to unit limits to account for industrial allocation volumes, 2027–31 (million NZUs)

	Year				
	2027	2028	2029	2030	2031
Industrial allocation	4.0	3.7	3.6	3.6	3.5

Step 3: Estimate the NZU surplus

This step estimates the size of the surplus stockpile, to inform options for reducing surplus units in step 5.

A large quantity of units is banked in private accounts. These units provide liquidity to the market and help to reduce price volatility. However, the current number of banked units presents risks to achieving the budgets.

Some of the banked NZUs are held to meet future surrender liabilities or for other reasons (eg, hedging against future market price increases). Others are estimated to be held for investment purposes, and will more readily be sold when market price expectations change. The latter are considered ‘surplus’ to the needs of emitters. Emitters’ use of surplus NZUs to meet increased ETS obligations potentially causes challenges in meeting the budgets. The surplus must be managed to reduce this risk.

The Government has agreed to set unit limits with the aim of reducing the surplus to zero by 2030. All recent ETS settings decisions have reflected this decision.

Methodology for estimating the surplus

To estimate the surplus, we start with the total stockpile as at 31 December 2025 and subtract components of the stockpile that are considered ‘non-surplus’. The ‘non-surplus’ components are units that enable market participants to manage surrender obligations and are not expected to come to market in the near term. Below is a brief description of various ‘non-surplus’ components.

- Units held for post-1989 forest harvest liabilities: Units retained by post-1989 forestry participants to meet future surrender obligations associated with harvesting forests.
- Pre-1990 forest allocation units likely to be held long term: Units allocated to pre-1990 forest owners that are assumed to be unlikely to re-enter the market in the near term.
- Units held for hedging purposes by emitters: Units held by emitters to manage exposure to future carbon prices and expected compliance costs.
- Units held by emitters for emissions that have already occurred (holding volume): Units held by emitters to cover surrender obligations for emissions already generated in the previous year but not yet due for compliance surrender.

The Commission’s 2026 surplus estimate

The Commission estimates the surplus to range from 17.1 million to 41.7 million units, with a central estimate of 29.7 million. This compares with last year’s estimated range of 28.4 million to 67.7 million units, with a central estimate of 50.2 million. The reduction in the central estimate is primarily driven by a decline in the total stockpile since last year, alongside auctions not clearing in 2025. The overall range of the Commission’s surplus estimate has also narrowed significantly, decreasing from about 39.3 million units in 2025 to 24.6 million units this year. The decrease is primarily due to a reduction in uncertainty in the estimate of post-1989 units held for harvest, driven by a narrower variation in the forest area assumed to be permanent versus production.

Table A1.4 depicts the Commission’s low, central and high estimate of the surplus, by component.

Table A1.4: The Commission’s 2026 surplus estimate (million NZUs)

Estimate	Low	Central	High	Range
Stockpile (31 Dec 2025)	135.9			0.0
Pre-1990 units held long term	7.0	5.7	4.6	2.4
Units held for post-1989 forest harvest liabilities	46.2	40.0	34.3	11.9
Units held for hedging in 2030	18.8	14.5	10.3	8.5
2025 holding volumes	32.2			0.0
Forestry unit reconciliation	15.9	13.7	11.6	4.3
Forestry accounting technical adjustment range	-1.3	0.0	1.2	2.5
Total surplus estimate	17.1	29.7	41.7	24.6

Source: He Pou a Rangi | Climate Change Commission

The Ministry's 2026 surplus estimate

The Ministry for the Environment (the Ministry) estimates the surplus to range from 16.5 million to 48.3 million units, with a central estimate of 34.1 million. This compares with last year's estimated range of 28.7 million to 78.0 million units, with a central estimate of 55.8 million. Consistent with the Commission's reduction, the Ministry's reduction in the central estimate is primarily driven by a decline in the total stockpile since last year, alongside auctions not clearing in 2025. The key reasons for the differences between the Ministry and Commission estimates are explained below.

Units held for hedging in 2030

The Commission estimates 2030 hedging volumes based on behavioural assumptions by sector and targeted engagement. The Ministry has retained the Commission's assumed hedging profiles across sectors, apart from liquid fossil fuels (LFF). Under the Commission's analysis, total hedging percentages for LFF range from 40 percent to 23 percent, with a central at 31 percent. The total hedging percentages are in addition to the 100 percent holding volume assumption for current surrender obligations.

Given LFF's ability to rapidly pass through costs to consumers, and based on some publicly available information, the Ministry has adjusted the total hedging percentages for LFF to range from 40 percent to 0 percent, with a central at 18 percent. The lower range represents a scenario where costs are passed through immediately to end users and therefore limit the need for LFF firms to hedge (noting that the separate holding volume category captures compliance needs). This resulted in about a 4 million NZU increase in the total range on hedging volumes compared with the Commission's.

Units held for post-1989 forest harvest liabilities

The forestry model is highly sensitive to assumptions on the split of forest area between permanent forestry and production forestry.

Previously, the Commission assumed the rate of permanent forestry using a flat rate parameter with a central estimate of 20 percent and a range of 10 percent to 30 percent. The Commission now estimates the rate of permanent forestry based on estimated data with a ± 30 percent margin, resulting in a lower central estimate of permanent forest (about 17 percent) and narrower range (12 percent to 22 percent).

However, the estimated data is derived from modelled values rather than observed data. Additionally, a slightly wider range at 10 percent to 25 percent was used by the Ministry for Primary Industries to inform both the official 2025 emissions projections and fiscal forecasts. Given the forestry model's sensitivity to this assumption, limited empirical evidence, and a slightly broader range used by the Ministry for Primary Industries, in our view, a wider range of permanent forests at 10 percent to 25 percent is more appropriate, with a central estimate unchanged at about 17 percent. This results in a wider post-1989 forest units held for harvest liability range of 32.9 million to 47.0 million units, with an unchanged central estimate of 40.0 million.

Forestry unit reconciliation

The Ministry for the Environment's wider harvest liabilities range also flows through to the forestry unit reconciliation component. The central estimate remains unchanged from the Commission's, but the wider harvest liabilities range results in a slightly broader reconciliation range of 10.1 million to 16.6 million units.

Forestry accounting technical adjustment range

To reflect the adjusted uncertainty bounds on the variation in permanent forest as above, we have also reflected this change in the forestry accounting technical adjustment range. This results in a slightly wider range at 3.2 million units, compared with the Commission’s 2.5 million units.

Table A1.5 sets out our estimate of the low, central and high estimate of the surplus, by component.

Table A1.5: The Ministry’s 2026 surplus estimate (million NZUs)

Estimate	Low	Central	High	Range
Stockpile (31 Dec 2025)	135.9			0.0
Pre-1990 units held long term	7.0	5.7	4.6	2.4
Units held for post-1989 forest harvest liabilities	47.0	40.0	32.9	14.2
Units held for hedging in 2030	18.0	10.1	6.0	12.0
2025 holding volumes	32.2			0.0
Forestry unit reconciliation	16.6	13.7	10.1	6.5
Forestry accounting technical adjustment range	-1.5	0.0	1.7	3.2
Total surplus estimate	16.5	34.1	48.3	31.8

Table A1.6 shows how our range of surplus estimates corresponds to auction volume options. We did not base options on the full extent of the surplus range. Surplus estimates below the central were not considered as they would not align with emissions budgets.

Table A1.6: The Ministry’s surplus estimates and corresponding auction volume options

Surplus estimate	Position in full surplus range	Matching auction volume option
Central	55%	Higher auction volumes (considered but not included for consultation)
Implied under status quo	82%	Option 2: Government-recommended auction volumes
High	100%	Option 3: Lower auction volumes

Further updates: 2025 marks the end of a Mandatory Emissions Return Period (MERP) for ETS forestry participants, which may be an opportunity to incorporate additional data and refine harvest liability estimates. As more complete data on surrenders and allocations becomes available as returns are processed, it may offer a clearer view of participant behaviour than current assumptions. We will monitor this closely and update estimates where the evidence warrants. This may result in further differences from the Commission’s surplus estimate for final ETS settings decisions.

Step 3b: Discrepancy adjustment

As in previous years, we will also be incorporating a discrepancy adjustment (previously called step 5b in the seven steps model). This adjustment accounts for the volume changes that would otherwise have been implemented for the first two years of the settings period (ie, 2027 and 2028), but that have regulatory constraints limiting their change. The discrepancy adjustment would also account for differences between current regulations and updated estimates of unit requirements in 2026, which also cannot be changed.

The discrepancy adjustment was previously treated as a sub-step within the surplus calculation, and we consider it appropriate to retain it as part of the refined framework.

The Commission no longer includes this step, instead updating all inputs from 2026, holding status quo volumes fixed, and allowing the surplus to absorb any difference between updated inputs and those volumes.

We retain this adjustment in the Government-recommended auction volumes option (option 2) as the surplus is intended to represent a genuine view of stockpile dynamics, rather than a catch-all for changes to inputs such as the cap or technical updates.

Table A1.7 shows the discrepancy adjustment for option 2 across 2027–31.

Table A1.7: Adjustment to unit limits to account for discrepancy adjustment, 2027–31 (million NZUs)

	Year				
	2027	2028	2029	2030	2031
Discrepancy adjustment	0.3	-1.9	1.6	1.6	1.4

Option 3 updates volumes starting in 2027, reducing the need for a significant adjustment. However, an immaterial discrepancy adjustment is required to account for changes in 2026 that cannot be incorporated from 2027 to 2031. The total discrepancy amounts to -0.09 million units across 2027–31.

Step 4: Set the approved overseas unit limit

Currently, no overseas units are approved for use in the ETS. Therefore, the approved overseas unit limit is zero.

Step 5: Determine the range of possible auction volumes

Table A1.8 and table A1.9 set out the calculation of the annual auction volumes, using the above updates for step 5 for 2027–31.²⁹

Table A1.8: Calculation of base auction volumes 2027–31, for option 2 and higher auction volume option (million NZUs)

Step	Current	Unchanged		Updated		New	For visibility				2027–31 total
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	
Option 2: Government-recommended action volumes											
Determine the cap	23.4	21.5	17.6	13.4	11.2	7.0	6.0	5.1	4.0	2.8	70.7
Step 1: Technical adjustments	0.7	0.7	0.0	0.9	0.7	0.5	0.5	0.5	0.5	0.7	2.8
Step 2: Industrial allocation	5.7	5.7	4.1	3.6	3.6	3.5	3.4	3.3	3.2	3.1	20.4
Step 3: Surplus reduction – estimate implied under status quo (option 2)	11.5	10.5	12.1	4.9	3.7	0.0	0.0	0.0	0.0	0.0	31.2
Step 3b: Discrepancy adjustment	0.3	0.3	-1.9	1.6	1.6	1.4	0.0	0.0	0.0	0.0	3.0
Step 4: Approved overseas unit limit	0	0	0	0	0	0	0	0	0	0	0
Step 5: Calculate possible auction volumes (option 2)	5.2	4.3	3.3	2.4	1.7	1.6	2.1	1.3	0.3	-1.0	13.3
Higher auction volumes option (considered but not included for consultation)											
Step 3: Surplus reduction – central estimate (higher auction volume option)	11.5	10.5	12.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.6
Step 5: Calculate possible auction volumes (higher auction volume option)	5.2	4.3	3.3	7.3	5.4	1.6	2.1	1.3	0.3	-1.0	21.9

²⁹ Table A1.8 and table A1.9 show slightly different total auction volumes over 2027–31 as phasing has been excluded during EB2 and EB3. Totals may differ slightly due to rounding.

Table A1.9: Calculation of base auction volumes 2027–31, for option 3 (million NZUs)

Step	Current		Updated			New		For visibility			2027–31 total
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	
Option 3: Lower auction volumes											
Determine the cap	23.4	19.3	16.0	13.4	11.2	7.0	6.0	5.1	4.0	2.8	67.0
Step 1: Technical adjustments	0.7	1.2	1.0	0.9	0.7	0.5	0.5	0.5	0.5	0.7	4.3
Step 2: Industrial allocation	5.7	4.0	3.7	3.6	3.6	3.5	3.4	3.3	3.2	3.1	18.3
Step 3: Surplus reduction – high estimate (option 3)	11.5	11.9	9.8	8.2	6.9	0.0	0.0	0.0	0.0	0.0	36.8
Step 3b: Discrepancy adjustment	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–0.1
Step 4: Approved overseas unit limit	0	0	0	0	0	0	0	0	0	0	0
Step 5: Calculate possible volumes (option 3)	5.2	2.3	1.5	0.7	0.1	3.0	2.1	1.3	0.3	–1.0	7.7

Auction phasing

Due to low and negative auction volumes, particularly in option 3 over EB2 and across all options in EB3, phasing is required to smooth volumes. In option 2, negative and low volumes in late EB3 are redistributed across the remaining EB3 years in proportion to the cap. The Commission incorporates a similar phasing methodology over EB3. One consequence of this adjustment is that 2031 auction volumes are slightly lower than they would be otherwise. In option 3, total volumes over 2027–31 are reallocated across those years based on cap proportions, with remaining EB3 volumes spread across 2032–33 on the same basis. The phased volumes for options 1 to 3 are shown below.

Table A1.10: Phased base auction volumes 2027–31, for options 1 to 3 (million NZUs)

Option	Phased options									
	2027	2028	2029	2030	2031	2032	2033	2034	2035	2027–31 total
Option 1: Commission-recommended auction volumes	4.3	3.3	2.4	1.7	3.0	2.2	1.5	0.7	0.0	14.7
Option 2: Government-recommended auction volumes	4.3	3.3	2.4	1.7	1.3	1.8	1.0	0.0	0.0	13.0
Option 3: Lower auction volumes	2.1	1.8	1.5	1.2	1.1	1.4	1.2	0.0	0.0	7.7

Appendix 2: Aligning criteria with mandatory considerations for settings

The Climate Change Response Act 2002 (CCRA) prescribes mandatory factors the Minister of Climate Change (the Minister) must consider when determining the New Zealand Emissions Trading Scheme (ETS) settings. These factors can also justify settings that do not strictly accord with the emissions targets.

Table A2.1 sets out the mandatory considerations, along with our rationale. Some have been used to derive criteria for comparing proposed options with the status quo (table 1).

Table A2.1: Considerations for determining unit limits and price control settings

Relevant matter in section 30GC of the CCRA	Criteria that reflect this matter
<p>The Minister must be satisfied that the limits and price control settings are in accordance with:</p> <p>(a) the emissions budgets</p> <p>(b) the 2050 target.</p>	<p>We used the criterion ‘Likelihood of incentivising (net) emissions reductions’ (table 1) to assess whether the option increases or decreases the likelihood of meeting the budgets. This recognises a potential range of options that might align with the budgets, but with different risk levels.</p>
Matters the Minister must consider	
Projected trends in greenhouse gas emissions, whether covered by the New Zealand Emissions Trading Scheme (ETS) or not	We considered this when determining the unit limits as an input to emissions in and outside the ETS (determine emissions cap step).
The proper functioning of the ETS	We considered this as the criterion ‘Support for proper functioning of the ETS’ (table 1).
International climate change obligations and contracts New Zealand may have for accessing offshore mitigation from other carbon markets	New Zealand has no current instruments or contracts with other jurisdictions to access emissions reductions in their carbon markets. Officials are currently focused on building capacity in the international carbon market to support options for possible international cooperation in the future.
The forecast availability and cost of ways to reduce emissions that may be needed for New Zealand to meet its targets	This is derived from the policies and measures in the second emissions reduction plan and is considered as part of the determine emissions cap step.
The recommendations by the Climate Change Commission (the Commission) under section 5ZOA of the CCRA	We included the Commission’s recommendations in the options for consultation in this document.
Additional matters the Minister must consider in analysing price control settings	
The impact of emissions prices on households and the economy	We consider this within the criterion ‘Management of overall costs to the economy and households’ (table 1).
The level and trajectory of international emissions prices (including price controls in linked markets)	We considered this in the criterion ‘Support for NZU prices consistent with the level and trajectory of international emissions prices’ (table 1).
Inflation	<p>All price control options have been adjusted for forecast inflation.</p> <p>Inflationary impacts of the NZU price are considered in the criterion ‘Management of overall costs to the economy and households’ (table 1).</p>

Appendix 3: Detailed impacts of options for New Zealand Emissions Trading Scheme settings

Table A3.1 compares how the options are expected to affect different New Zealand emissions trading scheme (ETS) stakeholders, households and the wider economy. Option 1 and option 2 both extend status quo auction volumes and are therefore expected to have minimal impact on NZU prices, compared with the baseline.

Option 3 would tighten auction volumes further and could increase prices, compared with the baseline. However, the exact impact is difficult to quantify as it is dependent on the size of the surplus stockpile and liquidity of the remaining stockpile. Option 3 also comes with a higher risk of undersupply, which could increase volatility, negatively affecting all ETS stakeholders by reducing predictability.

Table A3.1: Estimated Emissions Trading Scheme cost to households (2026 dollars and as percentage of gross income)

Actual/projected NZU price	Modelling scenario broadly consistent with:	Household by income			
		Lowest (decile 1/2)	Average	Highest (decile 9/10)	
Lower price pathway					
At current prices	\$50	Prices constant at current secondary market price. Consistent with a 'no auction' scenario and also consistent with the long-run marginal cost of forestry.	230–280 (0.8%)	450 (0.3%)	640–780 (0.4%)
Mid-range price pathway					
In 2030 at modelled price	\$80	Option 1, option 2 or option 3 with a higher surplus estimate. (The lower end of the range in figure 5.)	340–400 (1.2%)	650 (0.5%)	920–1,130 (0.6%)
Upper price pathway					
In 2030 at modelled price	\$110	Option 3 with a central surplus estimate. (The upper end of the range in figure 5.)	460–540 (1.6%)	890 (0.7%)	1,260–1,540 (0.8%)

Note: The future estimated impacts on households have been scaled by the ratio of modelled gross ETS emissions in 2030 to 2023 levels (the base year for the household impacts modelling). This is to proxy the reduction in household emissions footprints that is expected to occur over time.

Source: Ministry for the Environment modelling

The impacts outlined in table A3.2 are based on the modelling from the ETS market model, using the Ministry for the Environment's central surplus estimate. However, there may be further price changes based on impacts on market confidence, as explained in [Impacts on the economy and households](#). Because there is limited quantitative data available on ETS impacts on the economy and households, many of the impacts below are based on qualitative assumptions.

Based on the central estimates, under option 1 and option 2, prices are modelled at around \$80 in 2030, before gradually declining to around \$50 (around the long-run marginal cost of forestry). Option 3 follows a similar path but could reach around \$110 in 2030.

Table A3.2: Estimated impacts of each option on different groups

Affected group	Options 1 and 2: Status quo volumes	Option 3: Lower auction volumes
Land owners (eg foresters and farmers), including Māori	<p>Returns for foresters may increase as the NZU price increases over the period.</p> <p>Similarly, the costs of deforestation may increase, including for pre-1990 forests. Incentives to replace exotics with native plantings are also reduced in the medium term.</p> <p>Higher returns on forestry land may incentivise afforestation. The long-term increase in availability of units through forestry will put downward pressure on future NZU prices in the longer term.</p> <p>May increase forestry incentives for other purposes, such as erosion control (more than 60% of whenua Māori is in high, steep and hilly country, making it highly susceptible to intense storm events and erosion.)³⁰</p>	<p>Higher NZU prices compared with the status quo, meaning greater incentives and returns on forestry land. Higher cost of deforestation than with option 1 and option 2.</p> <p>Downward price pressure similar to option 1 and option 2 in the longer term.</p>
Emitting firms subject to ETS obligations	<p>Higher NZU prices incentivise firms to transition to lower emissions production and reduce gross emissions.</p> <p>The cost for firms to meet surrender obligations may increase over the period. This may be mitigated by the extent to which:</p> <ul style="list-style-type: none"> • firms invest in transitioning to lower emissions alternatives • firms have hedged their forward obligations. <p>These additional costs can be passed on to households (see 'Households' row below).</p>	<p>Marginally stronger incentive for firms to decarbonise than with option 1 and option 2.</p> <p>Costs for firms to meet surrender obligations are likely higher than the status quo. However, this depends on the extent to which firms can act now to mitigate this cost.</p>
Other ETS participants, including Māori businesses that rely on NZU earnings	<p>Out to 2031, NZU prices are modelled to increase the financial value of stockpiled units, both those held for hedging and the liquid stockpile.</p>	<p>A larger price increase than with option 1 and option 2 means a larger increase in the value of stockpiled units.</p>
Households, including Māori households and whānau (see also table A3.1)	<p>Under option 1 and option 2, annual costs for lower income households are projected to increase from today's price range of \$230 to \$280 to \$340 \$400 by 2030.</p> <p>Households may also be affected via the labour market. Businesses may adjust the type or number of jobs they offer in response to cost changes.</p>	<p>Under option 3, annual costs for lower income households are projected to increase from today's price range of \$230 to \$280 to \$460 to \$540 by 2030.</p> <p>As with option 1 and option 2, households may also be affected via the labour market, but to a marginally larger extent. Impacts are also disproportionate for lower income</p>

³⁰ Manaaki Whenua – Landcare Research Group. 2026. *He Ngahere, He Korowai: Resilient land use strategies for whenua Māori*. Accessed 8 May 2026.

Affected group	Options 1 and 2: Status quo volumes	Option 3: Lower auction volumes
	<p>Rising prices have a disproportionate impact. Lower income households and single-adult households, such as sole-parent families, bear the largest relative impacts. Māori households are over-represented in lower income households, meaning, on average, they are relatively more affected by ETS price increases.</p> <p>Given Māori make up a large portion of the forestry workforce and higher emitting sectors (eg, 10% of the Māori workforce are in the manufacturing sector³¹), higher prices can have impacts that are both positive (ie, increase forestry jobs) or negative (ie, decrease jobs in higher emitting sectors).</p>	<p>households, of which a higher proportion are Māori.</p>
Wider economy	<p>Higher prices for household items cause a moderate reduction in disposable income for low-income households, which may impact on the wider economy.</p> <p>Forestry plays a large role in the wider Māori economy. The increase in value of NZUs now and in the future impacts on businesses' asset base and capacity as an employer.</p> <p>Relatively higher ETS prices are likely to marginally increase inflationary pressures. However, we judge this highly unlikely to influence the trajectory of monetary policy.</p>	<p>The same as option 1 and option 2, but effects may be marginally larger.</p>

³¹ Hillmare S, Reid A, Dixon H, McIndoe C, Wiradika S. 2024. *Te Ōhanga Māori 2023: The Māori Economy 2023*. Wellington: BERL.