

# The New Zealand Emissions Trading Scheme: Considerations for Linking

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Side event on "Linking of national and regional emissions trading systems"

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## A brief history of the NZ ETS

- Developed after the government decided not to proceed with a broad-based carbon tax in 2005
- Entered into law in September 2008
- After the November 2009 election, the government called for an ETS Review by a Parliamentary select committee
- The ETS Review is nearing conclusion and the government will consider the need to amend the scheme
- The government has expressed its preference for emissions trading



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## Key design features (current form)

- Covers all sectors and gases; staged entry
  - Forestry (both deforestation and afforestation)
  - Stationary energy and industrial processes
  - Liquid fossil fuels
  - Agriculture, synthetic gases and waste
- Upstream point of obligation where possible; not yet decided in the agriculture sector
- Binding non-compliance measures: “make good” plus financial penalty for failure to surrender units



## Key design features (current form)

- Primary domestic unit is an NZU (backed by a Kyoto unit)
- Operates under the Kyoto cap with buy-and-sell linkage to Kyoto markets
  - No limits on imports of CERs, ERUs and RMUs
    - Not allowed: tCERs, ICERs or units from nuclear projects
  - Imports of AAUs could be enabled by future regulation
  - NZUs can be exchanged for NZ AAUs for overseas transfer; no limits on exports
- No price cap or price floor
- No limits on banking units



## Perspectives on linking

- Linking does not require full harmonisation of design features
  - Key is being able to compare the value of units – best supported by conformity with international rules
  - Important to align rules on imports, exports, banking and price control
  - Do not need the same sectoral coverage, allocation, MRV, non-compliance penalties, etc.
- Linking is vital to the NZ ETS
  - Supports liquidity in a small market
  - Ensures NZ firms pay the international price of carbon
- NZ ETS rules are designed to permit linking
  - Already linked to other schemes indirectly via Kyoto markets
  - Bilateral linking enabled via mutual recognition of emission units



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## Linking with other schemes

- NZ ETS and Australian CPRS
  - Prime Ministerial statement on desirability of harmonisation (March 2009)
  - Trans-Tasman Officials Group is assessing a range of options
  - Potential benefits: increased liquidity, reduced transaction costs, competitiveness considerations
  - No decisions taken yet
- Other bilateral linkages
  - New Zealand welcomes exploration of opportunities for linking to other domestic trading schemes that are consistent with international rules



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## For more information:

- New Zealand's climate change website:  
[www.climatechange.govt.nz](http://www.climatechange.govt.nz)
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