

# NZ ETS Review: Reduce emissions not just offset

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## Contact

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## ETS Review: reduce emissions not just offset

The Ministry for the Environment has announced the [Emissions Trading Scheme \(ETS\) will be reviewed](#) to assess what changes are required to encourage emitters of CO<sub>2</sub> to reduce their emissions rather than simply offsetting pollution by planting trees.

This review will be welcomed by many who feel the current system simply incentivises land to be planted in exotic trees rather than tackling the underlying issue of pollution. There are also concerns that native plantings are not sufficiently incentivised under the current system.

The review does make it clear that trees will continue to play an important role in emissions reductions but that there also needs to be greater efforts to reduce emissions.

Cabinet papers released outline further details of the review.

- [Emissions reduction plan: Completion and launch of the first plan](#)
- [Review of the New Zealand Emissions Trading Scheme](#)

The cabinet papers refer to the need for additional policy tools to support the ETS. Their analysis also shows that under present settings investment capital is highly incentivised to move towards net removals (ie investment in forestry) rather than gross reductions. They also noted that emissions reduction opportunities in the transport, industrial processes, and waste sectors are often less responsive to carbon pricing and may not be able to be scaled as easily as exotic afforestation investments.

Under current ETS setting it is expected that between 410,000 – 670,000 ha of land would be converted to forestry by 2035. That is approximately 2,000 farms converted to forestry resulting in a 20-30% increase in the area currently planted in exotic forests.

The review of the ETS will consider unit supply settings, including industrial allocation, the current stockpile of units, rates of afforestation and deforestation, and the number of units being auctioned, to assess what changes may be necessary to:

- drive an appropriate balance of net and gross emission reductions over time, including additional sources of emission removals;
- further support indigenous biodiversity; and
- support achieving the Nationally Determined Contribution (NDC) to reduce emissions by 50% below 2005 levels by 2030.

At this stage no specific solutions have been proposed but ideas previously raised include limiting the proportion of emissions that can be offset by exotic forestry, and considering ways to address the imbalance in incentives between exotic and native forestry.

The review is likely to deliver some significant policy changes. Whilst the review is being undertaken we are likely to see significant disruption in the existing carbon markets and markets for real estate that may have been destined for afforestation.

Last week the [quarterly auction of New Zealand Units \(NZUs\)](#) failed to clear, and prices for NZU's (also referred to as carbon credits) have been trending down since December.



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