

NZ ETS Review: Public consultation on options

19 June 2023



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ETS Review: public consultation on options

The Ministry for the Environment has [opened public consultation](#) on changes to its Emissions Trading Scheme (ETS). The aim is to revise the scheme so there is a greater incentive to reduce CO₂ emissions rather than just offset them.

The proposed changes all aim to raise the price of carbon emissions, thereby further incentivising polluters to find ways to cut their emissions.

Private consultation on changes has been underway since March 2023. Since the [review was announced](#) there has been limited trading in carbon markets, likely related to the uncertainty around potential policy changes.

Today the Ministry for Environment (MfE) outlined four proposed options for the public to consider. Two are focused on raising the carbon price, while two would (also) essentially separate the pricing mechanisms for reducing carbon emissions and offsetting them.

- **Option 1: Decrease the amount of units so that the carbon price rises.** This would effectively keep the existing ETS settings, but would reduce the supply of New Zealand Units (NZUs) that are released to the market by the government each quarter. This option may result in additional planting of forests, as the financial incentive to do so increases further.
- **Option 2: Increase the demand for emissions units by allowing the government and/or overseas buyers to purchase them.** This option seems unlikely to be utilised as
 - it is not expected to significantly change the status quo,
 - demand from offshore is unknown,
 - there is no current process for selling units overseas, and
 - the Climate Change Commission does not see it as viable.
- **Option 3: Place restrictions or conditions on removal activities.** This would effectively create two prices: one for emissions reduction activities, and another (lower) price for removal activities (ie tree planting). This could potentially result in fewer trees being planted than desired unless alternative policy support for tree planting is implemented.
- **Option 4: Make emitters unable to purchase units from foresters to pay for their emissions.** This would effectively remove forestry from the ETS, making NZ's emissions trading scheme more closely resemble ETS schemes operating in other countries. Reward for emissions removals (ie tree planting) would potentially happen outside of the ETS, or in a separate ETS. This would mean the government would have more control over the number of units in circulation and could tweak the incentives for tree planting by adjusting the price paid for carbon-removal activities.

The following Cabinet papers relating to this review were released earlier this year.

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

Under current ETS setting it is expected that 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 proposed options aim to refine the ETS so that it becomes a more effective tool for reducing emissions. A [summary](#) and a [full consultation](#) document have been released.

Until it becomes clear exactly what policy changes will occur, we expect ongoing disruption in the carbon markets. No unit were traded at the government auctions that occurred in March and June.

The review will be open for public consultation until 11 August 2023.



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Last updated: 18 April 2023

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