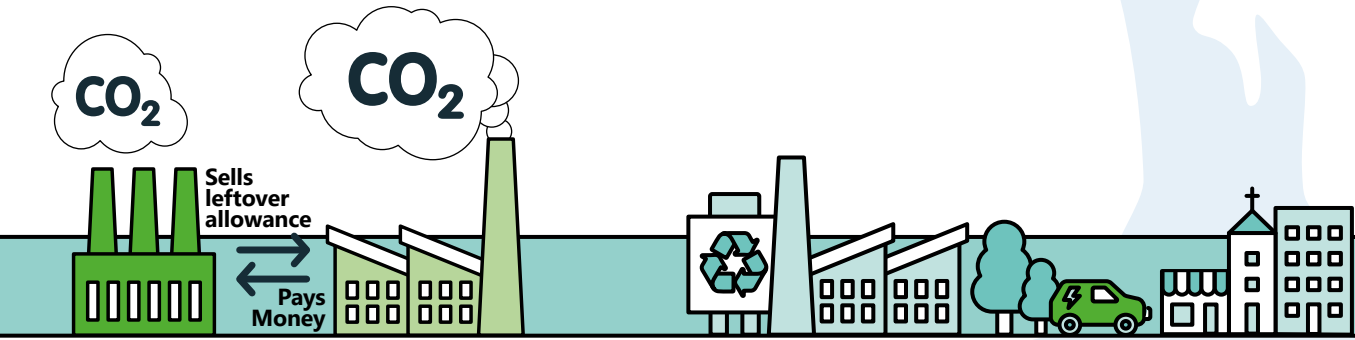


New Zealand Emissions Trading Scheme Policy Case Studies

Rethinking
Decarbonisation
Incentives

The New Zealand Emissions Trading Scheme (ETS) was implemented in 2008 as the government's principal policy response to climate change.



Policy Type: Emissions Trading System

Key Features

New Zealand is one of the few countries that has seriously considered including agriculture, but ultimately decided to exclude the sector. The ETS employs a one-for-two surrender obligation for all sectors except forestry, effectively halving the carbon price, which is currently being phased out. An opt-in system is available to larger consumers of fuel to voluntarily participate in the ETS. GHG emissions covered: CO₂, CH₄, N₂O, SF₆, HFCs and PCFs.



Point of Regulation

Mixed Approach. Both upstream on the fuel suppliers and at the point of emissions for forestry and industrial process emissions.

¹ Exchange rate June 2018: 1 NZD: £0.511347. Source: www.xe.com, accessed 02/07/2018.

Sectors Covered

Power, Industry, Transport, Buildings, Forestry, Waste.

Sectors Not Covered

Agriculture.

Emissions Covered

49%

Carbon Price

NZ \$20.45

/tCO₂e in
June 2018
(~£10.46)¹

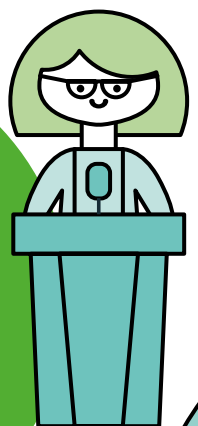


Key Dates

The New Zealand ETS was implemented in 2008 with an amendment in 2009 and two independent reviews in 2011 and 2015.

"Politicians tend to worry about managing upside price risk, but managing downside price risk is very important too, as New Zealand has shown."

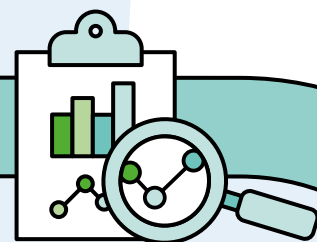
Catherine Leining,
Policy Fellow, Motu Economic
and Public Policy Research



Introduction

The New Zealand Emissions Trading Scheme (ETS) was implemented in 2008 by the Ministry for the Environment as the government's principal policy response to climate change. New Zealand's design for the ETS was mostly based on the requirements of the country's commitment under the Kyoto Protocol. Following these principles, it initially aimed to cover all sectors and all greenhouse gases (GHGs) and to be fully integrated with other international carbon markets. Linking to international markets initially provided access to a wider range of abatement options by purchasing international offsets and allowances.

However, a number of challenges led to changes in the design of the ETS, including pressure to exclude certain sectors from the ETS scope. The 2008 economic crisis led to a decline in the demand for emission allowances internationally, creating oversupply in international Kyoto markets, and a collapse of the carbon price. New Zealand's linkage to these markets meant that domestic prices also collapsed, as international units were being used preferentially to domestic units (New Zealand Units), and domestic units were being banked for future phases, post 2015. This has caused enduring low prices in the New Zealand ETS.



Key Findings

ETS Design

- The New Zealand ETS uses a mixed approach for the point of regulation. The energy sector is regulated upstream to ensure broad emissions coverage while keeping administrative costs down. The forestry sector is regulated at the point of emissions to ensure the right economic incentives are provided to forest owners to reduce deforestation.
- To mitigate concerns that the ETS would harm the competitiveness of trade-exposed industries, the government provides free allocation to industries that are carbon-intensive and have high levels of international trade.

Addressing Low Prices

- In 2013 the government announced that the New Zealand ETS would be completely decoupled from the Kyoto mechanism by 2015. This followed the collapse in domestic ETS prices which resulted from the collapse of prices in the international markets to which they were linked.
- An independent committee was established with responsibility to manage the supply of allowances to ensure a strong price signal. The Climate Committee undertakes regular reviews and aims to ensure price signals that can endure through political cycles.

- The government also introduced a new regulatory mechanism to allow it to adjust the supply of allowances and the ETS design at any time. Within this mechanism, the government is required to determine the supply of allowances for every subsequent five years. This is so that participants can have insight into future changes and have time to adapt. The government has thus tried to find a balance between giving policy certainty to investors while retaining some flexibility to adapt to long term economic changes.

Exclusion of Agriculture Sector

- New Zealand is one of the few countries that has seriously considered including agriculture, but ultimately decided not to do so. Reasons the government have cited to exclude agriculture from the ETS include the fear that it would lead to a movement of dairy production from New Zealand to other countries.
- Other reasons include the lack of data on emissions in the agriculture sector.
- The experience in New Zealand shows that agriculture is more difficult to include in carbon pricing instruments than sectors such as industry or power generation.



Definitions

Offsetting

A cap on emissions is set and obligated parties are required to hold a permit for each tonne of emissions they emit. The cap determines the number of allowances available in the system, which can be traded between parties.

Emissions Trading System

A reduction in emissions of greenhouse gases made in order to compensate for or to offset an emission made elsewhere.

Point of Regulation

The point in a chain of emission producing activities at which a regulator places the obligation to comply with emission reduction policy. The point is defined relative to the point of emission, either up or downstream from this.