# MuchIsToBeDone

## What do the New Zealand government's proposed changes to its emissions trading scheme mean for the country's businesses?

**Words: John Carnegie**

The New Zealand government released on 11 April its long-awaited consultation paper on proposed changes to the country's emissions trading scheme (NZ ETS).

The proposals have their origins in the first review of the ETS undertaken last year, as well as a desire to reflect recent developments in the UN climate change talks – mainly new forestry rules and the transition to a post-Kyoto Protocol global arrangement. Maintaining the option to link with Australia's trading scheme has also been influential.

The paper contains few surprises, having either been signalled by the ETS Review Panel, the National Party in its 2011 pre-election manifesto, or earlier government announcements.

Of primary interest was what the government was going to do with the scheme's two "moderating" features: a price cap of NZ$25 (US$20) a tonne of carbon dioxide ($CO_2$); and a progressive obligation, whereby emitters had only to surrender one unit for every two tonnes of $CO_2$ emitted.

Both will expire on 31 December under the legislation unless the Act is amended. The government proposes:

- to phase out the one:two unit discount from 2013 to 2015 (2012=50%, 2013=67%, 2014=83% and 2015=100%); and
- to maintain the NZ$25/t fixed-price option until at least 2015.

A second tranche of changes aim to provide the government with the flexibility to adapt to changing international circumstances. In particular, the uncertainty about the timing and nature of the post-Kyoto regime, and the availability of international credits beyond 2012. They include a power to:

- cap the use of international units used to meet obligations;
- enable auctioning of NZ units (NZUs) within an overall domestic cap as opposed to under a Kyoto cap. This is to help to reduce the use of international units and to alleviate the risk of over-shooting the target; and
- extend the fixed price beyond 2015 and align it with any price ceiling in Australia, if New Zealand links with its neighbour's scheme, but no talk of a price floor.

A third tranche reflect the importance of land-based activities to New Zealand. They are:

- to allow "offsetting" of deforestation on pre-1990 forest land – replanting a similar sized forest on a different block. This was one of the forestry gains negotiated at Durban's UN climate conference;
- in light of the "offsetting" proposal, review the number of NZUs to be provided to owners of pre-1990 forest for the loss of land value; and
- a review of agriculture in the NZ ETS – to report in 2014 – and a power to delay the entry of the sector into the scheme for up to three years, if certain criteria (technologies available to reduce emissions and international competitors taking sufficient action) are not met.

These changes are fairly orthodox and look to bring the design of the NZ ETS more into line with the EU ETS and Australia. However, they reflect a substantial shift in approach for New Zealand.

Unfettered access to international units has been a cornerstone of the NZ ETS since 2008. It was consistent with the treatment of the country's emission reduction target as a "responsibility" target that could be met by either domestic or international action. The indifference to emission reduction source was consistent with the scheme's "least cost" compliance objective.

It was widely recognised that New Zealand's emission profile – dominated by agriculture – resulted in a steeply rising abatement cost curve that would impose too high an economic price for limited domestic environmental benefit. In recognition of this, the ETS Review Panel only nine months ago decided not to recommend a domestic emissions cap or a limit on international units.

Other than the alterations to the two moderating features – whose impact will cost business and consumers more than currently – the effects of the changes are hard to determine.

The NZ ETS will remain benchmarked against the price of Certified Emission Reductions from the UN's Clean Development Mechanism. But, as many of the changes provide this or a future government with options, even if not exercised, the uncertainty this regulatory flexibility creates will drive compliance buyers towards the purchase of higher-priced NZUs. This is happening and comes at a cost.

The consultation process is underway and much is to be done before a final package emerges. Business will rely on earlier commitments from government that it will not place a burden on industry disproportionate to the costs faced by our trading partners or excessive at a time of global economic weakness. ●

John Carnegie is the energy, environment and infrastructure manager at Business NZ, New Zealand's leading industry representative organisation

**E** jcarnegie@businessnz.org.nz