New Zealand's Emissions Trading Scheme

Foreword from Phil O'Reilly, CEO Business NZ: This is a brief overview of the key aspects of New Zealand's revised emissions trading scheme (NZ ETS).

Our full user-guide to the Climate Change Response Act 2002 is available on www.businessnz.org.nz, under the menu tab 'Environment, Transport, Local Government & Energy'.

The revised NZ ETS became law in December 2009. The NZ ETS will affect different businesses in different ways. Some will have a legal obligation to hold units to cover their emissions. Most will feel it as a rise in energy prices – such as electricity and fuel – passed on by suppliers who are directly affected by a price of carbon.

This guide is intended for those businesses at the start of their journey to adapting to a price of carbon. This journey will vary by business but every business will need to develop strategies to address new costs, risks and opportunities. Understanding aspects such as what businesses are participants, business eligibility for free allocation of New Zealand units ('NZUs), applying for free allocation and the 2011 review, are important to the development of such strategies.

Introduction

The NZ ETS is established under the Climate Change Response Act 2002. Its purpose is to help New Zealand meet its international obligations under the United Nations Convention on Climate Change and the Kyoto Protocol to reduce greenhouse gas emissions.

All sectors of the New Zealand economy are affected by the NZ ETS. It will lead to an increase in the price of inputs such as electricity, natural gas, coal, petrol and diesel, with the aim of reducing emissions. From 1 July 2010 most companies will feel the financial effects of the NZ ETS.

What is an ETS?

Emissions trading is a market-based approach to reduce greenhouse gases. Emission units are traded between participants in the scheme who need them to cover their legal obligations and those who have surplus units. The trading of units enables participants who are unable to reduce their own emissions to source units from those who can, allowing for compliance to be achieved at the lowest possible cost. Broad sector coverage facilitates discovery of the lowest cost sources of emission reductions.

NZ ETS Core Features

Sector entry

- Sectors/participants are transitioned into the NZ ETS over the period from 2008 to 2015.

- The forestry sector has been included since 2008. Other sectors are being phased in between now and 2015 as follows:

Sector	Voluntary Reporting	Mandatory Reporting	Full obligations
Forestry	-	-	1 January 2008
Liquid fossil fuels	-	1 January 2010	1 July 2010
Stationery energy	-	1 January 2010	1 July 2010
Industrial processes	-	1 January 2010	1 July 2010
Waste and synthetic gases	1 January 2011	1 January 2012	1 July 2013
Agriculture	1 January 2011	1 January 2012	1 July 2015

Participants

- Businesses need to work out whether they are participants - check Schedules 3 and 4 of the Climate Change Response Act 2002 (amended) at www.legislation.govt.nz.

- NZ ETS participants are legally responsible for paying the price of carbon and have an obligation to surrender emissions units to the Government to cover their greenhouse gas emissions. Generally speaking, only a small number of companies will be mandatory participants.

- As well as those who must participate in the scheme, some businesses (subject to meeting certain thresholds) can 'opt-in' to the scheme and take on the legal obligation to surrender units.

- Some participants may earn emissions units for carbon dioxide removed from the atmosphere by their activity, or for greenhouse gases not emitted. These activities are called “removal activities”.

Transitional Assistance

- During the period from 1 July 2010 to 31 December 2012, participants in the transport, stationary energy and industrial processes sectors need only surrender one emissions unit for every two tonnes of emissions resulting from their activities. This ‘progressive obligation’ represents a 50% obligation in the transitional period before 2013.

- During this transitional period, participants will also be able to buy units from the Government at a fixed price of \$25/t CO_2-e. Combined with the 50% obligation, this means that businesses will face a maximum effective price of \$12.50.

Emissions units or units of trade

- Participants who do not receive emissions units, or who have higher emissions than the number of emissions units they receive, will need to buy emissions units from those who hold a surplus to surrender to the Government. In this sense, emissions units can be seen as the “currency” that is traded in the NZ ETS.

- Financial institutions or brokers, such as the New Zealand Carbon Exchange and OMFinancial, are also able to hold and trade emissions units.

Free allocation

- Eligibility for an allocation of free units is not dependent on whether your business is a direct participant in the scheme. For example, gas and coal miners are direct participants and must account for their emissions, but do not receive free units.

- You may be eligible for free units even if your business is not a direct participant in the scheme. Check our full ‘User Guide to the Climate Change Response Act 2002’ on www.businessnz.org.nz under the menu tab ‘Environment, Transport, Local Government & Energy’. If you’re still unsure, go to www.climatechange.govt.nz – click on ‘industrial allocation’.

- Free units are available to businesses that produce outputs that are deemed to be ‘trade-exposed’ (i.e. compete with goods and services produced offshore) and carbon-intensive (i.e. reach certain levels of emissions per \$m revenue). If an activity is deemed to be eligible, all businesses – big or small – undertaking the activity, having submitted data in the determination of eligibility, automatically qualify for free units.

- High energy-intensive, trade-exposed businesses that are low carbon-intensive, (such as iron casters, saw mills and food processors) are expected to be ineligible for free units.

International Links

- Businesses with surrender obligations are able to source Kyoto-compliant units from offshore. This will place downward pressure on the cost of NZUs.

- While there is a price cap, New Zealand businesses (with the exception of forest owners) are banned from exporting NZUs.

What it means for business

Businesses need to plan ahead now and make energy efficiency and emissions minimisation part of their long-term business strategy. For non-participants, this would include actions such as reviewing suppliers and comparing what price changes are planned.

The journey towards a low carbon economy is in line with the growing consumer demand around the world for low-carbon goods and services. Regardless of the outcomes of the Copenhagen summit and regardless of who takes part in emissions trading, there is an important issue for business to consider – the growing change in consumer preferences.

The 2011 Review

The Act includes a requirement to periodically review the scheme. The first review is required to be completed within 12 months of the expiry of the first commitment period (i.e. before the end of 2011). All businesses will have an opportunity to participate in this review.

For further information on the NZ ETS, you can contact John Carnegie, Business NZ’s Manager for Energy, Environment and Infrastructure (JCarnegie@businessnz.org.nz).