

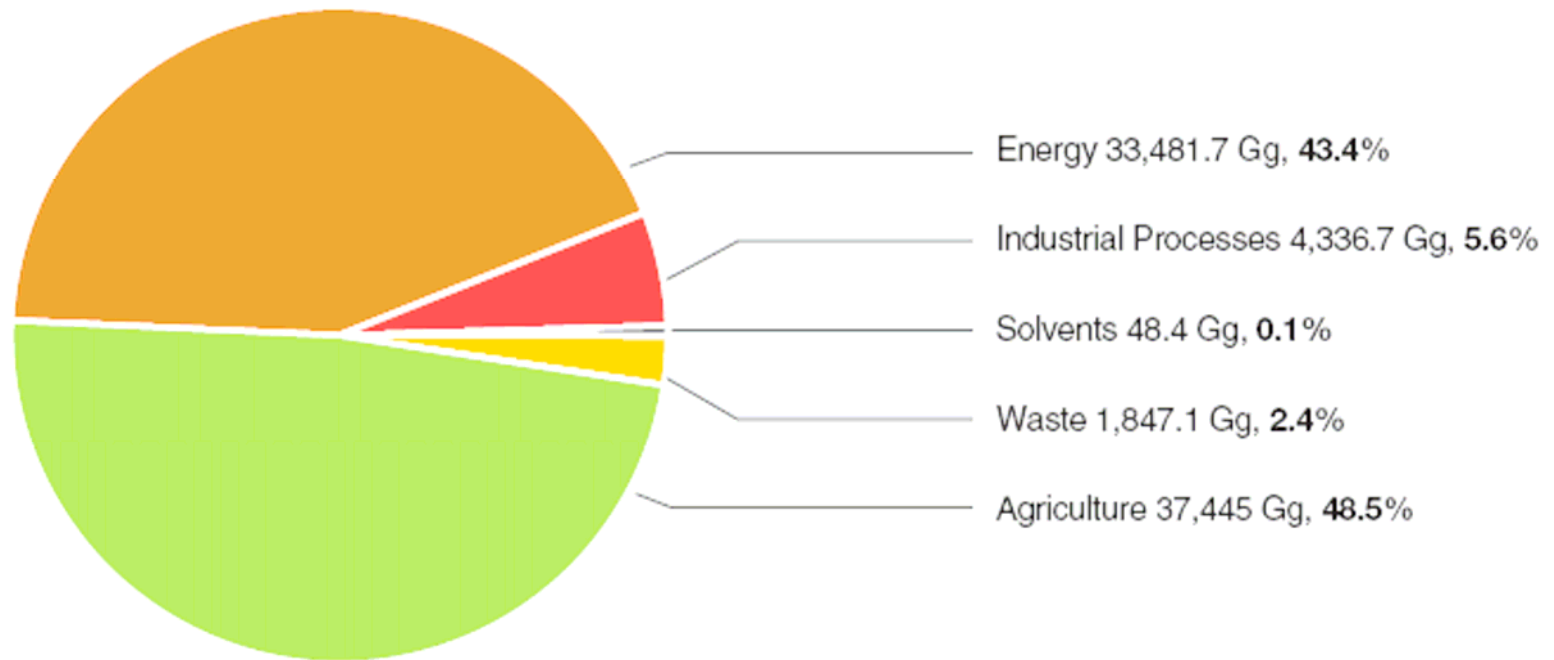
# The NZ ETS - An “all sectors & all gases” approach



# NZ ETS design reflects our international position

- New Zealand has long advocated:
  - Quantified emission reduction commitments
  - Least cost approaches
  - Broad coverage of gases and sectors
- Domestic design of NZ ETS incorporates these principles

# Current greenhouse gas emissions by sector





# Strategic issues and challenges for NZ

- **How can a small country like NZ make a difference?** – Focus our efforts within the context of effective global action
- **Unique emissions profile** – all sectors all gases
- **For major emitting sectors there are limited low cost abatement opportunities** - need for a least cost approach that utilises the Kyoto mechanisms

# Objective of the NZ ETS

**To support and encourage global efforts to reduce GHG emissions by:**

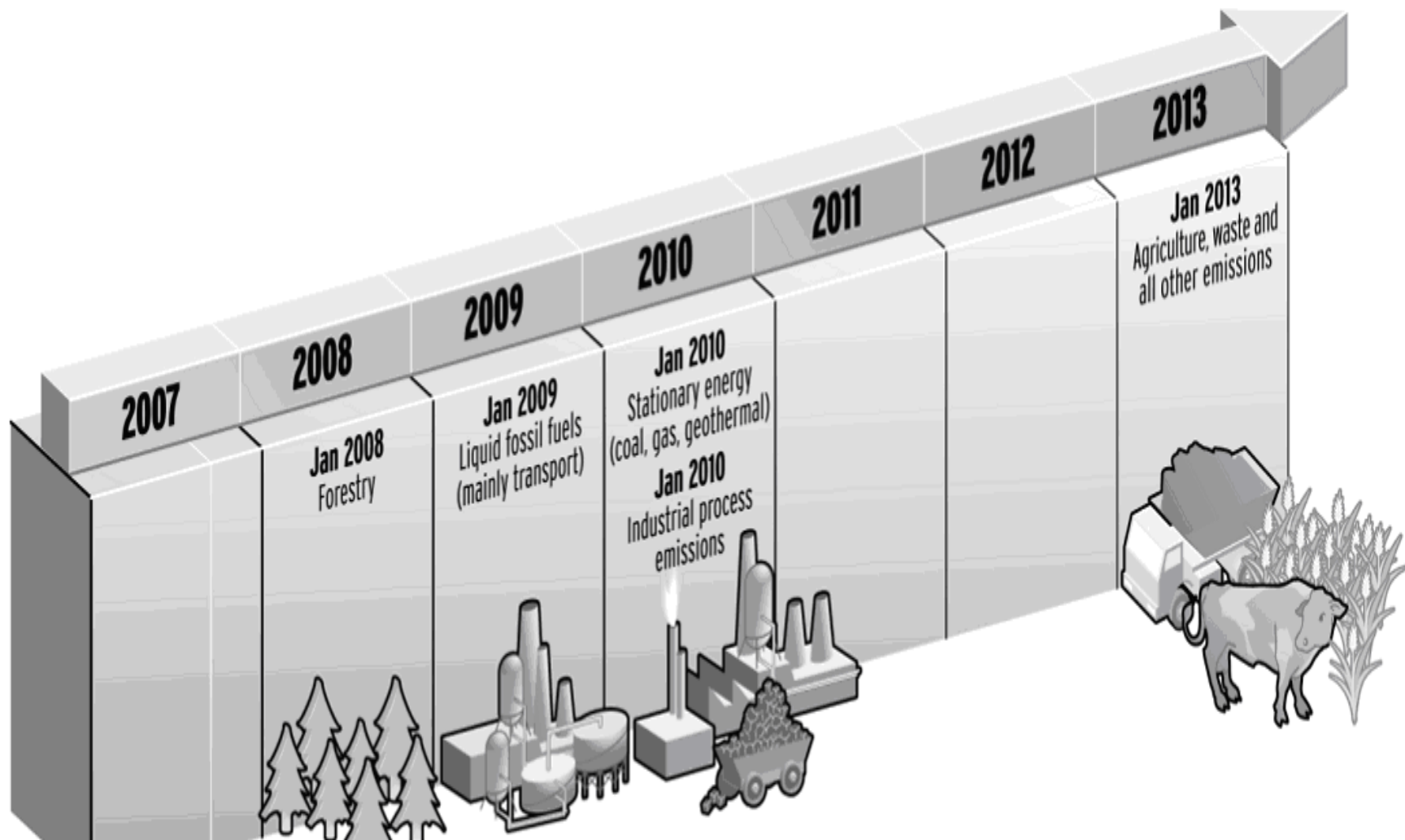
- Reducing New Zealand's net emissions below business as usual levels and
- Complying with our international obligations including our Kyoto Protocol obligations:

**While maintaining economic flexibility, equity and environmental integrity at least cost**

# Key design features of the NZ ETS

1. Cap and trade
2. Kyoto compliant
3. Kyoto units (e.g. CERS, ERUs) can be used for compliance with minimal restrictions
4. All sectors and all gases by 2013
5. Point of obligation mix of upstream and mid stream
6. No free allocation for those who can pass costs on

# Timeline for implementation





# Impacts/effects of the ETS

- As of April 2007 NZ faced a projected liability for CP1 of 45.5 million units
- Implementation of the ETS is expected to approximately ½ this liability
  - In part by devolving the liability from tax payer to emitter
  - In part by reducing emissions
- Electricity and transport fuel prices will increase
- Free allocation of units to trade exposed sectors during CP1 will partially mitigate some of these cost increases

# International linkages

The NZ ETS will be relatively small (especially as it is predominantly an upstream model)

Linking to the international market is therefore essential to ensure:

- liquidity
- Alignment of the price of units in the NZ market with international prices

# Importance of the Kyoto mechanisms

- The Kyoto mechanisms provide the means to link the NZ ETS to the global market
- Participants in the NZ ETS have a strong interest to ensure that Kyoto mechanisms continue to provide a stable supply of high quality units post 2012

# Importance of the Kyoto Mechanisms(2)

- Bilateral linking (e.g. with Australia, the EU ETS and other emerging schemes) may be an important option in the future
- The first-best option is to ensure an efficient, transparent, global carbon market, converging around a single price of carbon

# Progress with implementation

- 1) Legislation is before Parliament
- 2) Expect bill to become law by mid 2008

# Key concerns of stakeholders

- NZ economy to be fully exposed to a new, uncertain carbon market – concerns about price levels and volatility
- Trade exposed sectors exposed to price of carbon ahead of major trade competitors – risk for leakage
- Concern about future of global carbon market post 2012
- Want to know that NZ efforts are environmentally effective, and that they contribute to an effective global effort

# Conclusion

To be successful an ETS must:

- Be consistent with international obligations
- Drive behaviour change
- Be equitable across sectors
- Maintain environmental integrity
- Be linked to international carbon markets
- Not provide free allocation to firms that can pass on costs
- Remain adaptable to future changes in international agreements

## Further information

- All documents are available from [www.climatechange.govt.nz](http://www.climatechange.govt.nz)
- For discussion on the presentation:  
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