

New Zealand Emissions Trading Scheme – scope and coverage

ICAP-PMI Training Course for East Asia and Pacific October 2023



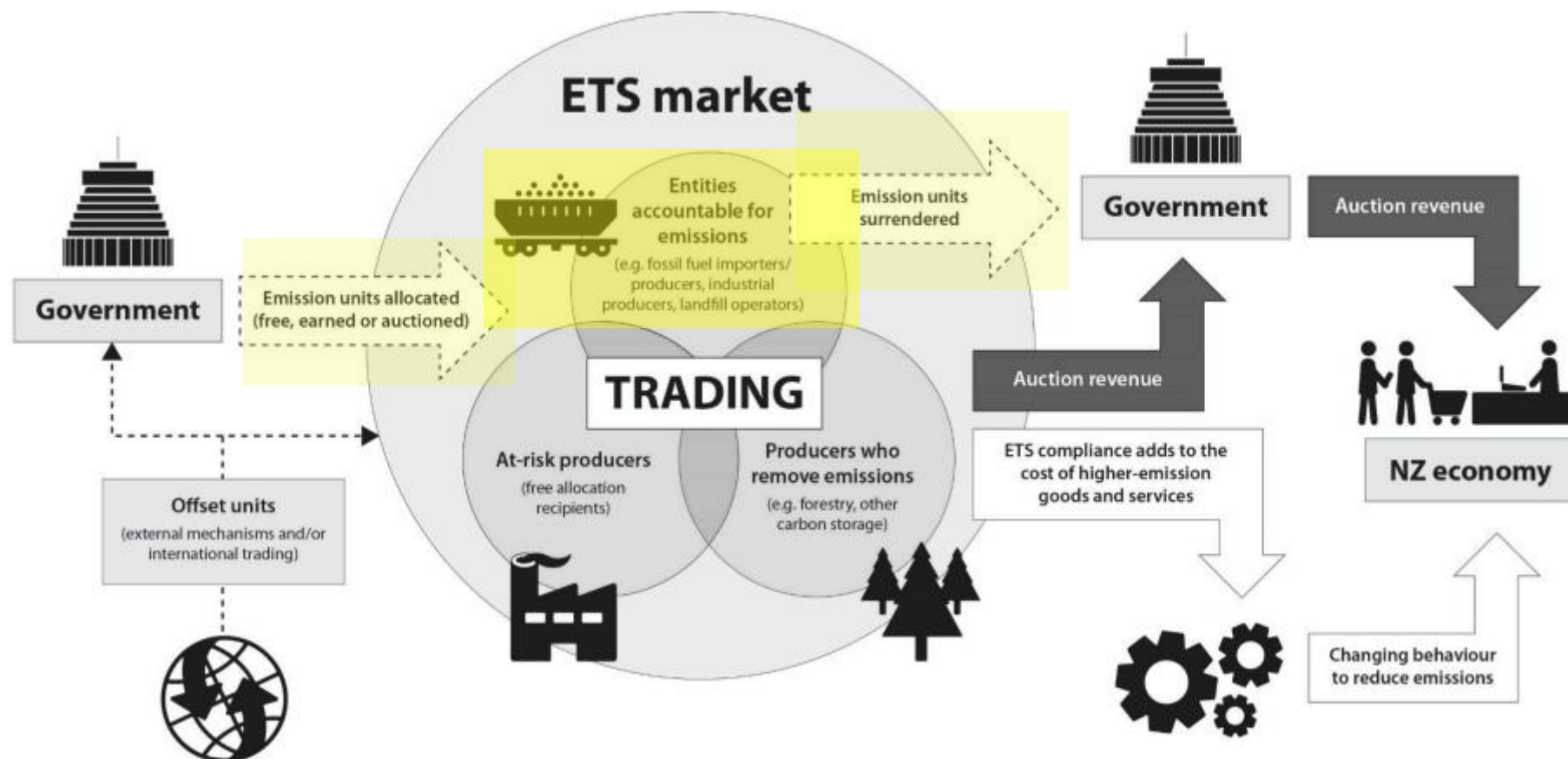
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Outline of presentation

- The NZ ETS market
- NZ's emissions profile
- Principles used for decisions
- Emissions pricing initial design
- Current scope and coverage – examples
- Conclusion



The NZ ETS Market in 2023



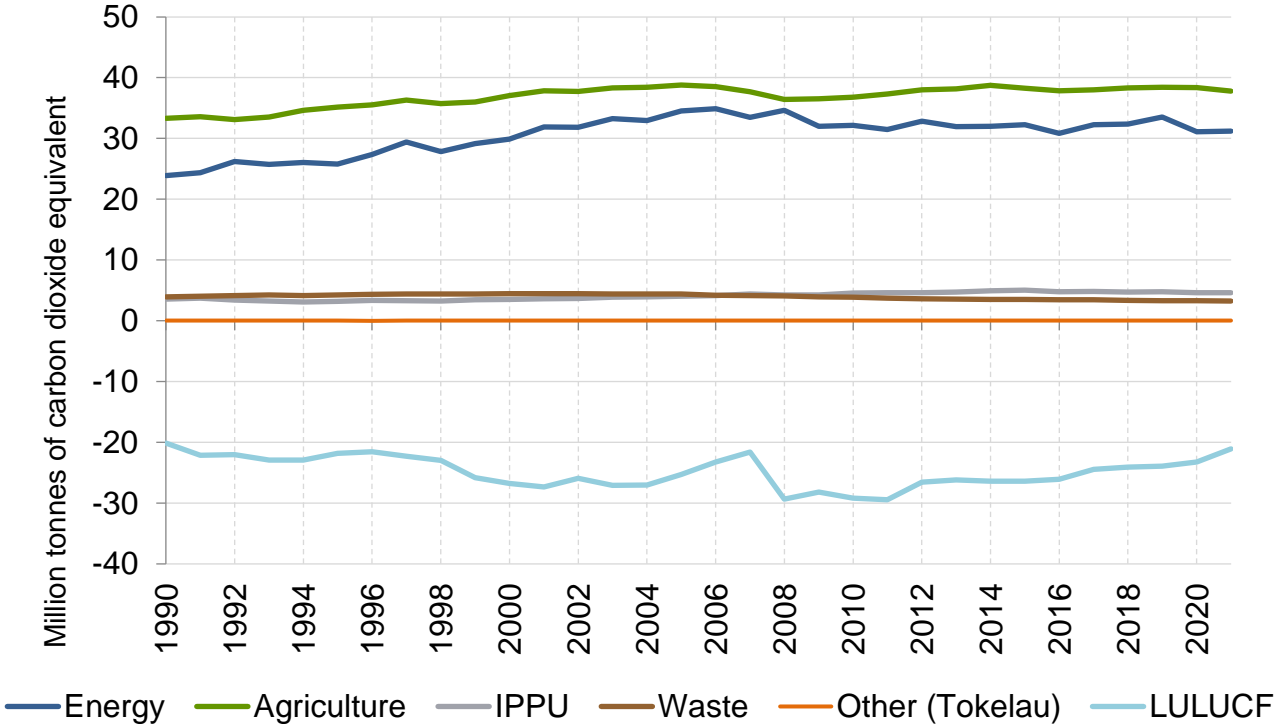
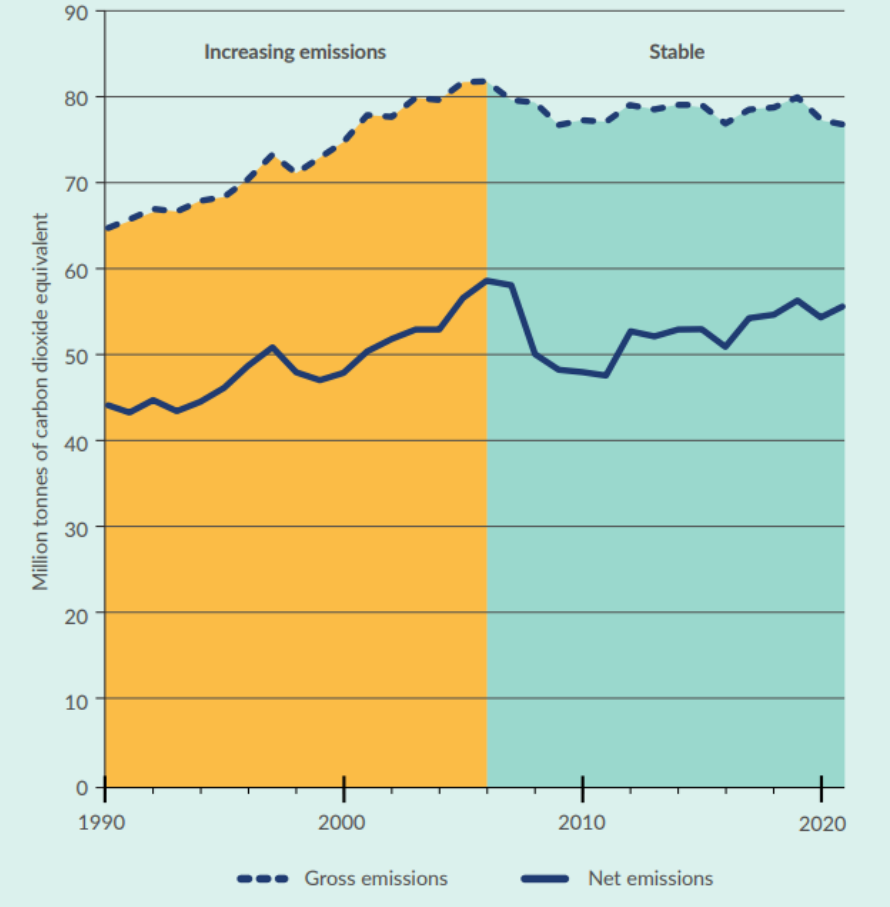
Source: Motu (2022); A Guide to the New Zealand Emissions Trading Scheme: 2022 Update

Gross and net greenhouse gas emissions trends

1990-2021



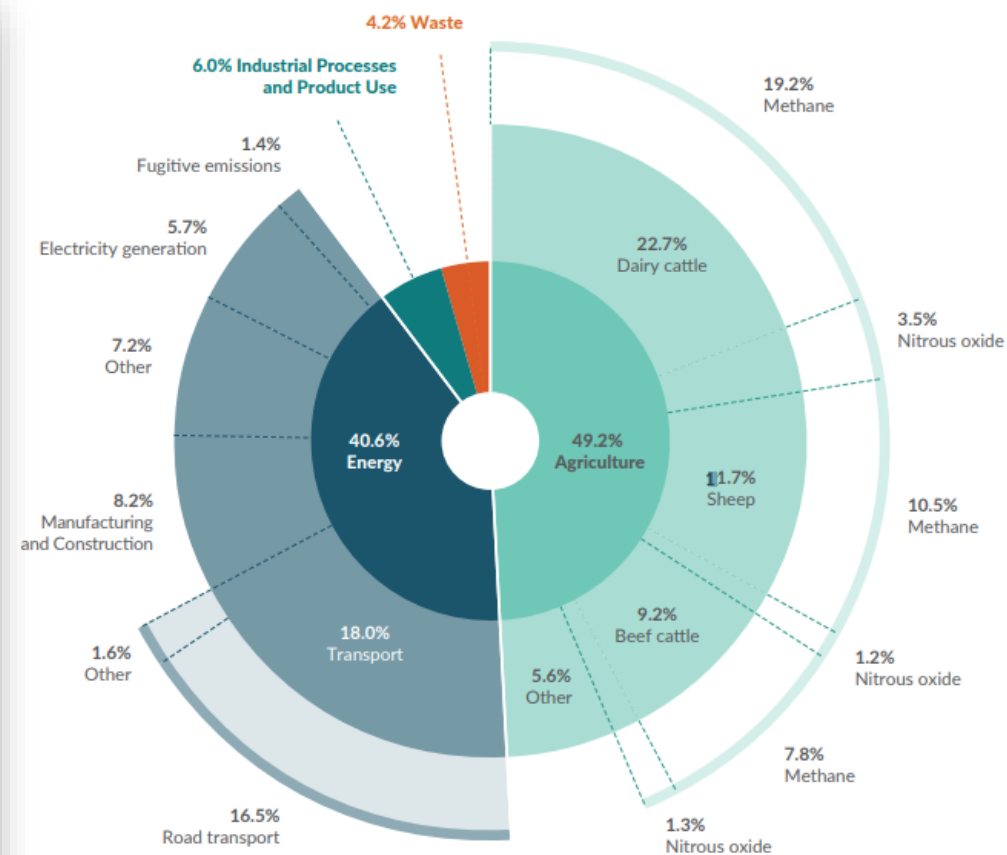
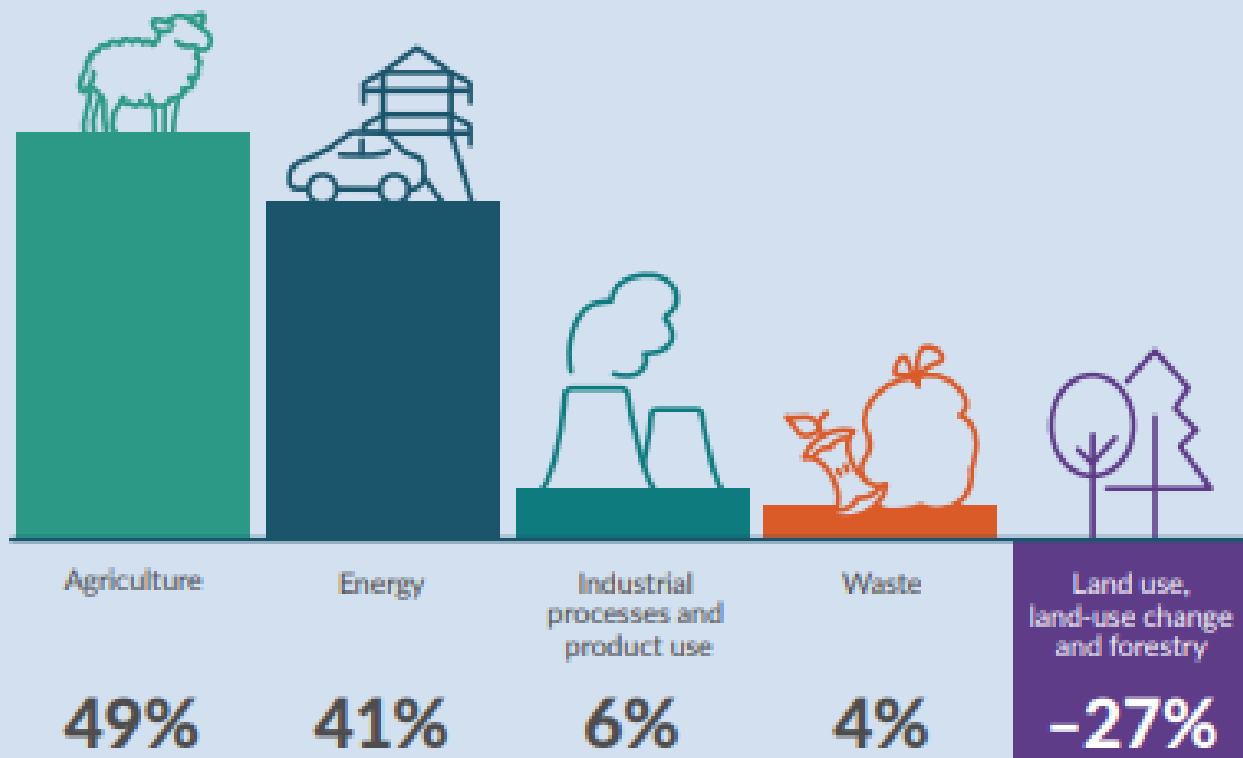
Since peaking in 2006, gross emissions have been stable



Greenhouse gas emissions trends by sector

2021 Inventory

Emissions by sector



Reasons for scope and coverage in the NZ ETS

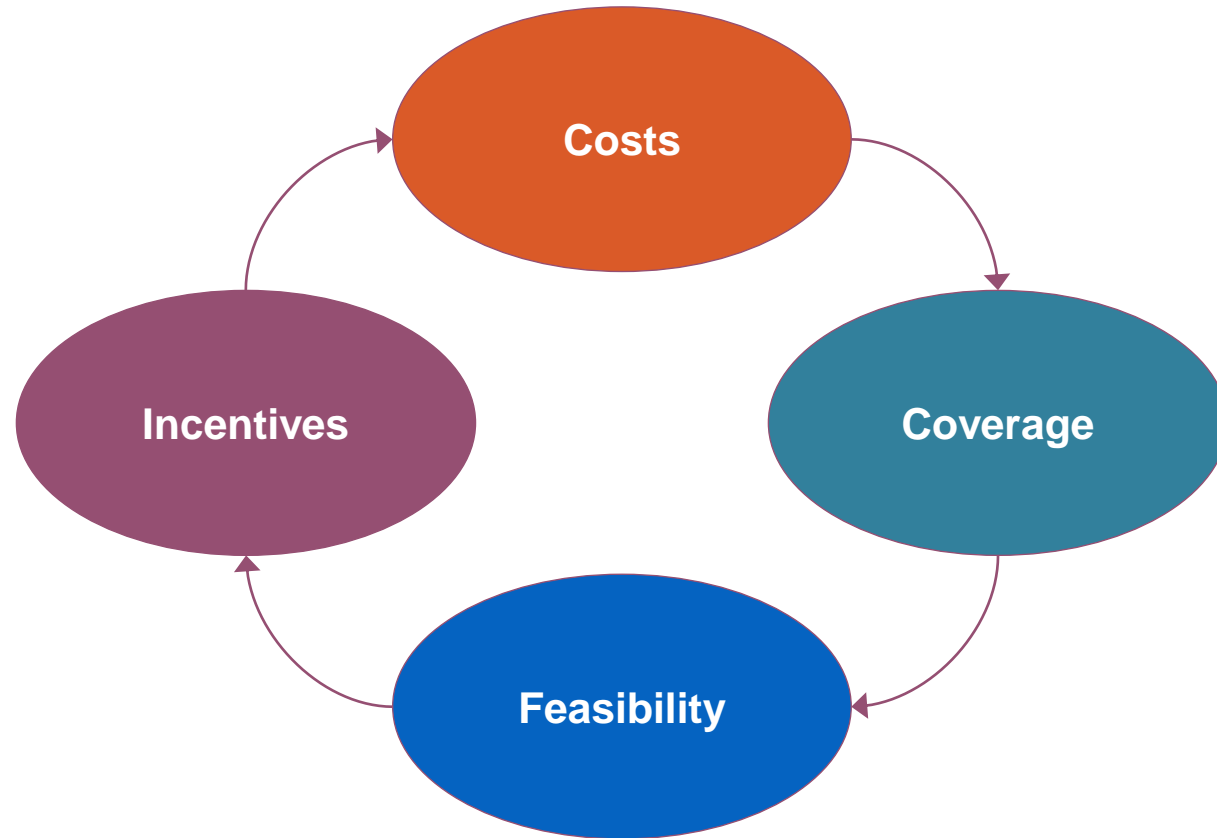
- Carbon tax development in early 2000's
- Emissions profile
 - Agriculture and forestry dominates
 - Low electricity emissions due to high renewable share
- Kyoto protocol, forecast emissions, and longer-term ambitions
- Contribution of non-pricing policies expected to be small at the time of decisions
 - Standards and codes, public education, limited financial incentives
- Principles of economic efficiency and environmental integrity



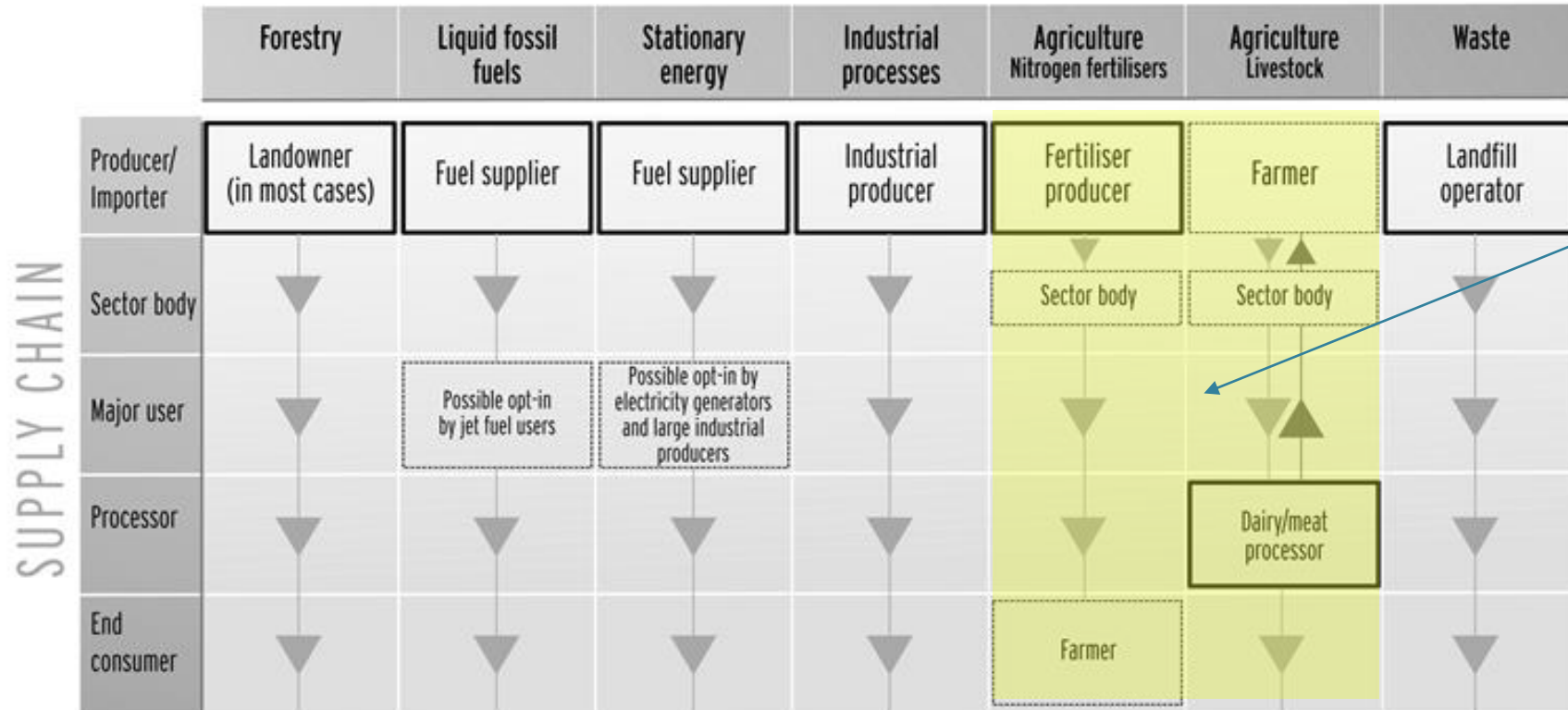
New Zealand's emissions are the product of a broad range of economic activities, and we need a correspondingly broad-based economic measure, based on prices, to bring about the behavioural changes needed to implement our greenhouse gas reduction strategy

Source: MfE (2007); A framework for a New Zealand Emissions Trading Scheme

Reasons for scope and coverage in the NZ ETS



Options for scope and coverage in the NZ ETS



Under review

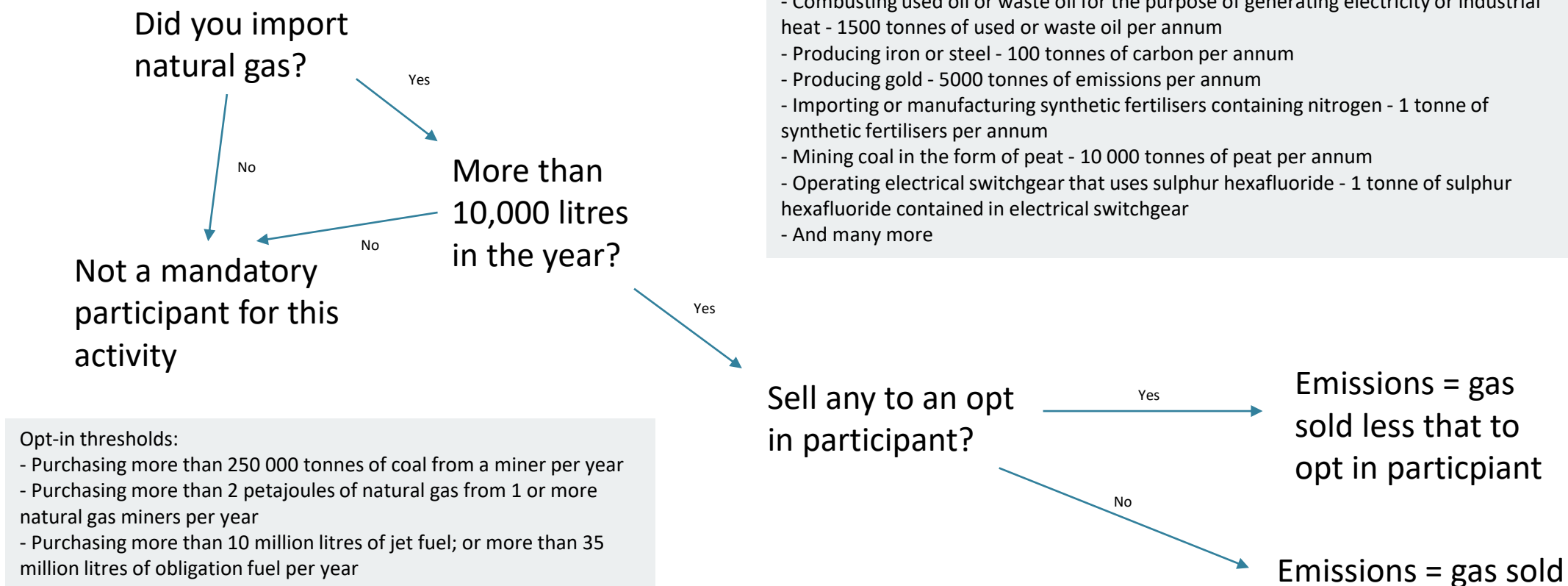
Source: MfE (2007); A framework for a New Zealand Emissions Trading Scheme

LEGEND

- Government's preferred point of obligation
- Alternate approach

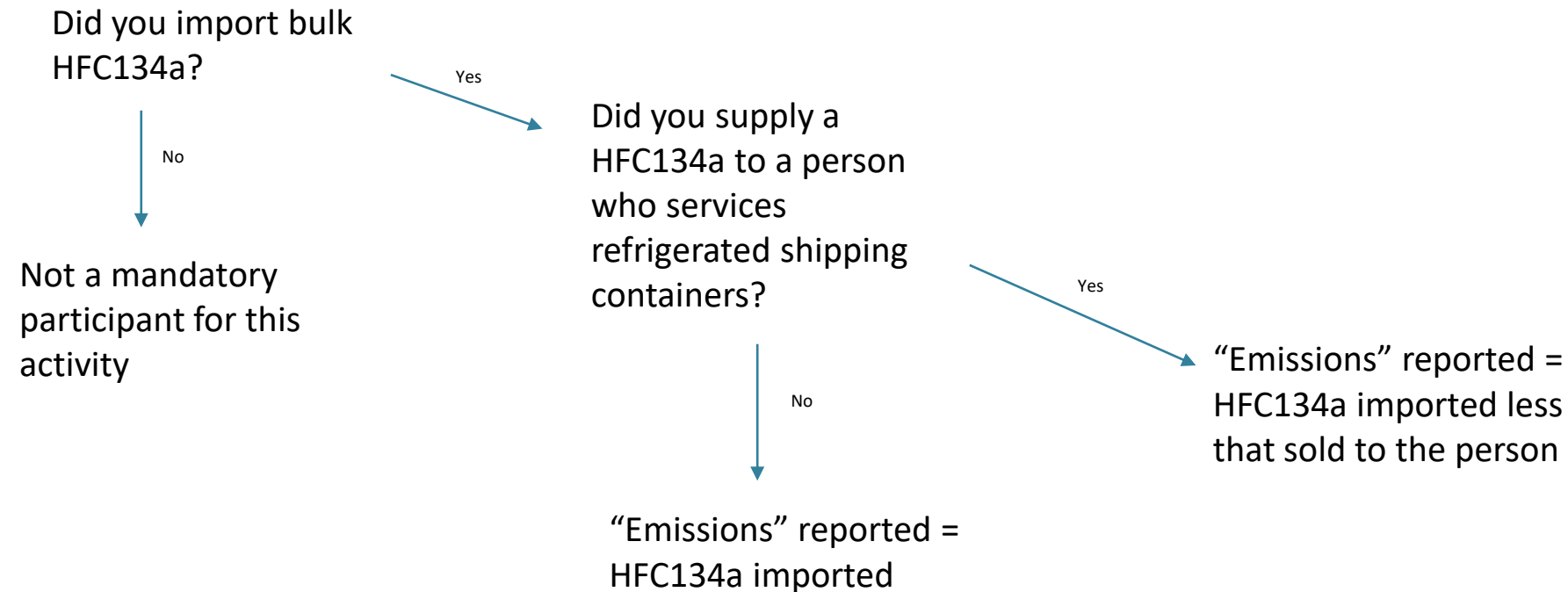
NZ ETS scope and coverage

Example 1 – importing natural gas



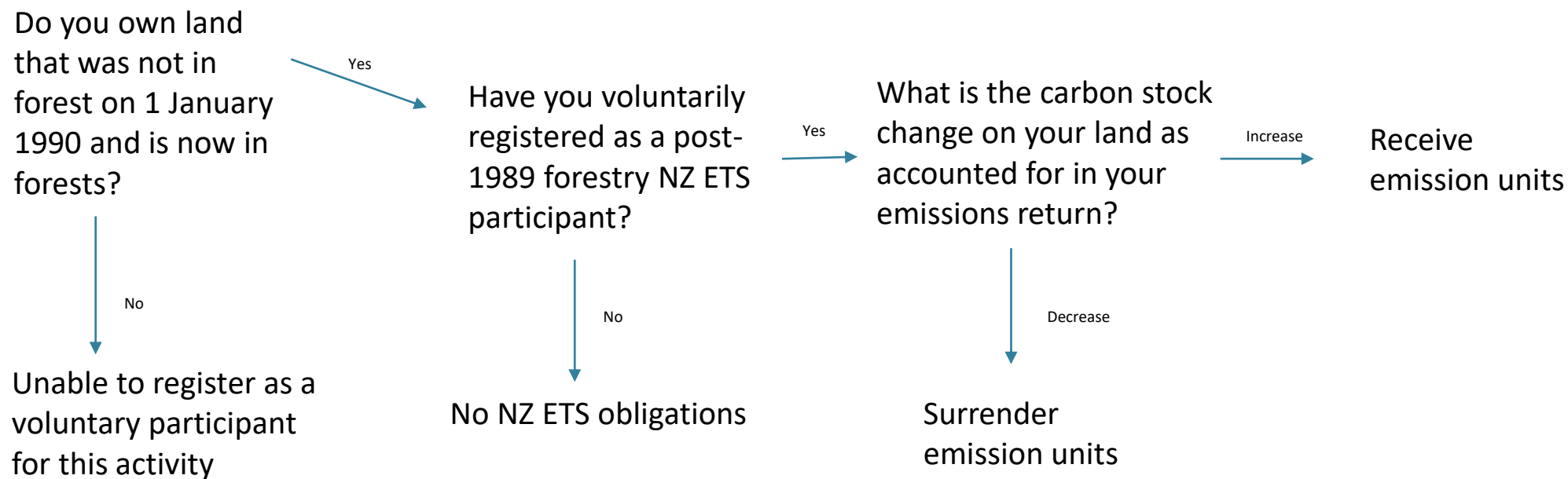
NZ ETS scope and coverage

Example 2 – importing synthetic greenhouse gases



NZ ETS scope and coverage

Example 3 – Post-1989 forest land-owner (simplification!)



Schedule	Sector	Activity	Registered	Removed	Number of participants as at 30 Jun 2023
Schedule 3	Forestry (pre-1990 deforestation)	Deforesting pre-1990 forest land	3	2	43
		Deforesting pre-1990 offsetting land	0	0	0
	Liquid fossil fuels	Owning obligation fuel	0	0	5
	Stationary energy	Importing coal	0	0	5
		Mining coal	0	0	17
		Importing natural gas	0	0	4
		Mining natural gas	0	4	29
		Using geothermal fluid	0	1	13
		Combusting used or waste oil used tyres, or waste	1	1	5
		Refining petroleum for energy or feedstock	0	0	0
		Using crude oil or other liquid hydrocarbons	0	2	1
		Industrial processes	Producing iron or steel	0	0
	Producing aluminium		0	0	1
	Producing clinker, or burnt lime		0	0	4
	Producing glass using soda ash		0	0	2
	Producing gold		0	0	0
	Operating electrical switchgear that uses sulphur hexafluoride		0	0	10
	Importing hydrofluorocarbons or perfluorocarbons		3	3	25
	Manufacturing hydrofluorocarbons or perfluorocarbons		0	0	0
	Agriculture	Importing or manufacturing synthetic fertilisers containing nitrogen	1	1	12
Slaughtering ruminant animals, pigs, horses, or poultry		1	0	44	
Dairy processing of milk or colostrum		0	0	16	
Exporting from New Zealand live cattle, sheep, or pigs		0	0	7	
Waste	Operating a disposal facility	0	0	31	
Schedule 4	Forestry removal activities (post-1989 forestry)	Owning post-1989 forest land	1,344	95	3,628
		Holding a registered forestry right	95	8	259
		Registered Lessee	7	0	27
		Leasing/Rights to standard post-1989 land	8	0	8
		Party to a crown conservation contract	0	0	0
	Other removal activities	Producing a product with embedded substances	1	0	7
		Exporting hydrofluorocarbons or perfluorocarbons	1	1	16
		Destroying hydrofluorocarbons or perfluorocarbons	0	0	1
	Liquid fossil fuels	Purchasing obligation fuel	2	0	9
	Stationary energy	Purchasing coal	0	0	3
		Purchasing natural gas	0	0	3

Mandatory

Or 106,000
animal
farmers?

Voluntary

Source: EPA (2023); Participants in the ETS (.xls file)

NZ ETS scope and coverage

Concluding remarks

- Upstream coverage creates broad emissions coverage
- But emissions pricing is ‘hidden’ in consumer decisions
- Broad coverage has unequal distributional impacts
- Balance support for hard to abate industries to protect competitiveness but also to incentivise change
- Reduce market failures and barriers to allow broad coverage to work best
- Broad upstream coverage reduces participant numbers and administration and compliance costs, but these are not zero. Need thresholds and exemptions and allowance for voluntary participation



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