New Zealand Government

The New Zealand Emissions Trading Scheme

Smoothing the Transition

Experience from the New Zealand ETS

Ministry for the Environment
Manatū Mō Te Taiao

The New Zealand ETS (in 1 slide)

- Introduced in **2008**. Objectives:
  - **Pass costs** of meeting international obligations to emitters.
  - **Provide incentives for abatement** by establishing a price of carbon.
- Closely follows **international accounting rules and coverage.**
- **All sectors and all gases** including forestry and agriculture.

2008	2009	**2010**	2011	2012	**2013**	2014	**2015**
forestry		stationary energy liquid fossil fuels			waste synthetic gases		agriculture

- Emitters have **obligation to surrender**. Internationally recognised **removals** (inc post 89 forestry) can receive units.
- Scheme **open to international markets**: surrender eligible Kyoto units, convert New Zealand Units to AAUs and export.

Competitiveness risks

- Introduction and implementation of the NZ ETS faced significant resistance based on **concern about competitiveness impacts**.
- NZ seen to be **imposing costs in advance of key competitors** overall and sector specific concern (NZ's unique emissions profile).
- Drivers of debate:
  - ETS as a **cost distribution tool**. NZ faces an obligation with a cost. Only question is who pays (taxpayers or emitters)?
  - High level analysis shows **small macro impacts & limited sectors at risk.**
  - Impact of **Australian** decisions.
  - Global **recession**.
  - Risks from <u>not</u> taking action: **'Clean and Green' image**.

Industry Assistance under NZ ETS

- General transitional assistance to **smooth introduction**:
  - Transition phase running to end 2012. 50% progressive obligation for all non-forestry participants. $25 price cap.
- Targeted compensation for **loss of asset values**:
  - 'One off' payment of units to pre-1990 forestry and fishing.
- Targeted protection from **carbon leakage/competitiveness loss**:
  - Intensity based allocation **per unit of production** (historical baseline based on average for all firms undertaking)**.**
  - Industries undertaking **Emissions Intensive, Trade Exposed** activities.
  - **Thresholds and assistance rates** set out in legislation.
  - **Slow phase out.** 1.3% per annum but **regular review** (every 5 years).

Implementation challenges

- Basis for thresholds:
  - NZ thresholds cover those for whom ETS costs = > approx 2% revenue.
  - NZ assumes all activities trade exposed unless obviously not.
- What receives allocation (boundaries of the activity):
  - Significant scope for gaming.
  - New Zealand leveraged activity definitions developed in Australia.
  - Where not, subject to considerable negotiation. Competitiveness distortions a key issue.
- Baselines:
  - Simple approach: average historic emissions.
  - Data: provide or be ineligible. Power of audit.

Eligible Activities to Date

Aluminium smelting	Iron and steel	Cement	Burnt lime	Methanol	Urea
Newsprint	Caustic soda	Packaging paper	Market pulp	Carton-board	Hydrogen peroxide
Roses	Carbon steel	Gelatine	Bricks	Glass containers	Tissue paper
Protein meal	Ethanol	Cucumbers	Fresh tomatoes	Fresh capsicums	

Red = highly emissions intensive 90%; blue = moderately emissions intensive 60%

- **Similar to sectors identified elsewhere**. Some surprises.
- Level of allocation equivalent to **~25% of obligations.**

Possible lessons . . .

- **Transparent** trade offs & distortions:
  - NZ ETS unit flows in government accounts.
  - Obligation to report on who is getting allocations and how much.
- Power of **comparisons:**
  - NZ opportunity to leverage EU experience (windfall profits).
  - Australian CPRS settings powerful way of cutting through NZ debate.
- Power of **experience**:
  - Commentary on ETS impacts died away markedly post implementation.
  - Surveys show majority of businesses not facing significant impacts.
  - Overall cost impacts around 0.2% GDP & small relative to other costs and variables, such as labour costs, oil prices and exchange rates.

Challenges for all . . .

- **Theory** is clear (general agreement on sort of sectors at risk), but discourse is inevitably **political.**
- **Lack of real information** to inform policy makers on:
  - Comparative costs of measures take by countries.
  - *Ex post* evidence of carbon leakage.
- National circumstances mean **responses <u>cannot</u> be uniform**.
- **Theoretical macro economic perspective** not sufficient:
  - Efficient policy response needs to reflect fact that transition to low carbon economy unlikely to be smooth.
  - Short term impacts at the firm, sub-sector or sector level more tangible than uncertain long term economic benefits.

The Future

- **Statutory review** of the ETS underway.
- **NZ ETS is here to stay**: review will assess effectiveness and operation, <u>not</u> existence.
- **But, in absence of agreement on post 2012 international framework**, review will focus on whether:
  - New sectors should join on current timetable (agriculture).
  - Transition phase should end as planned.
- Possible **considerations and trade offs:**
  - Short term costs vs long term economic resilience.
  - Equity/ competition vs sector specific needs.

Further Information

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