Emissions Trading Scheme

"Creating more from less"

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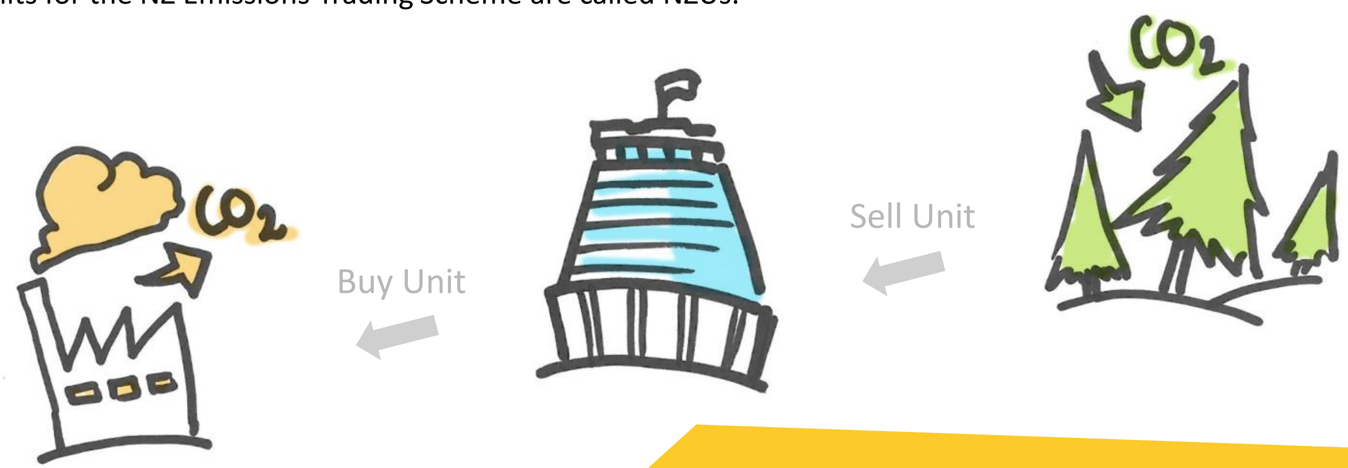
In a nutshell

An Emissions Trading Scheme (ETS) is a scheme for trading greenhouse gas emissions allowances. An ETS is normally a 'cap and trade' scheme, i.e. a cap on the total emissions allowed within the scheme is set and allowances, also called units, adding up to the cap are provided to the companies regulated by the scheme.
Companies are required to measure and report their carbon emissions and to surrender one unit for each tonne they release. Companies can trade their units, providing an incentive for them to reduce their emissions.

What is a unit?

Under an ETS, companies who emit greenhouse gas are liable to pay for their pollution by purchasing 'conceptual' units from the government in charge of the ETS.
On the flip side, carbon sink (e.g. forestry) can sell units on the market place and generate revenue.
Units for the NZ Emissions Trading Scheme are called NZUs.



Why is NZ ETS special?

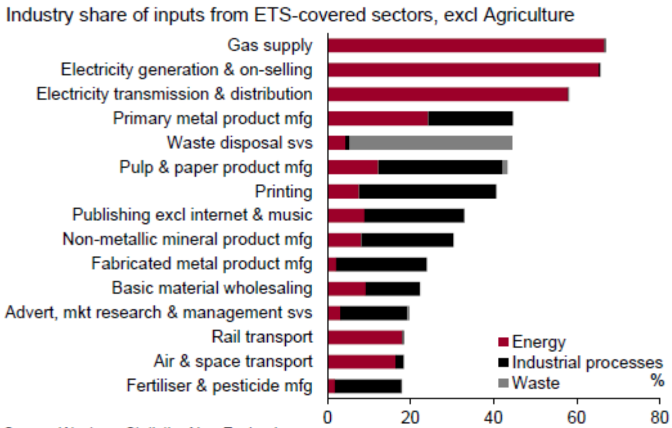
- Uncapped: There is no limit on the total level of emissions allowed in NZ
- Partial-coverage: Not all the sectors (polluters) are included in the NZ ETS. For example, agriculture has to monitor and report its emissions but does not have to surrender, and pay for, units
- 2 for 1: NZ companies surrender one NZU for every two tonnes of carbon released into the atmosphere
- Free allocation: The emitters permits are allocated for free, based on intensity. Some ETSs auction permits, which provides revenue for the government
- Internationally linked: The quantity of international 'Kyoto-compliant' units that could be imported in to match emissions is not limited. In that respect, the NZ ETS is unusual.

For these reasons the NZ ETS has been criticised for providing no real mitigation incentive.

Would it change?

Yes - we hope so! The NZ government is currently reviewing the NZ ETS, as new national targets were agreed in Paris last year.
Consultation was open until April 30 and many organisations submitted proposals to improve the current NZ ETS. Most of them consider the current mechanism is a failure as it doesn't control supply and demand and allows a low carbon price. A high carbon price is needed to impact behaviour and support long-term investment in low carbon technologies.

Would my business be impacted?



Source: Westpac, Statistics New Zealand

If the government commits to effectively achieve the set targets and strengthen the NZ ETS mechanism, the carbon price may rise and influence the costs of many operations.
Industries most affected by the ETS would primarily be those directly engaged in the scheme, like manufacturing, energy production and mining. But any industry relying on energy, industrial processes or generating waste may be impacted. The impact may be even bigger if agriculture is included.

Take home messages

1. Paris agreement is a good thing! If we want to achieve what has been agreed, the NZ ETS has to be strengthened
2. Be proactive. Change is here, it is happening, so start your carbon footprint now and include climate change in your decision making process
3. 'Polluter era' is over. Rather than seeing that as an obstacle, NZ should identify the opportunity to invest in low-carbon technology
4. It is global. Climate change policies and ETSs are thriving all over the world and are covering more and more industries and their supply chain.
5. Be positive. We are facing the biggest challenge we ever had, don't be overwhelmed by it. If we think that what we do won't make any difference… well, we are doomed. Individual contributions will make the difference.

Useful links

NZETS video from the Government

World Bank Group issued a comprehensive handbook "Emissions Trading in Practice"

"Integrity-free Carbon" article form Sean Weaver

NZ 2030 climate change target

Westpac, the Paris Agreement: What it means for the New Zealand economy