

Government to review New Zealand Emissions Trading Scheme (ETS)

The review will seek to consider how the ETS can shift the balance of emissions reductions incentivised by the ETS from predominantly net emissions reductions, to gross emissions reductions.

Background

Gross emissions reductions are the actual decrease in emissions occurring. In contrast, net emissions reductions are emissions less offsets via carbon sequestration such as afforestation. Under current settings, the ETS is expected to drive net emissions reductions, mainly through carbon sequestration from afforestation.

The Climate Change Commission had previously recommended that Cabinet amend the ETS to strengthen the incentive for gross emissions reductions and to manage the amount of exotic forest planting that the scheme drives. As part of its emissions reduction plan, Cabinet had agreed to prioritise gross emissions reductions, whilst still supporting net emissions reductions.

Scope of the review

In consideration of the anticipated shift from reducing net emissions to reducing gross emissions, Cabinet agreed that the scope of the review should consider the following questions:

- what balance of gross and net emissions reductions is expected to be driven by the current design and settings of the ETS, and what the economic, environmental, and distributional impacts of this balance will be;
- what balance of gross and net emissions reductions should the ETS incentivise in the future;

- how could the ETS be amended to support the Government's preferred balance of gross and net emissions reductions; and
- what levels of net emissions reductions should be from exotic forests and indigenous forests, and how to improve ETS incentives for indigenous afforestation.

Cabinet further agreed that the following issues are also within the scope of the review:

- how to include additional sources of emissions removals in the ETS; and
- the extent to which the design of the ETS should support emissions reductions or a range of co-benefits.

Summary

Given the Climate Change Commission's previous recommendation, the review signals likely changes to ETS settings aimed at driving more gross emissions reductions (rather than focusing on net emissions reductions).

At a high level, Cabinet collectively agreed that the outcome of the review must ensure that the ETS is predictable, stable and effective.

The results of the review are to be reported back to Cabinet within the first quarter of 2023 to allow for public consultation on the review to occur within the second quarter.

Want to know more?

If you have any questions about the ETS, please contact our specialist [climate change team](#) or [Josh Williams](#).