

New Zealand Units – The Basics

The New Zealand Emissions Trading Scheme is the key system used by the New Zealand Government to respond to climate change, while New Zealand Units are the primary currency of that system.

What are NZUs?

New Zealand Units (also known as NZUs or sometimes "carbon credits") are the primary domestic unit of trade in respect of the New Zealand Emissions Trading Scheme (NZETS). The NZETS has a dual purpose of helping New Zealand meet its international climate change obligations under the United Nations Framework Convention on Climate Change and the Kyoto Protocol, while on a practical level also assisting New Zealand to reduce its net emissions by using market forces.

Each NZU represents one tonne of carbon dioxide equivalent emissions. In essence, the NZETS works by requiring businesses to measure and report on their emissions, and then to surrender one NZU for each one tonne of emissions emitted, and issuing NZUs to foresters that plant trees that absorb carbon.

Businesses and individuals that have obligations under the NZETS are registered as "participants". Where such participants are emitters of carbon, they are required to purchase NZUs to cover the financial and environmental cost of their emissions. Practically, this means that over time, as NZUs become more limited and costly to acquire, emitters are incentivised to reduce emissions and make carbon-friendlier choices. This is commonly known as a cap and trade system.

Obtaining NZUs

NZUs can be obtained by participants in the following ways:

1. Private Sale and Purchase (Secondary Market)

NZUs (earned or acquired in any way below) can be traded between businesses privately via the Emissions Trading Register (ETR) or held in anticipation of meeting future obligations under the NZETS. In the month of May 2022 alone, the Environmental Protection Authority recorded the transfer of more than 20 million NZUs.

2. Industrial Allocation

A number of NZUs are granted for free to some industries that are emissions-intensive and trade-exposed to recognise that the costs of compliance with the NZETS may affect the international competitiveness of some businesses, such as agriculture and primary production. The activities that are eligible for an industrial allocation are listed on the website for the Environmental Protection Authority, including (but not limited to): aluminum smelting, production of fresh tomatoes, production of lactose, production of newsprint and production of tissue paper.

3. NZUs Sold by Government Auction

The government auctions a fixed number of NZUs via the NZX and the European Energy Exchange. The allocation of NZUs to be auctioned is spread evenly across four scheduled auctions during a twelve month period. At each auction, the NZUs are sold to all successful bidders at the same auction clearing price – in March 2022, 10,518,300 NZUs out of the 11,825,000 available NZUs were sold for a clearing price of \$70. If the auction clearing price is higher than \$70, the cost containment reserve is triggered,

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which allows an additional 7 million NZUs to become available at auction.

4. NZUs Earned Through Emissions Removals

Certain activities that remove carbon from the atmosphere are eligible for the generation of NZUs, such as afforestation. Land that includes forests that are classified as post-1989 forest land can be registered in the NZETS as carbon accounting areas. The Ministry for the Environment estimates that 80% of emissions removal NZUs in the next five years will be earned by post-1989 forestry activities.

5. Approved Overseas NZUs

There are no types of overseas units which are currently eligible to use in the NZETS and as such there have been no international transactions relating to carbon credits in the ETR since 19 November 2015.

The limit for approved overseas equivalent units is currently nil.

[Want to know more?](#)

If you would like more information, please do not hesitate to get in touch with our specialist [Carbon Team](#). Our lawyers have experience advising on the NZETS, the Climate Change Response Act and the climate change aspects of Resource Management Act, carbon trading, carbon forestry projects and bi-lateral offtake arrangements and other commercial contracts relating to the NZETS and NZUs.

Limits on NZUs

The government limits the number of NZUs available to emitters in the overall scheme, and over time this number will reduce to bring New Zealand in line with its emissions targets. The government has set provisional emissions budgets for the period from 2021 to 2025, which represents the total quantity of emissions that are allowed to be released during the relevant period. The overall limit of NZUs is comprised of:

- NZUs provided by the government for industrial allocation;
- NZUs available for purchase by auction; and
- approved overseas NZU equivalents.

However, the volume of NZUs that can be issued to foresters or other activities that remove greenhouse gases from the atmosphere is not included in this limit.