

Updates to Emissions Trading Scheme settings

The Government has announced how many New Zealand units will be available for auction and price controls for the next five years.

The New Zealand Emissions Trading Scheme (ETS) is one of the Government's key tools for meeting New Zealand's climate targets and the Government has announced updated settings in order to ensure a more credible market.

Background

The Climate Change Minister reviews and updates the ETS settings annually to ensure that the five-year look-ahead period remains in place.

At a high-level, the process involves the Minister setting the limits and prices for the year that is five years away and considering whether new limits and price control settings should be recommended for years 3 and 4.

If there are special circumstances, such as significant changes in projected trends, the emissions budget, or other unforeseen events, the Minister may amend the limits and settings for the first and second years to address these issues.

As part of this process, the Climate Change Commission (**Commission**) provides recommendations to the Minister with public consultation being required before any final decisions are made.

The Minister must then make any necessary amendments to the ETS regulations, which must cover:

- limits on the total number of units available by auction;
- the overall ETS cap, which includes industrial allocations and approved overseas units (currently set at zero); and

- price control settings, including the auction price floor and cost containment reserve (CCR) volumes.

Updates to emission unit limits and price control settings

Following public consultation in June 2024 for the five-year period 2025-2029, the Climate Change Minister announced updates to the ETS settings on 20 August 2024.

These changes, which the Minister believes extend further than the February 2024 unit limits and price control settings recommendations from the Commission, were made following the feedback received during the recent consultation process.

The changes include:

- retaining the current auction price floor, CCR price and reserve volumes; and
- reducing the number of units available between 2025 and 2029, from 45 million to 21 million.

The Minister stated that the current price and reserve volume settings "are doing their job and should be left alone". He further noted that the reduction in available units aims to address oversupply in the market, which has been a factor in the recent failure of auctions to clear and the resulting decline in carbon prices.

The Minister recognised that reducing unit availability will likely see the carbon price rise, encouraging businesses and individuals to invest further in emission reductions and in turn create potential price rises for everyday New Zealanders. While the Minister noted that current modelling suggests that the impact is expected to be minimal, we understand there has been an immediate and material price rise following the Minister's announcement – so the changes appear to have had the desired effect.

Emissions Trading Scheme settings and regulations updated (Continued)

2023 Commission Review

The changes follow the Commission's March 2023 review of the ETS and suggested reforms (see our previous article on this [here](#)).

The Commission's review highlighted several critical issues with the ETS, including its failure to incentivise emissions reductions and an unlimited number of forestry generated units being able to offset emissions.

In response, the previous Government proposed several options for reform and the current Government has effectively chosen to implement Option 1 by reducing the number of units sold through auctions. However, the Government has not yet provided any update on the unlimited supply of units from forestry or the proposed redesign of the Permanent Forest Category (being forest land that will not be harvested for at least 50 years).

Want to know more?

The updated unit numbers will be implemented starting with the first auction of 2025.

If you have any questions about the ETS please contact our [Climate Change](#) specialists.