Key Features:

- Aim of the ETS was to create a mechanism where the cost of emission reductions was achieved by the least cost approach.
- The original Emission Trading Scheme in NZ came into force in 2008 by the Labour Govt, with the intent “polluters pay”.
- The ETS was modified after the general election in 2009 by the National Party who “softened” the approach, such as a 2:1 surrender target for emitters. The balance of the target was to be met by the taxpayer.
- The balance for the ETS was that the forestry sector would participate in the ETS as the first sector to enter from 1 Jan 2008. Voluntary for forests planted after 1 Jan 1990, but mandatory for forests planted pre-1990 once harvested.
Key Features:

- In 2011 after a full year of operation, the ETS was reviewed by a panel of experts nominated by Govt who made recommendations to improve the ETS functions and design.
- In 2012 some parts of the review are agreed and the legal framework amended.
- First period of the ETS = 2008-2012; second period 2013-2015 whereupon the second ETS review will be undertaken.
Some ETS Facts

During 2011 - Total Surrender units = 16.344 million double up from 2010.

NZU Forestry = 2.105 million approx half of the 2010 volume

Key ETS Points

- 38 million NZU surrendered so far 2008-mid-2012
- Nearly 70% imported eligible credits from offshore markets
- Some restrictions now on importation of certain types of industrial credits
- Price trend from NZ$18.00 in 2008 to highs of NZ$21.00 in 2009, have slumped to approx Nz$5.00 through 2012.
- View is that the market is expected to stay flat for months to come
- Some forest sellers are now buyers in the market to address liabilities for a net gain
Issues from Government point of view:

• Still subscribes to UN processes, Kyoto Protocol and a new global treaty in 2020
• Calculating liabilities and doing analysis before signing onto second period of the Kyoto Protocol. Some countries refuse to sign up, Canada, Russia and Japan
• New treaty should contain provisions around forestry and agriculture to address NZ’s unique circumstance
• Wants to wait for agricultural technologies to reduce emissions in livestock before making further commitments – politically sensitive

Issues from Emitters point of view:

• Most accept the ETS is here to stay for a long period
• Past 3 years was a learning experience and chance to sort least cost approaches to liabilities
• Larger emitters have been able to meet obligations up to 3 years in advance through purchase of cheaper offshore eligible credits
• Some smaller emitters paying the ETS fee
• Reporting for emissions initially onerous, but now systemised
• All want the 2:1 formula to stay while economy is depressed
• All wants access to international credits at least cost
Issues from Forest Owner point of view:

- Many did not initially understand the global effects on NZ carbon price.
- Many owners sold NZU over past 3 years but want a higher benchmark ($15) than current price ($5.50) before they will sell.
- Problem is there is little demand for high priced NZU.
- International sales of credits from NZ are very slow to nil since 2010.
- There is uncertainty over how long NZU’s remain valid.
- Forest Investment is a significant issue but is highly risky given the global price fluctuations.

Thank You

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