

New Zealand's proposed Emissions Trading System

Tim Denne

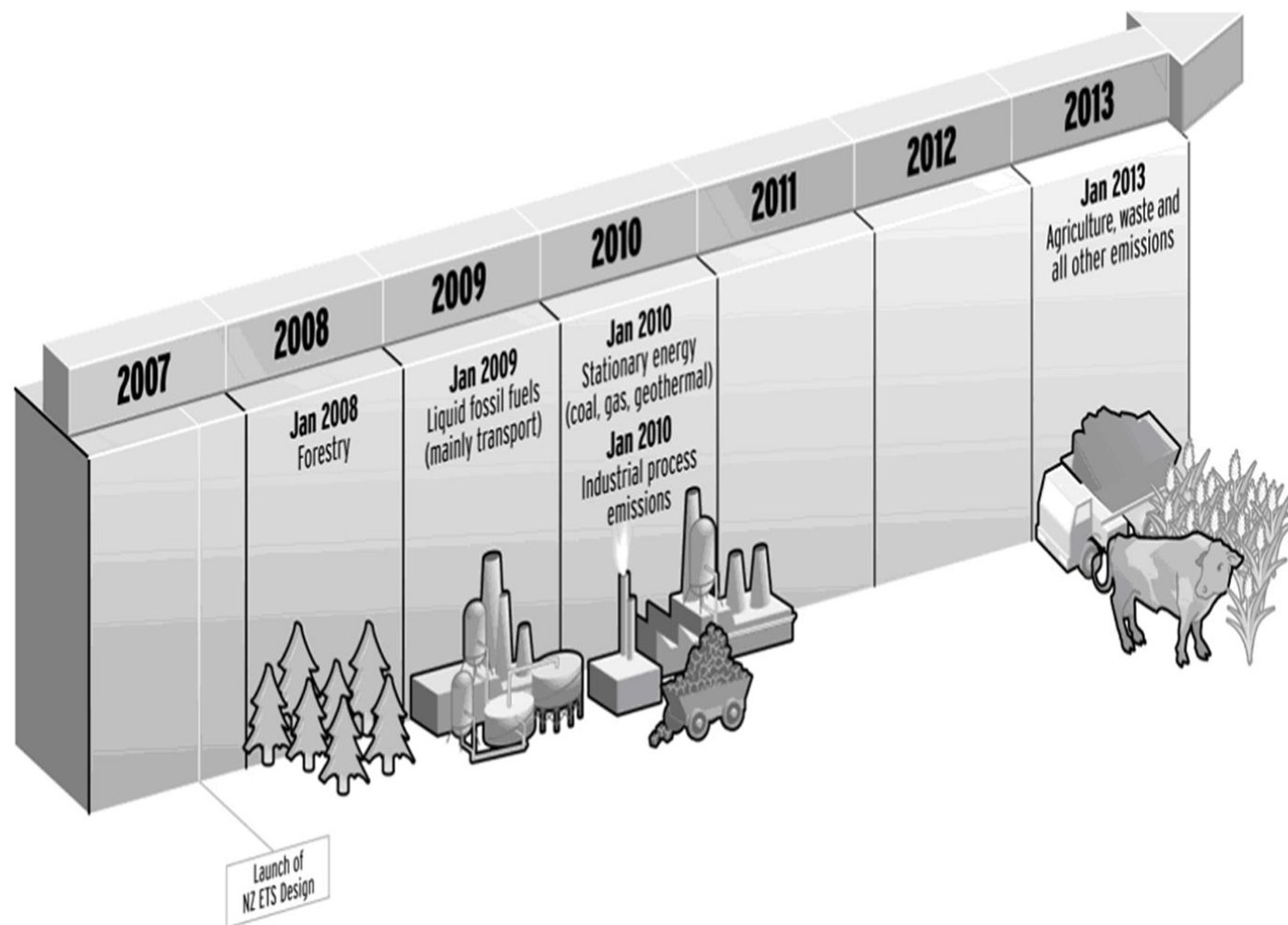
30th November 2007

- NZ will introduce an ETS.
- The objectives are:
 - Some emission reductions at home (“below business as usual”)
 - Kyoto compliance and thereafter
 - Least cost in the long term
- Will be introduced over the next 5 years, starting 1st Jan 2008

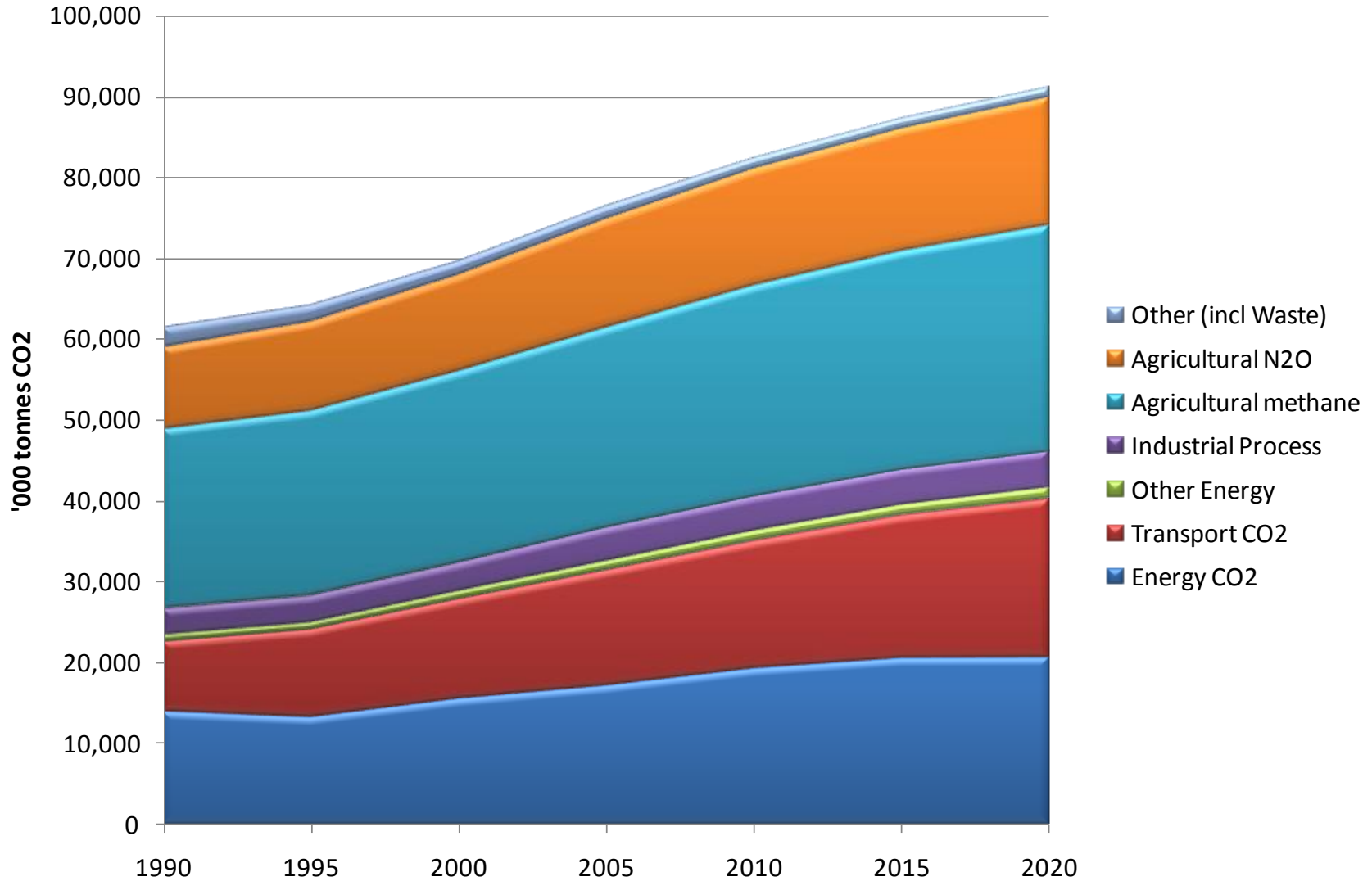
Key features

- All sectors
- All gases
- As upstream as possible
- All emissions to face the full cost of emitting
- Unit of trade = NZ Unit (NZU)
- As flexible and as open as possible (NZU fully backed by Kyoto units)
- Industry protection in the transition through free allocation

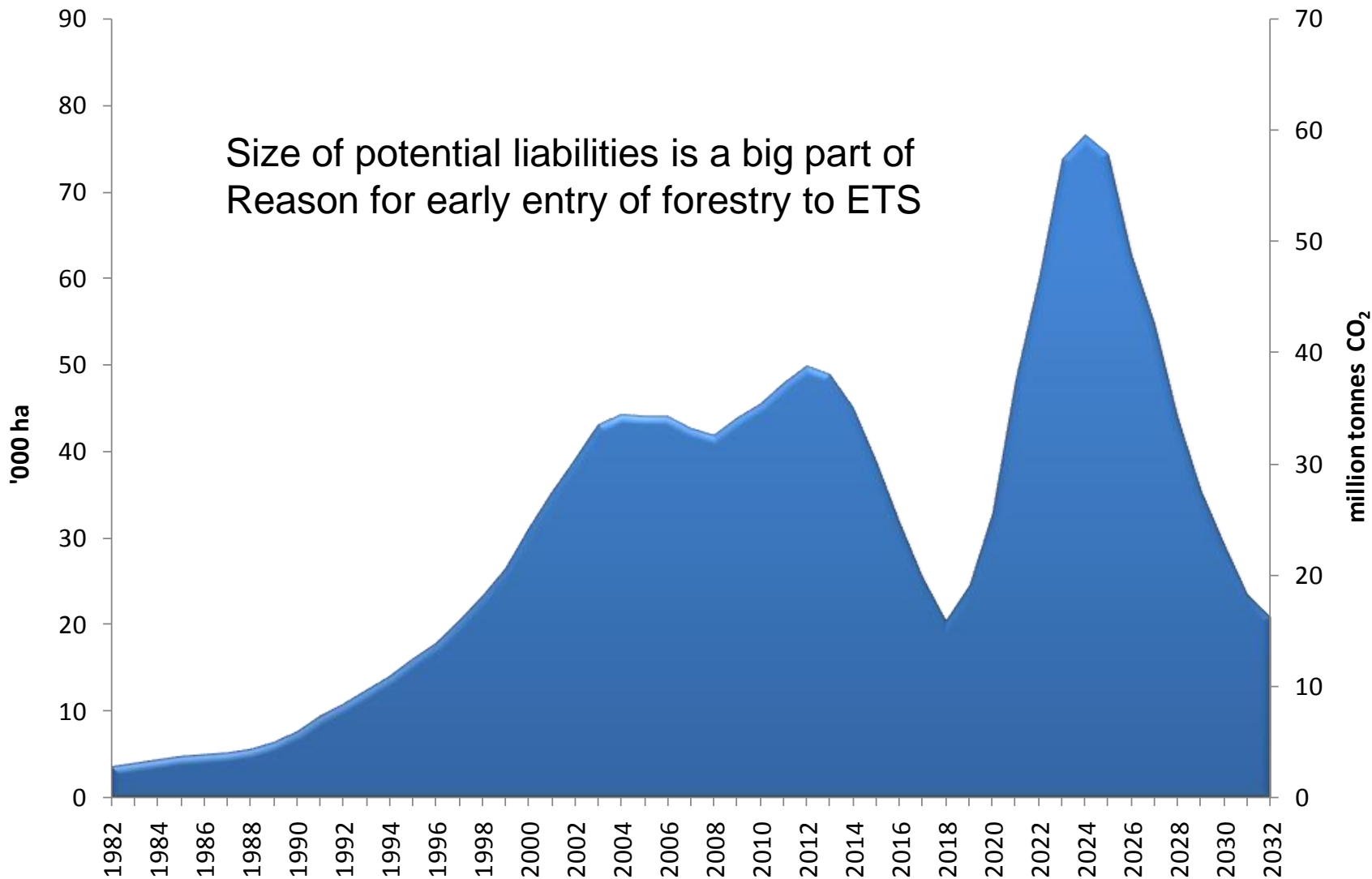
Timetable for Introduction



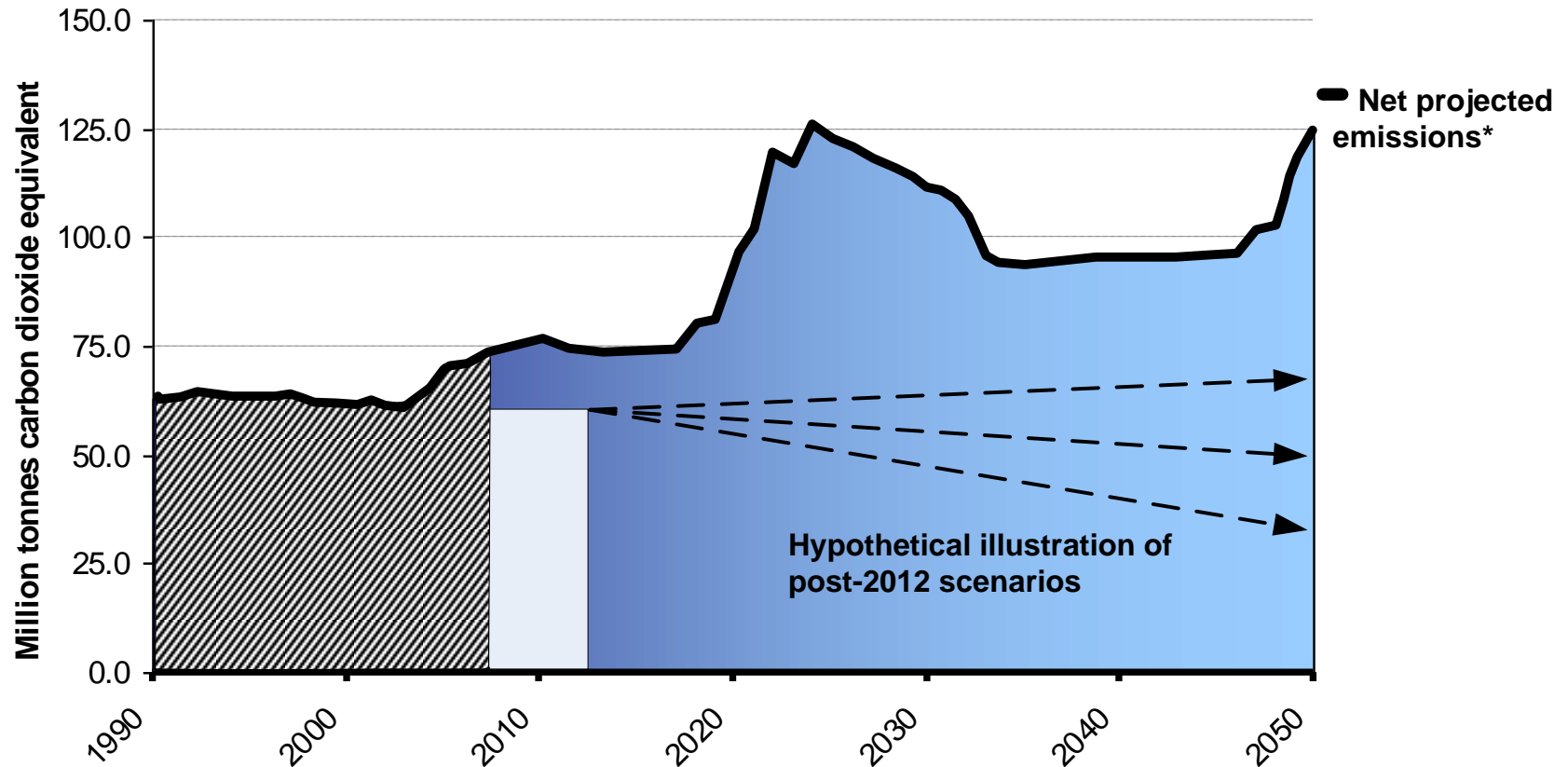
NZ Emissions (no LULUCF)



Expected Fellings/ Potential Emissions



Net emissions



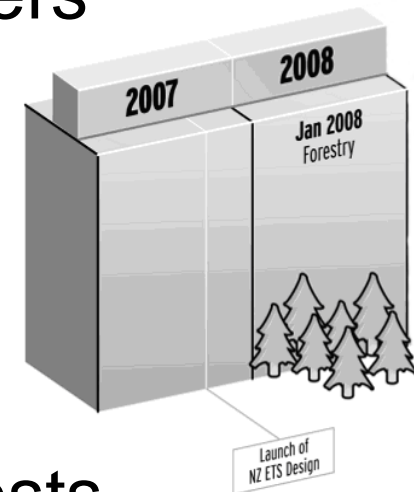
* Includes removals from post-1989 afforestation

Forestry – Kyoto treatment

- Pre-1990 forests
 - Felling is treated as an immediate emission
 - Full liability applies (c800 t CO₂/ha) unless land replanted
 - Cannot transfer between sites, eg fell one and plant another
- Post-1989 forests
 - Net change in carbon stocks measured to estimate absorption/emissions
 - NZ government does not receive Removal Units (RMUs) until some time after 2012

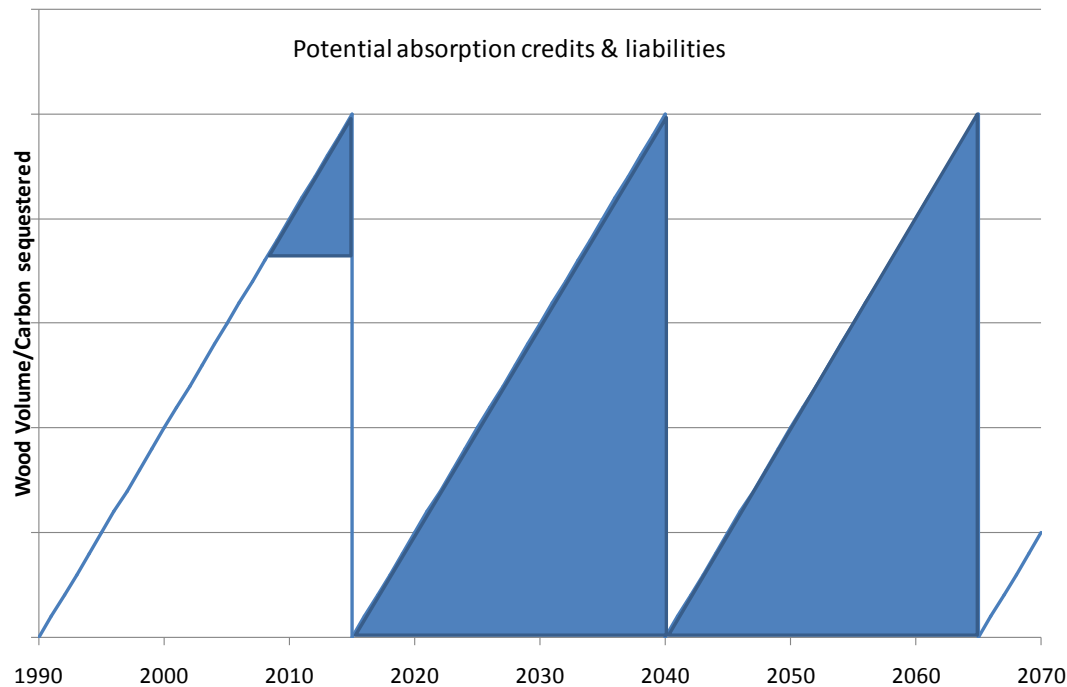
Forestry under ETS

- Entry 1st Jan 2008
- Obligated participants = landowners
- Liability for pre-1990 forests
 - Can opt out if small
- Voluntary entry for post-1989 forests



Post-1989 forests

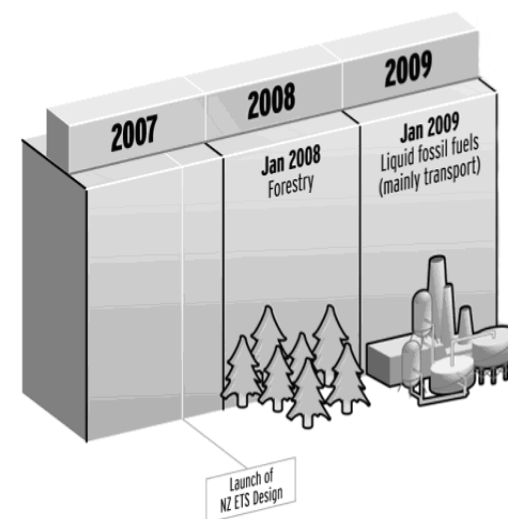
- Post-1989 forests can join voluntarily (18 months to decide). They can claim credits from absorption but take on a liability for emissions
- Will be awarded NZUs



Forestry (Pre-1990)

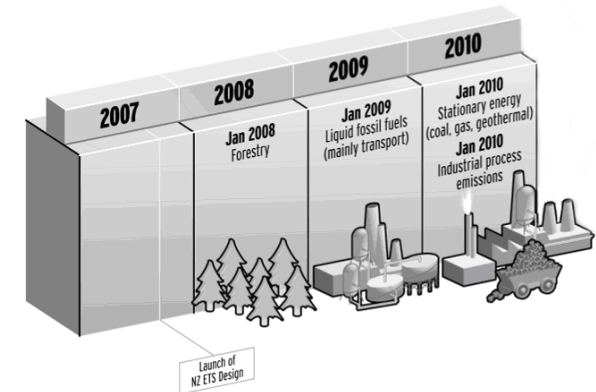
- Liability for emissions – most hold NZUs if deforesting/changing land use
- Can opt out if landholdings <50ha
- 21 million NZUs freely allocated to existing landowners for 2008-12 (roughly equal to historical deforestation rates – c.5,000ha pa)
- No way of knowing who will deforest, so free allocations given in proportion to landholding

- Enter 1st Jan 2009
- Obligated parties are oil companies – importers of product plus removals from refinery
- Some potential for opt-in for large users (Air New Zealand)
- No free allocation

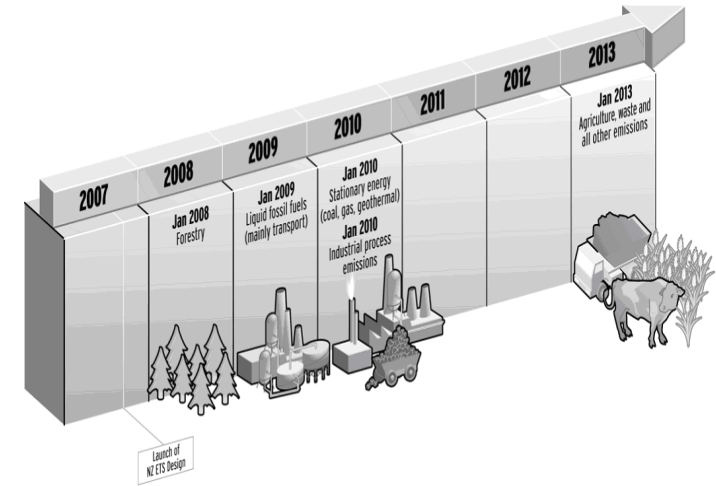


Stationary Energy & Industrial Processes

- Entry 1st Jan 2010
- Obligated parties = introducers of carbon (fuel importers, coal mines, gas producers, geothermal users)
- Some potential for opt-in (eg electricity)
- Some free allocation:
 - Industrial processes – to obligated parties
 - Energy – downstream energy users



- Entry delayed until 2013
- Point of obligation:
 - Sale of nitrogenous fertilisers and EITHER
 - Processing of meat & dairy products; OR
 - Farming activity
- Some free allocation, as for industry
- Waste also included in 2013



Free Allocation

- Free allocation separate from points of obligation
- No free allocation to firms that could pass the costs on, so no free allocation to
 - Liquid fuels (transport)
 - Electricity
- Eligible firms
 - Stationary energy and industrial process emissions
 - Agriculture
 - Forestry - deforestation

Free allocation - reasons

- Long-term intent to move towards zero free allocation on efficiency grounds
- In transition, reasons for free allocation are:
 - Regrets – the rules may change or others take on price such that NZ would regret firm closure
 - Adjustment costs, particularly those from concentrated job losses
 - Reputational issues around stranded assets
 - Equity – stranded assets also
 - Less so – emissions leakage

Free allocation - proposal

- Generous free allocation for those most affected when sectors enter the scheme
- All sectors expected to make a contribution
- Relatively simple approach to establish size of package – 90% of 2005 for ag and industry
- Industry support for electricity price rises, stationary energy use & process emissions
- Assistance for deforestation based on historical deforestation rates
- Assistance phased out by 2025 (reduce linearly from 2013)

Free Allocation - more

- No assistance (industrials) past firm exit - important in avoiding regrets
- No assistance on firm entry means new entrants & incumbents on similar footing re growth in emissions
- Initial concept (but not firm on this approach) is:
 - maximum emissions of 2003-2005
 - threshold of 50,000 tonnes
 - trade-exposure test.

Overall position for NZ

Governments Current Kyoto Liability	-45m
Less Forest Sink Credits	-80m
Plus four years of Liquid Fossil Fuels	80m
Plus three years of Stationary Energy and Industrial Process	58m
Minus Free allocation for Stationary Energy and Industrial Process	-45m
Governments net position under ETS (indicative)	-32m

- Legislation introduced to Parliament this year (2007)
- Select Committee considers the Bill and invites submissions
- Legislation in place by mid-2008

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