

Emissions trading bulletin

A guide to the Climate Change (Emissions Trading and Renewable Preference) Bill as reported back to Parliament by the Finance and Expenditure Committee: *Emissions Trading*

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The Climate Change (Emissions Trading and Renewable Preference) Bill has now been reported back to Parliament by the Finance and Expenditure Committee.

This bulletin explains the main changes to the emissions trading part of the Bill since it was first tabled in Parliament on 4 December 2007.

Design features of ETS retained

The revised Bill retains the fundamental approach of the Emissions Trading Scheme (ETS) as outlined in the original Bill, including that it:

- includes all sectors and all gases by 2013
- is internationally linked
- prescribes absolute rather than intensity-based unit obligations so that sectors face the full price of emissions at the margin
- provides for allocation to industry and agriculture based on 90 per cent of 2005 emissions levels
- reflects international climate change rules
- is based on a self-assessment model for monitoring, reporting and verification.

Commencement and purpose

1 September 2008 has been set for the ETS part of the Bill to commence. The purpose of the Bill has been amended to be more specific about what the ETS is trying to achieve, namely supporting and encouraging global efforts to reduce greenhouse gas emissions by assisting New Zealand to meet its obligations under the United Nations Framework Convention on Climate Change and Kyoto Protocol and by reducing New Zealand's net emissions below business-as-usual levels.

Dates of sectoral entry

Most of the dates sectors are due to enter the ETS stay the same, but the dates for unit obligations for liquid fossil fuels and synthetic gases have changed.

'Unit obligations' refers to when sectors must register as participants in the ETS and surrender units in line with their level of greenhouse gas emissions at the end of compliance periods.

These obligations now start on 1 January 2011 for liquid fossil fuels (transport) and on 1 January 2013 (rather than 2010) for imported hydro fluorocarbons (HFCs) and imported per fluorocarbons (PFCs).

For agriculture, the ability to pass an Order-in-Council to implement a farm-level point of obligation now expires on 30 June 2010, instead of 1 January 2013.

Voluntary and mandatory reporting

Alongside the changes to dates for unit obligations, the Bill introduces voluntary and mandatory reporting for liquid fossil fuels, synthetic gases, agriculture, waste and removal activities relating to HFCs and PFCs.

Voluntary reporting gives participants the option of registering as participants in order to begin reporting their emissions and get used to reporting systems, such as preparing emissions returns. No penalties apply to voluntary reporting.

Mandatory reporting obligations start the year following voluntary reporting, and participants are then required to complete an emissions return. Participants do not have to surrender units but penalties and offences do apply for failing to report.

Allocation

The phase-out of allocation for industry and agriculture has changed. Phase-out of the allocation of units to these sectors now runs from 2019 until 2029 (rather than from 2014 to 2024).

The Bill also allows for, but does not require, an allocation to new entrants or growth in emissions by incumbent firms within an overall allocation cap.

The amount of units to be allocated to pre-1990 forest landowners who purchased forests before a date late in 2002 (to be specified) has increased from

approximately 39 NZUs per hectare to an estimated 60 NZUs per hectare. It remains approximately 39 NZUs per hectare for all other pre-1990 forest landowners. Treaty claimants who receive Crown Forest Licence lands after 1 January 2008 will in most cases receive 18 NZUs per hectare.

Process for allocation plans

The process for developing allocation plans has been modified so that only one allocation plan per sector can be issued in each commitment period. The Minister is required to consult the public on a draft allocation plan before issuing the final plan. A new addition to the Bill is a list of general principles that the Minister must have regard to when preparing both draft and final allocation plans.

An allocation plan, once issued for a specified period, contains the criteria and methodologies that the Minister must apply to determine the level of allocation to individuals and firms in the forestry (pre-1990 forests), industrial and agriculture sectors.

After applying the criteria and methodologies, the Minister publishes the levels of allocation (called “determinations”) and allocates NZUs accordingly. The Minister can only remake the determinations in accordance with the allocation plan.

Potential for future forestry offsetting

The Bill allows foresters to offset the emissions caused from deforesting pre-1990 forest land by planting new trees on another piece of land only if such offsetting is allowed for in future international agreements beyond the first commitment period of the Kyoto Protocol.

Review of the ETS

The provisions relating to how the ETS is reviewed have been strengthened and a number of factors have been introduced that the Minister responsible for the administration of the Act must ‘have regard to’, including:

- the potential for linking the New Zealand ETS to other greenhouse emissions trading schemes
- any social, economic and environmental effects of the ETS.

The review must also be conducted by an independent panel.

Unit of trade

The Bill prohibits participants from surrendering assigned amounts units (AAUs) imported during the first commitment period for compliance with their unit obligations accruing after the first commitment period.

This doesn’t extend to other Kyoto units – New Zealand AAUs, Certified Emission Reductions (CERs), Emission Reduction Units (ERUs) and Removal Units (RMUs). The Minister retains an ability to regulate which units can enter the ETS in the future.

Information in the Registry

Changes have been made to limit access to information in individual Registry accounts. Public access to information on unit holdings in the Registry will only be able to be available in aggregate form at the end of the previous year. Access to individual or business records would be permitted from the start of the previous year (and therefore be at least 12 months, and one compliance period, old).

Opt-in provisions

Schedule 4 sets out the range of activities where people may “opt-in” to become ETS participants. These apply to post-1989 forest landowners; people who purchase obligation jet fuel; purchasers of coal or natural gas; farmers (if the point of obligation is at the processor level); and people undertaking non-forestry removal activities.

The range of non-forestry removal activities provided for in Part 2 of Schedule 4 includes:

- embedded products
- exporting HFCs or PFCs
- destroying HFCs or PFCs.

A removal activity for capturing and storing carbon dioxide (CCS) can also be brought into force on a date determined by Order in Council.

Matters removed or not included

Like the Bill first introduced, the Bill as reported back does not include deforestation of pre-1990 indigenous forests in the ETS.

The provisions relating to the public tender of New Zealand units (NZUs) have been removed, leaving section 6 of the Climate Change Response Act 2002 providing the Minister of Finance with the power to sell units.

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