



## The New Zealand Emissions Trading Scheme

# Guidance on the use of Emission Reduction Units and Certified Emission Reduction units in the ETS

This guidance will help those intending to surrender Emission Reduction Units (ERUs) and Certified Emission Reduction units (CERs) to identify units that are now banned from surrender in the New Zealand Emissions Trading Scheme (ETS).

### Government decision

The Government has banned the following international emission units from surrender in the New Zealand Emissions Trading Scheme (ETS) due to concerns over their environmental integrity:

- ERUs generated from HFC-23 and N<sub>2</sub>O industrial gas destruction projects
- CERs and ERUs generated from large-scale hydropower projects (greater than 20 MW capacity) that do not meet the guidelines in the World Commission on Dams' (WCD) final report: *Dams and Development: A New Framework for Decision Making*.

ERUs and CERs that entered the New Zealand Emission Unit Register (NZEUR) on or after 18 December 2012 from these types of projects can no longer be surrendered. ERUs and CERs that were brought into the NZEUR before this date are still eligible.

These restrictions will operate alongside the already existing restrictions on the surrender of CERs generated from HFC-23 and N<sub>2</sub>O industrial gas destruction projects.

An exemption until 1 June 2014 exists for participants who purchased banned large-scale hydropower CERs and ERUs and banned industrial gas destruction ERUs before 17 December 2012

under contracts for future delivery of units (forward contracts). To be eligible, the forward contracts must be registered with the Registrar of the NZEUR before 11 February 2013.

### Why have these units been banned?

Internationally, concern has been expressed about the environmental integrity of the following Clean Development Mechanism and Joint Implementation projects under the Kyoto Protocol:

- destruction of industrial gases
- large-scale hydropower projects (greater than 20 MW capacity) that do not meet the guidelines in the World Commission on Dams' final report: *Dams and Development: A New Framework for Decision Making*.

As the EU and Australia have already or are planning to ban these units, the ETS would become one of the only domestic trading schemes still accepting these units, with a consequent risk of damaging New Zealand's reputation. Continuing to accept such units could also risk limiting future options to link the ETS to other major domestic emissions trading schemes that are banning such units.

The Government considers the risk to the environmental integrity of the scheme sufficient to ban these units in the ETS.

### Why are these units being banned now?

Banning these units now strengthens the credibility of the ETS and therefore our ability to advance discussions on linking with other major domestic emission trading schemes. Building



regional and bilateral linkages amongst carbon markets beyond 2015 will be important, given the lack of access to Kyoto markets beyond this point.

New Zealand continues to have access to existing Kyoto carbon markets at least until 2015 and continuing to allow these units to be accepted in our scheme until 2015 would likely damage our reputation given the concerns about their environmental integrity.

### **How do I know if I am buying banned units?**

A list of the current project IDs (current at 18 December 2012) of banned units will be available on the NZEUR website for your reference. However, as new projects may arise at any time please ensure you refer back to the NZEUR website before surrender for an up-to-date list.

In addition, participants can easily determine if they are purchasing eligible large hydropower CERs and ERUs by checking the schedule to the Climate Change (Unit Register) Regulations 2008 which lists any large hydropower projects meeting World Commission on Dams guidelines.

When buying CERs or ERUs, you should either ensure your delivery contract states the units you are receiving are ETS compliant or are eligible for surrender in the ETS. Carbon traders or market intermediaries should be able to help advise you if the units you are receiving are ETS compliant.

### **How are the World Commission on Dams guidelines implemented in regulations?**

A schedule to the Regulations will be maintained which lists any large hydropower projects that meet World Commission on Dams guidelines.

Any new large hydropower projects that meet the World Commission on Dams guidelines will be added to the schedule as identified, which will require an amendment to the regulations. This can be achieved within the 1 to 2 year delay between projects commencing, and receiving units to onsell.

Additional information will be available on the NZEUR website of all the projects that are banned (as described above).

### **How will the ban affect participants in the ETS?**

The ban of these units is not expected to significantly reduce the supply of units in the

period up to 2015 and is therefore expected to have no impact on the carbon price.

Any restricted ERU or large scale hydro CER that does not meet World Commission on Dams guidelines held in the NZEUR immediately before 18 December 2012 can still be surrendered. However it is the participant's responsibility to ensure any ERUs and CERs brought into the NZEUR after this date are eligible for surrender purposes.

If you have bought, or are intending to buy, CERs or ERUs and are unsure if they entered the NZEUR before 18 December 2012, you should ask the NZEUR by emailing [climatechange@epa.govt.nz](mailto:climatechange@epa.govt.nz) with the unit serial numbers and current account holder details to confirm the date on which they entered.

### **What if I have a forward contract for units which are now banned?**

If you have a forward contract for the purchase of CERs or ERUs and wish to apply for an exemption, you need to register your contract and provide a signed declaration to the Registrar of the NZEUR by 11 February 2013. For more information on the exemption process and to access a template of the statutory declaration please go to the NZEUR website ([www.eur.govt.nz](http://www.eur.govt.nz)).

### **If I have a forward contract, when can I use those units for repayment or surrender purposes?**

Banned units brought into the NZEUR under a forward contract registered with the Environmental Protection Authority (EPA) are eligible for surrender until 1 June 2014.

### **Why are forward contracts exempt?**

Forward contracts have been made exempt from the ban to protect legitimate compliance obligations where participants have entered into contracts in good faith on the understanding that these units would be accepted for surrender in the ETS.

### **Can I hold banned units in my account?**

The ban does not impact on the ability of an NZEUR account holder to hold banned CERs or ERUs in their accounts. The ban only applies to the surrender of these units to meet an obligation



under the ETS. With the exception of CERs generated by nuclear Clean Development Mechanism activities, all CERs and ERUs may be held in an NZEUR holding account.

### **What will happen if I surrender a banned unit?**

If a participant is found to have surrendered banned units they will be notified of this in writing by the Registrar of the NZEUR. The participant then has 20 working days from the date of notification to replace those units with eligible units. If eligible units are not surrendered within that time, provisions of the Climate Change Response Act 2002 relating to failure to surrender will apply and penalties may be applied.

According to the Climate Change Response Act, any emissions units transferred to the Crown as a repayment must be eligible for surrender in the ETS. Any repayment made using a CER or ERU banned under regulations will trigger the same process as described above for the surrender of a banned unit.

### **How does this affect the previous CER ban?**

The new restrictions do not impact on or alter in any way the already existing ban on the surrender of CERs generated by industrial gas destruction Clean Development Mechanism projects (industrial gas CERs). As set forth in the regulations, industrial gas CERs brought into the NZEUR after 23 December 2011 are ineligible for surrender. Industrial gas CERs brought into the NZEUR under forward contracts registered with the EPA are only eligible for surrender until 30 June 2013.

### **If I'm still not sure, who should I talk to?**

If you have further questions regarding whether units held in your account are banned from surrender or not, please call 0800 CLIMATE, or consult with a broker or market intermediary.

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