



The New Zealand Emissions Trading Scheme

NZEUR account holders access to Kyoto units

The New Zealand Government recently announced changes to the New Zealand Emissions Trading Scheme (ETS) that will impact the types of emission units available for use by participants. These decisions can broadly be categorised as changes in access to the Kyoto markets and the introduction of domestic carry over regulations. The details of these changes, and the implications they have for New Zealand Emission Unit Register (NZEUR) account holders and ETS participants are detailed below.

Changes in access to the Kyoto markets

In December 2012 the United Nations Framework Convention on Climate Change (UNFCCC) amended the rules governing access to Kyoto units for the second commitment period (CP2) of the Kyoto Protocol (1 January 2013 – 31 December 2020). As of 1 January 2013 only countries that have taken an emission limitation and reduction commitment under the Protocol's second commitment period (2013-20) are able to trade CP2 Kyoto units.

What this means is that NZEUR account holders will be unable to purchase and transfer in or out of the NZEUR any units generated for emission limitations and reductions during CP2. The only exception to this is for Certified Emission Reduction units (CERs) transferred directly from the CDM pending account.ⁱ

NZEUR account holders will continue to be able to access to CP1 Kyoto units (units generated for emission limitations and reductions during the first commitment period). However, the eligibility of CP1 units in the ETS will cease on 1 June 2015, when domestic carry over provisions will take effect (see below).

Domestic carry-over

On 6 December 2013 the Government announced its intention to introduce regulations to prepare for "carry-over" under the Kyoto Protocol. Under these regulations all CP1 Kyoto Protocol units, with the exception of New Zealand-originated Assigned Amount Units (NZ-AAUs), will be restricted from surrender from 1 June 2015. Only New Zealand Units (NZUs) and NZ-AAUs will be eligible to meet an ETS obligation after this date.

When international carry-over is imposed by the UNFCCCⁱⁱ, all Kyoto Protocol units remaining in non-Crown accounts in the NZEUR will be cancelled with the exception of NZ-AAUs, which will automatically be carried over to the next commitment period.ⁱⁱⁱ





Impact on NZEUR account holders

These changes brought about by the Government's announcement mean the ETS will essentially operate as a domestic scheme from 1 June 2015 onwards, pending further developments. NZEUR account holders holding Kyoto Protocol emission units will have to either use (surrender) their units before 1 June 2015, or trade them offshore before the implementation of international carry-over.

After 1 June 2015 the only units available to ETS participants to use for surrender will be NZUs and NZ-AAUs.

i During CP2, New Zealand will continue to be able to participate in CDM projects. The CERs generated by projects in which they participate will continue to be forwarded to their national registry, regardless of whether New Zealand has made a CP2 commitment. This process is known as primary issuance or forwarding of CERs. Only account holders who hold a valid Letter of Approval may participate in CDM projects. Once in New Zealand, these Certified Emission Reduction (CER) units cannot be transferred offshore. A temporary hold on the processing of Letters of Approval was announced in June 2013. The Government announced a continuation of this moratorium on 6 December 2013.

ii The precise date of carry-over has yet to be decided, but is likely to occur in late 2015 – 2016.

iii If New Zealand is ineligible to carry over units, NZ-AAUs held in private accounts will be replaced with NZUs.