TIME-TRAVELLING ON THE NEW ZEALAND EMISSIONS TRADING SCHEME

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Emissions trading can be a powerful tool for helping to reduce greenhouse gas emissions. An ETS transforms a regulatory limit on emissions into an emissions price set by the marketplace, enabling economic incentives for producers, consumers and investors to choose lower-emission alternatives without losing competitiveness.

Both the New Zealand Emissions Trading Scheme (NZ ETS) in operation today and the world in which it is operating are markedly different from those anticipated by policy makers when designing the system back in 2007-2008. As the New Zealand government reviews the NZ ETS, history can be a powerful teacher. What might we learn by looking back in time at how and why we arrived at today's NZ ETS?

Motu Economic and Public Policy Research has compiled an interactive timeline for the development and implementation of the NZ ETS from 2005 to 2015. It is intended as an information resource for:

- policy makers,
- NZ ETS participants,
- researchers, and
- ETS practitioners from other countries who wish to learn from New Zealand's experience.

The timeline focuses on the history of the government policy-making process, rather than the experience of market participants. Timeline entries include links to key documents, which provide a way to navigate through the government's public archive on the NZ ETS. A 3D button enables the user to zip down the NZ ETS Superhighway in three lanes:

- international climate policy development,
- NZ ETS policy development, and
- NZ ETS legislation and implementation.

The timeline shows how the government's NZ ETS policy emerged in a series of stages, some of which overlap:

December 2005 to August 2007	Assessment of mitigation policy options after the decision to abandon the carbon tax
April 2007 to September 2008	NZ ETS design and initial legislation for phased implementation over 2008-2013
November 2008 to November 2009	First NZ ETS review and amendment to moderate its price impact through 2012 and defer the entry of biological emissions from agriculture until 2015
December 2010 to November 2012	Second NZ ETS review and amendment to both extend moderated price settings and defer biological emissions from agriculture indefinitely
September 2011 to May 2015	Adjustment of international linkages, ending with full delinking from the international Kyoto market
November 2015 through 2016	Third NZ ETS review; outcome to be determined…

The timeline also reveals some of the stories around the key pivot points that set the direction of the NZ ETS. Here are six examples.

ABANDONING THE CARBON TAX

In mid-2005, the reversal of New Zealand's projected Kyoto net position for the first commitment period (2008-2012) from a surplus to a deficit set the stage for a review of climate change policies shortly before a general election. The election returned a Labour government to power but shifted the political landscape. The government abandoned the carbon tax and started consultation on alternatives. This led to a quick change of tack, with the government pursuing an ETS whose features were strongly influenced by the 2002 policy foundation. The NZ ETS moved from the start of design to passage of legislation within 17 months.

DECIDING TO ADOPT INTERNATIONAL EMISSION PRICES AND PLACE NO CAP ON DOMESTIC EMISSIONS

The NZ ETS was designed in the context where New Zealand faced rising domestic emissions and relatively expensive mitigation options but could meet its Kyoto commitment through both domestic and international mitigation. Whereas a conventional ETS places its own cap on participants' emissions, the government chose to nest the NZ ETS within the global Kyoto cap and enabled the international market to set the domestic emission price by giving NZ ETS participants unconstrained access to overseas Kyoto units. When this design feature met falling international emission prices in mid-2011, the result was ongoing growth in New Zealand's gross emissions and heavy use of low-cost overseas Kyoto units to meet NZ ETS obligations and the government's Kyoto commitment for 2008-2012.

THE 2008 ELECTION AND FIRST NZ ETS REVIEW

In September 2008, the passage of landmark NZ ETS legislation occurred shortly before a critical transition in the Global Financial Crisis and a general election. The change in government at a time of economic downturn resulted in an immediate review of the NZ ETS. This was followed in 2009 by significant amendments to add a price cap of NZ$25 per tonne, halve its price impacts in non-forestry sectors, and defer unit obligations for biological emissions from agriculture until 2015. In 2012, these changes were extended indefinitely.

GLOBAL RISE OF EMISSIONS TRADING

Emissions trading has continued to gain international momentum, reinforcing the decision to proceed with the NZ ETS. According to the International Carbon Action Partnership, as of 2016, emissions trading schemes systems are operating in 35 countries, 12 states or provinces, and seven cities, covering 40% of global GDP. Additional systems are under consideration. Economists have modelled the potential for emissions trading to contribute to least-cost global mitigation. International cooperation on emissions trading has been facilitated through initiatives such as the International Carbon Action Partnership and World Bank's Partnership for Market Readiness.

ETS DEVELOPMENT IN AUSTRALIA

The development of emissions trading in New Zealand and Australia followed a 'leapfrog' process, with both countries progressing efforts concurrently and building on each other's experience. Officials' discussions on trans-Tasman linking of ETS began early in the process of NZ ETS design. However, the initial beacon of an Australian ETS became a shadow as Australia struggled politically to implement an ETS, chose in late 2012 to link with the EU ETS, and finally abandoned its ETS in 2014.

ADJUSTMENT OF INTERNATIONAL LINKAGES

As international climate negotiations progressed slowly and the future of the Kyoto carbon market remained uncertain, New Zealand adjusted its linkages to the Kyoto carbon market. Through regulations, it first removed participants' access to Kyoto units with environmental integrity concerns (CERs and ERUs from industrial gas destruction and large hydro projects). These had been banned in the ETS in Europe and Australia and their inclusion would have been a barrier to future linking

as well as an ongoing reputational risk. In the 2012 amendments, the government removed the requirement to 'back' NZUs with Kyoto units held in Crown accounts, decoupling NZU issuance from international agreements. Once the government decided in 2012 to take New Zealand's emission reduction commitment for 2013-2020 under the UNFCCC rather than the Kyoto Protocol, it lost access to the Kyoto market as of 1 June 2015. The NZ ETS now operates as a domestic-only system. Domestic auctioning bound by a cap was enabled in the 2012 amendments but has not yet been implemented.

SUMMARY OF KEY MILESTONES

Year	Month	NZ ETS policy	NZ ETS implementation	International
2005	Dec	Government decided not to proceed with a carbon tax		
2007	Apr	Government established an Emissions Trading Group to design an ETS		
	Sep	Government established the Climate Change Leadership Forum and Maori Reference Group		
	Dec	Government established Technical Advisory Groups		
2008	Jan		Forestry sector retrospectively assumed unit obligations under the NZ ETS	First commitment period of Kyoto Protocol began
	Sep	Parliament passed founding legislation for NZ ETS		
	Nov	NZ general election resulted in a National-led government and first NZ ETS review		
2009	Jan		Transport sector began voluntary NZ ETS reporting	
	Jun	Parliament passed the Climate Change Response (Emissions Trading Forestry Sector) Amendment Bill		
	Aug	Government announced a conditional 2020 GHG target of 10-20% below 1990 level		
	Nov	Parliament passed the Climate Change Response (Moderated Emissions Trading) Amendment Bill		
	Dec			UNFCCC conference in Copenhagen
2010	Jan		Stationary energy, industrial process and transport sectors began mandatory NZ ETS reporting	
	Jul		Stationary energy, industrial process and transport sectors assumed NZ ETS unit obligations	
	Dec	Government appointed panel for second ETS review		
2011	Jan		Waste, synthetic gas and agriculture sectors began voluntary NZ ETS reporting	
	Mar	Government set a 2050 GHG target of 50% below 1990 level		

Year	Month	NZ ETS policy	NZ ETS implementation	International
2011	Dec		Ban on surrendering industrial-gas CERs took effect	
2012	Jan		Waste, synthetic gas and agriculture sectors began mandatory NZ ETS reporting	
	Nov	Parliament passed the Climate Change Response (Emissions Trading and Other Matters) Amendment Bill		
	Nov	NZ took its 2020 GHG commitment under the UNFCCC, not Kyoto Protocol		
	Dec		Ban on surrendering industrial-gas ERUs and large-scale-hydro ERUs/CERs took effect	Kyoto Protocol's first commitment period ended; the second period began the next day
2013	Jan		Waste and synthetic gas sectors assumed unit obligations under the NZ ETS	
	Aug	Government announced an unconditional 2020 GHG target of 5% below 1990 level		
	Dec	Government announced future delinking of the NZ ETS from the Kyoto market		
2014	May	Government legislated against arbitrage by post-1989 forest owners		
2015	Jun		NZ ETS delinked from the Kyoto market	
	Jul	Government announced a 2030 GHG target of 30% below 2005 level (11% below 1990 level)		
	Nov	Government launched consultation on third NZ ETS review		
	Dec	Government announced NZ Kyoto compliance for 2008-2012 with a unit surplus and projected a surplus for the period 2013-2020		Paris Agreement ratified by Parties to the UNFCCC

SOLUTIONS IN REACH

The timeline highlights that the NZ ETS spent much of its 'childhood' under review and amendment. This was complicated by uncertainty over future international agreements and political disagreement on the system's level of ambition and scope. Throughout NZ ETS history, there has been no consensus across major political parties on the long-term direction of the NZ ETS; instead, rushed policy-making processes have pushed through legislation despite opposition. Officials' 2016 evaluation suggests that with low emission prices in recent years and in the absence of policy certainty on a long-term price signal, the NZ ETS has not had a discernible impact on mitigation outside the forestry sector. However, solutions to these shortcomings lie within reach.

As future NZ ETS participants look back to the timeline that emerged from 2016, they will be able to observe whether the government's third NZ ETS review produced a transformational pivot point in the evolution of the NZ ETS.