



NZ EMISSIONS TRADING SCHEME

ETS Linking – A New Zealand Perspective



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Key design features of the NZ ETS

1. Cap and trade
2. Kyoto compliant
3. Kyoto units (AAUs, CERS, ERUs) can be used for compliance
4. All sectors and all gases by 2013
5. Penalty – “make good” provision and a financial penalty
6. Banking permitted but not borrowing

Legislation before the House now

Why is Linking Important to NZ ?

The NZ ETS will:

- Be small with approximately 200 participants with obligations (outside of forestry); and there are
- Relatively few low-cost abatement opportunities – at least in short term

NZ is in Kyoto deficit

Why link our ETS ?

- The larger the market the greater the scope for finding low cost abatement opportunities
- Linking ensures access to a larger more liquid market for allowances – reduces risks of volatility
- Linking reduces need for price safety valve (caps and floors)
- Linking can assist in developing a global response to climate change

Objective is Critical



- Formal NZ ETS objective focused on meeting international obligations at least cost in the long-term
- Strategic choice : no domestic target on emission levels and no preference for domestic abatement vs international abatement

Design flows from Objective



- Proposed approach is to be open both ways (buy and sell to global carbon markets). We will be a price-taker – rules on linking will largely determine the price in the NZ ETS
- Reluctance to use price caps or floors
- Some quality but no quantity restrictions
- Environmental integrity important, but this is largely achieved through the international agreement, not domestic policy
- Developed an NZU – backed by Kyoto units.

Types of linking arrangements



- Linking can be direct to another ETS or through global carbon markets (CDM etc) – requirements differ for both. Linking of Kyoto-based schemes and non-Kyoto based schemes will be limited.
- Full & direct linking results in a common price so implies a fair degree of symmetry in ambition and regulations on the relevant ETSs.
- One way (buy only) link provides a building block towards a fuller link and acts (if unlimited quantities are allowed to be traded) as a price cap for the lower priced scheme.

TransTasman linking – An ANZAC Unit?



- Full linking depends on a high degree of symmetry of design in some key features – a key driver is the level of ambition in both schemes
- Full linking does not require a fully harmonised design; some sovereignty could be maintained (e.g. scope of schemes can be somewhat different)
- Definite interest on both sides of the ditch in examining some sort of linking opportunity



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