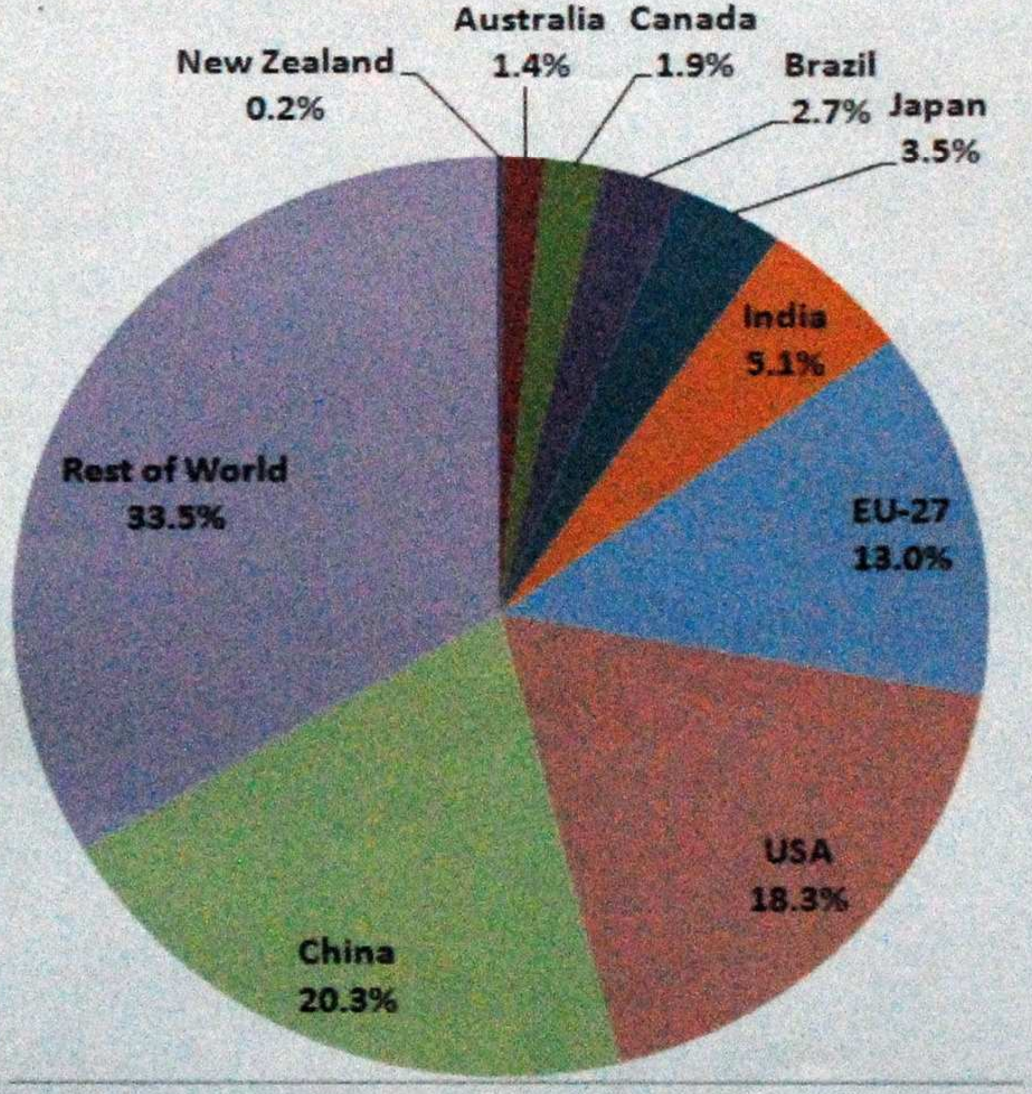
ETS Briefing

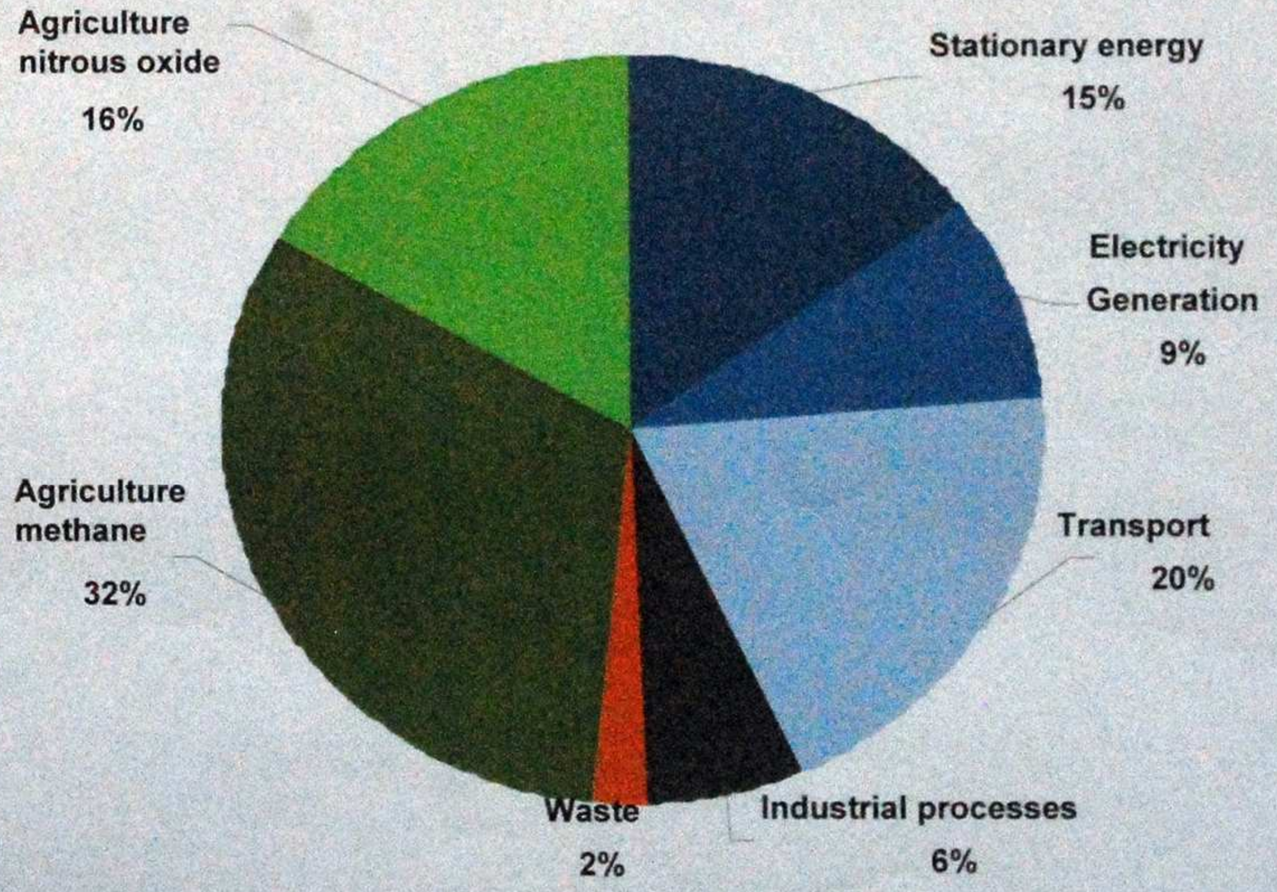
Hon Dr Nick Smith
Minister for Climate Change Issues

9th October 2009

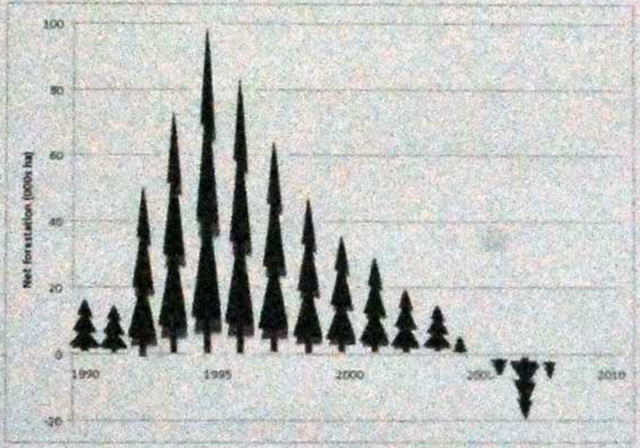
International Emission Levels

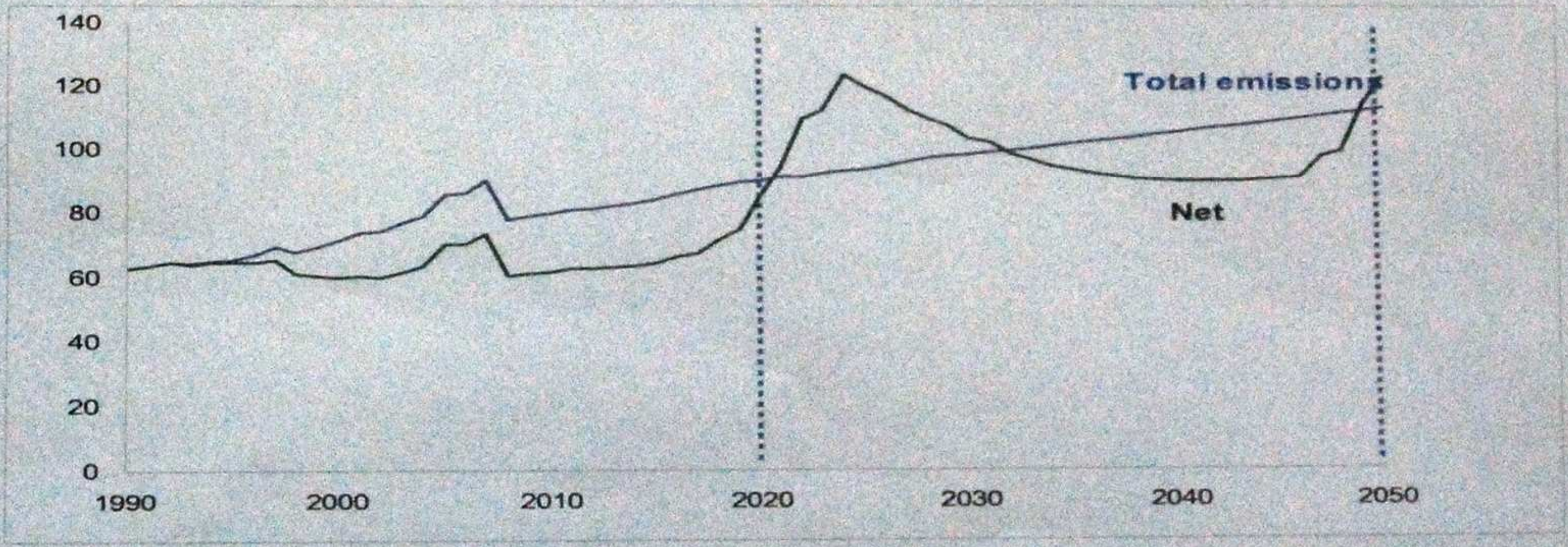


New Zealand Gross Emissions



The Role of Plantation Forests





New Zealand's Emissions Trading Scheme (ETS)

The ETS is based on units, which must be obtained to cover emissions. These units can be bought and sold.

Key Changes to NZ ETS

- Reconfigure entry dates to realistic timetable
- Transition Phase with 50% obligation and $25 fixed price option for electricity, industry and transport sectors
- Retain forestry allocations for pre 1990 forest land owners and post 1989 forest owners and allow international trading
- Increase fishing sector allocation from 50% to 90%
- Change industry and agriculture sector allocations and phase out to encourage investment in growth and jobs

NZ ETS Entry Dates

- Deforestation emissions and post 1989 sequestration enter on 1st January 2008
- SEIP and Liquid Fossil Fuels emissions enter on 1st July 2010
- Waste sector and synthetic gas emissions enter 1st January 2013
- Agricultural emissions enter 1st January 2015

Trading

- Post 1989 forest owners eligible for units for carbon sequestered (April 2009, annually)
- Units issued to Pre 1990 forest land owners recognising loss of value (July 2010)
- Units issued to fishing quota holders recognising loss of value (July 2010)
- CO^2 emitting entities must surrender units for 50% of emissions (April 2011 - 2013)
- Limited choice of eligible units other than New Zealand Units (NZUs)

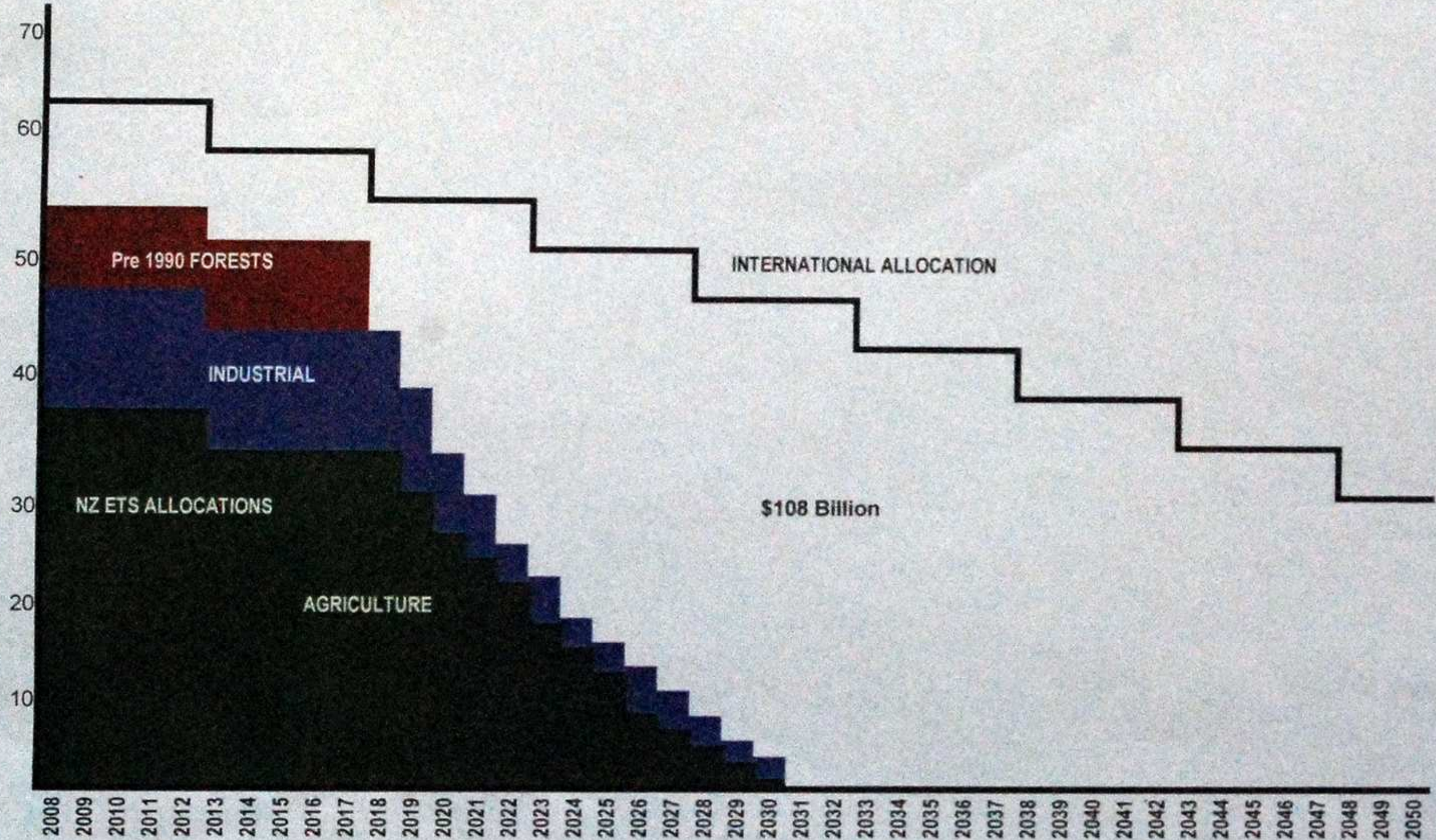
Transitional Assistance

- NZUs capped at $25/tonne domestically until 1st January 2013
- With 50% liability price of carbon no greater than NZ$12.50/tonne until 1st January 2013
- Forest sector allowed to trade NZUs domestically and internationally
- Transitional allocation given to emission intensive trade exposed businesses
- Allocation based on Australasian industry average emission intensity levels
- Emission intensive trade exposed entities can buy but not sell internationally
- Transitional allocation phased out in line with long term responsibility target
- Phase out of transitional allocation independently reviewed every five years

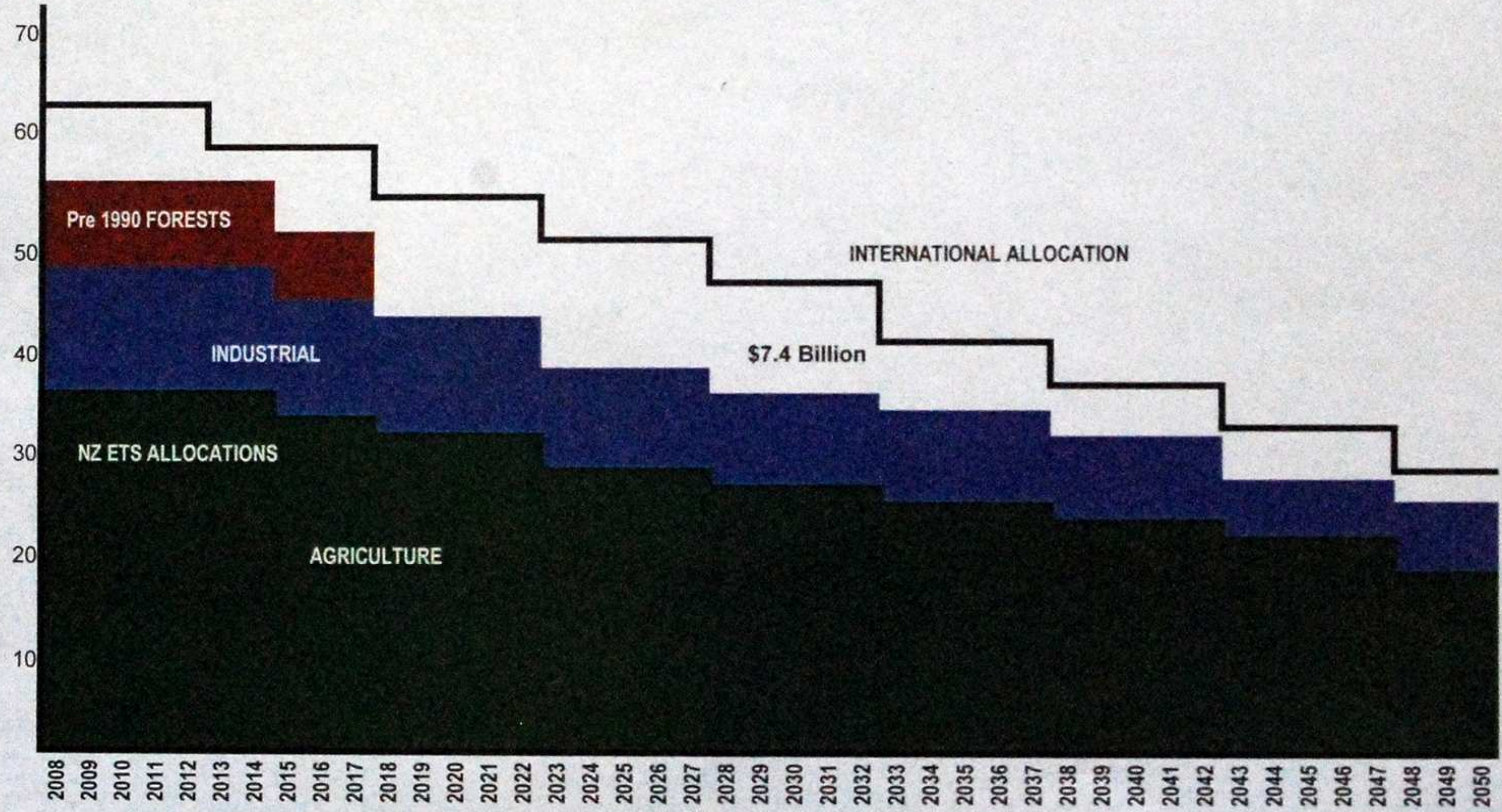
Fiscal Impact

Period	NZ ETS	Amended ETS	Fiscal Impact
2010 - 2012	+$1,275m	+$864m	-$411m
2013 - 2017	+$7,001m	+$7,530m	+$529m
2018 – 2022	+$9,242m	+$8,432m	-$819m
2023 - 2027	+$14,577m	+$9,004m	-$5,573m
2028 - 2030	+$11,319m	+$5,684m	-$5,635m

Existing NZ ETS



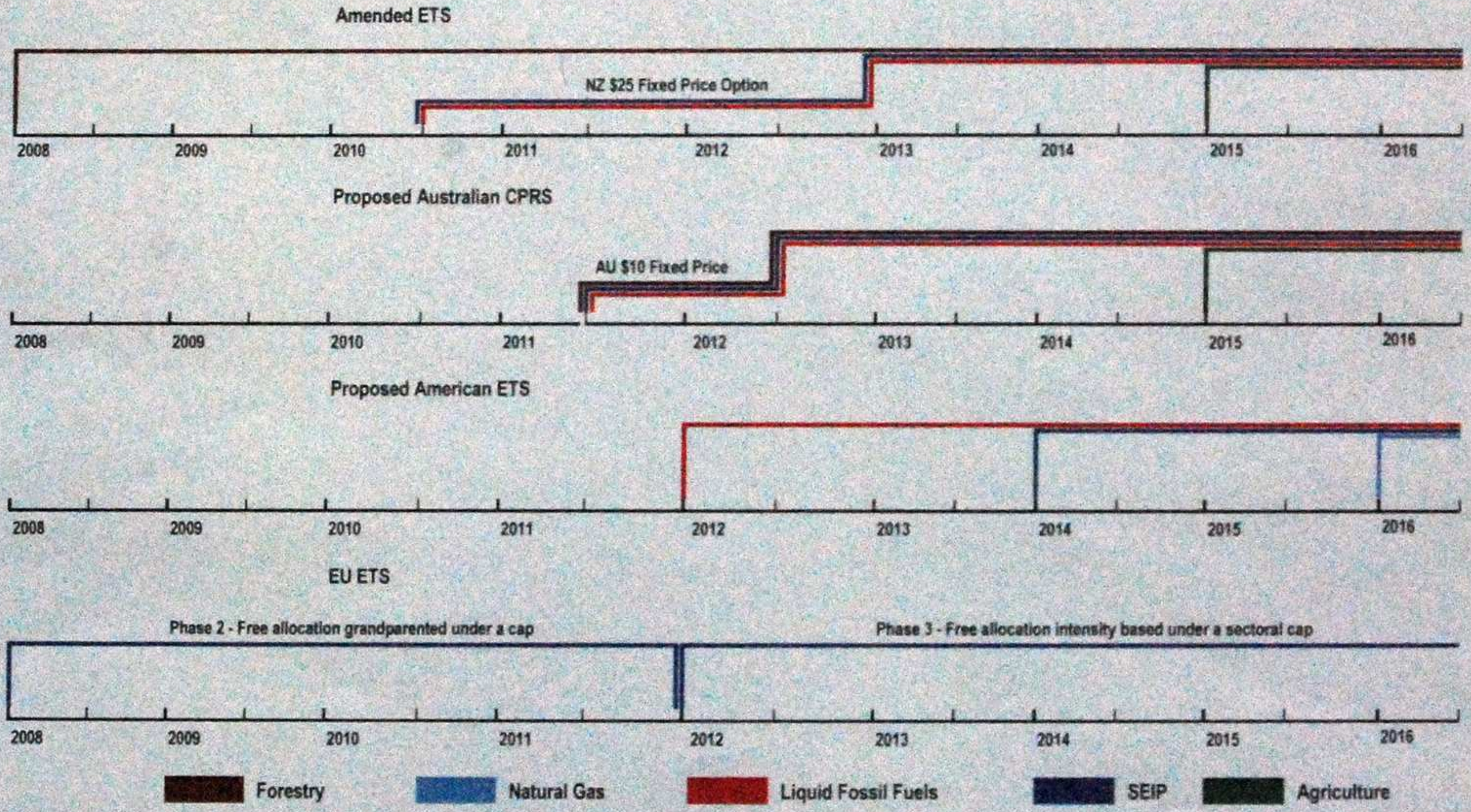
Amended NZ ETS



Holcim Example

	Westport	**Oamaru**
Production	500,000 tonnes	880,000 tonnes
Emissions	0.93 tonnes/Co^2/tonne	0.75 tonnes/Co^2/tonne
Cost Labour ETS	$1.16 million p.a. ($2.32/tonne)	$6.10 million p.a. ($6.93/tonne)
	Do not invest – Run Old Plant – Import Balance Less Kiwi Jobs – More Global Emissions	
Cost National ETS	$1.16 million p.a. ($2.32/tonne)	$1.66 million p.a. ($1.89/tonne)
	Invest in New Clean Tech – Produce cement in NZ More Kiwi Jobs – Less Global Emissions	

International ETS Timelines



Summary

- Amended ETS a balance between economy and environment
- Design is in line with the future of international trading
- Full price signal for significant increase in forest planting
- Transitional phase allows economy to adjust to price on carbon
- Five year review allows adjustment of allocation phase out
- Amended ETS is designed to be fiscally neutral over time