Questions & Answers

1. How will changes to the Emissions Trading Scheme impact on households?

Electricity would have increased in price by 10% (2c/kWh) but these changes halve that to 5% (1c/kWh) during the transition phase.

Petrol and diesel would have increased in price by 7c/L but these changes halve that to 3.5c/L during the transition phase.

The costs for the average household are expected reduce from $330 per year to $165 per year during the transition phase.

The savings from the changes may be greater than this if the price of carbon exceeds $25 due to the fixed price option.

2. How will changes to the Emissions Trading Scheme impact on the forestry sector?

Post-1989 forests are eligible to earn carbon credits from 1 January 2008 but there is no current domestic market as no emitting sector requiring units has entered the scheme. Finalising sector obligations will create a market and income stream and generate interest in further forest plantings. Foresters will have options to sell units internationally or bank them so will not be overly disadvantaged by a fixed price option.

Pre-1990 forests (approximately 1.2 million hectares) incur deforestation liabilities for harvesting and not replanting. These are unaffected by the changes except in having access to the $25 fixed price option. Allocations for these forest owners will proceed in 2010 and these units will be bankable and able to be sold internationally.

No change is made to provisions of the Act with respect to offsetting in Commitment Period 1 (CP1) due to the financial risks to Government and the economy. Minor changes in the Act will be made in respect of tree weeds and some technical aspects of reporting.

3. How will changes to the Emissions Trading Scheme impact on industry?

Industry benefits from the transitional phase of only a 50% obligation during CP1 and the fixed price option which provides increased certainty. The sector also gains from the six month delay in entry.

The changes in allocation support for trade-exposed, emissions-intensive industry will encourage increased efficiency without penalising production increases. The phase-out changes will give industry confidence that they are not expected to bear costs greater than similar developed countries, particularly Australia.

4. How will changes to the Emissions Trading Scheme impact on the fishing sector?

Fishing benefits from the 50% obligation that will halve the cost impact on fishing vessel operators. The increase in allocation support from 50% to 90% for CP1 will also assist the transition. The transitional allocations will be made to quota holders in recognition that the impacts ultimately affect quota values.

5. How will changes to the Emissions Trading Scheme impact on agriculture?

The sector entry dates for agriculture has been pushed back by two years and the allocation of emission units will now be done on an intensity rather than absolute basis, both of which will reduce the impacts of the ETS on the agriculture sector.

Agriculture will face a cost impact from the effects of increased fuel, industrial processes, electricity and energy from 1 July 2010, albeit reduced with the changes.

6. Why does the existing ETS legislation need amending?

Given the time taken to conduct the special select committee review of the emissions trading scheme and related matters, the entry date of 1 January 2010 for the stationary energy and industrial processes sectors is now not achievable. The entry date for these sectors has been pushed back by 6 months to allow the necessary administrative time to bring them into the emissions trading scheme. Mandatory reporting for this sector will still start on 1 January 2010.

The entry date for the liquid fossil fuels sector has been brought forward to align it with the date for the stationary energy and industrial processes sectors which is administratively easier, and also for fiscal reasons.

Amendments have also been made to improve the workability of the ETS and to take account of the global economic recession.

7. What impacts will these changes have on greenhouse gas emissions reduction of the ETS?

The greatest projected gain in emissions from the ETS are from forestry and these are not materially affected by the changes. The strong disincentives for deforestation reduce New Zealand's projected emissions. Assuming new afforestation of 50,000 hectares per year, New Zealand's emissions in 2020 would decrease by approximately 20% relative to 1990 levels. The lower price signals to sectors in the transitional phase is not expected to materially affect emission levels. The degree of emission reduction beyond 2013 from the ETS will be dependent on a range of factors including the international carbon price.

8. How are these changes consistent with the approach recommended by the Emissions Trading Scheme Review Committee?

The Review Committee recommended that New Zealand have an emission trading scheme and that all economic sectors, including agriculture, are included in it. They recommended that international links are adopted between the New Zealand Emissions Trading Scheme and other Kyoto-compliant schemes internationally that will lower the overall cost of reducing emissions with environmental integrity and deliver economic transformation more efficiently.

They also confirmed that the upstream point of obligation was appropriate for most sectors and for agriculture that the point of obligation would move to the farm level over time.

The committee also recommended providing certainty for foresters.

9. How are these changes consistent with the Government's intention to align more closely with Australia's approach?

Most importantly, the transition support for emissions-intensive, trade-exposed industry is being closely aligned with Australia by being production based, subject to similar intensity tests and a similar timetable for phase-out.

10. How are these changes consistent with National's pre-election commitments on the ETS and climate change?

National was committed pre-election to tackling climate change by introducing an emissions trading scheme, especially for the electricity sector, and to encouraging forest planting.

National also had six pre-election concerns about the emissions trading scheme, for example balancing environmental and economic costs, that have been addressed by the changes to ETS policies.

11. How will these changes position New Zealand internationally for the Copenhagen climate change negotiations?

New Zealand would be well placed at Copenhagen if this modified ETS is settled in legislation by December. We would be ahead of both Australia and the United States where legislation introducing similar schemes is still being debated. While Europe has had an ETS since 2005, it covers a narrower range of sectors.

12. What will be the legislative process for the ETS Amendment Bill?

The intention is to have the bill passed by early December, before the Copenhagen climate change conference. This is likely to involve a shortened select committee process.

13. What concerns were raised by the Maori Party to the ETS?

National had discussions with the Maori Party about the design of the ETS. Pivotal to these discussions was the low price period and the two-for-one option to provide support to households.

14. Why has the date for the entry of transport (liquid fossil fuels) been brought forward six months?

Three factors, as well as fiscal considerations, influenced our decision to bring transport fuels forward by six months to July 2010.

First, transport emissions have increased 72% from 1990, the second largest increase after electricity. We want to get a price signal as soon as is possible to start influencing decisions over vehicle choice, transport mode and efficiency inputs.

Secondly, introducing liquid fossil fuels to the ETS is administratively straightforward and can be done by 1 July 2010.

Thirdly, it made sense to introduce stationary energy, transport and industrial processes (all sources of CO_2 pollution) at the same time.

It is worth noting that originally the previous Government proposed transport entry first on 1 January 2009 but deferred this to 1 January 2011 in response to high fuel prices last year that have since subsided.

15. Why has the date of entry for agriculture been deferred until January 2015?

A number of factors have influenced this decision. Prominent among these were that introducing agriculture to the ETS poses administrative difficulties because of the complexities of measuring, monitoring, reporting and the number of industry participants.

Further, the technologies available for reducing emissions in the agriculture sector are limited and we intend to allow sufficient time for agricultural research to show benefits.

The Government remains of a view that agriculture should be part of an ETS but we are being more realistic about how challenging a job this will be. We are also concerned about the costs to the sector.

16. What changes are being made to the phase-out of transitional support for industry?

A transition phase for industry will operate from July 2010 to December 2012, during which the sector will be required to surrender only one emission unit for every two tonnes of emissions. The price of emission units will also be fixed at $25.

The level of assistance will initially phase out at a rate of 1.3% a year beginning in 2013, which is lower than in the current Act.

17. What are the fiscal implications for Government from these changes in the ETS?

There are significant fiscal implications in the period to 2013, estimated at approximately $400 million. Much of this fiscal cost for the Government flows through to support for consumers.

18. What provision will there be in law for ongoing review of the ETS?

The ETS will be reviewed every five years, as stipulated in the current Act. The first review will be undertaken in 2011.

19. Will the Government be delivering on its policy to put its long term climate change policy into law?

The emissions trading scheme will help meet the Government's interim and long-term targets of reducing greenhouse gas emissions 10-20% by 2020 and 50% by 2050.

20. What steps will the Government be taking prior to July 2010 to assist business and households understand an ETS?

The Government will implement a comprehensive communications plan to ensure businesses and householders understand the implications of the ETS.