

NEW ZEALAND'S EMISSIONS TRADING SCHEME

New Zealand's revised emissions trading scheme (NZ ETS) became law in December 2009. The NZ ETS will have a financial effect on most businesses from July 2010.

It is important for businesses to understand the NZ ETS so that they can assess and prepare for the cost impact. A limited number of businesses will have direct compliance obligations, but all businesses will be indirectly impacted by the pass through of costs under the NZ ETS. Businesses will need strategies in place to address the impact of a price of carbon and to understand the range of business risks. Managing these risks will involve implementing appropriate management reporting systems to satisfy the compliance regime, consideration of carbon costs in the supply chain and the need to consider the investment decisions based on these new parameters. The NZ ETS will also be a significant catalyst for opportunities, where businesses will need to develop robust strategy to seize the potential benefits inherent in a new approach to carbon.

KEY ASPECTS OF THE NZ ETS

The ETS is a price based measure creating a financial driver to reduce emissions by imposing a cost on carbon for all sectors and gases.

WHO IS CAPTURED AND WHEN?

2007	2008	2009	2010	2011	2012	2013	2014	2015
	Jan 2008 Forestry 		July 2010 Liquid fossil fuels Stationary energy Industrial processes 			Jan 2013 Waste and synthetic gases 		Jan 2015 Agriculture 

PRICEWATERHOUSECOOPERS 

- Forestry has been included within the NZ ETS since 2008. Forest owners need to be completing a stock-take of their forestry holdings to determine whether participation is compulsory (through the holding of a pre-1990 forest). If the holding is less than 50 hectares then an application for exemption should be considered. If an exemption is unavailable, forest owners may be eligible to apply for free allocations to partially offset the loss of value in land or liability that is created through deforestation.
- The liquid fossil fuels, stationary energy and industrial process sectors are required to report emissions from 1 January 2010 and commence unit surrender obligations from 1 July 2010.
- The NZ ETS covers emissions produced from non-organic waste and also synthetic gas manufacture or importation of synthetic gases either in bulk or in products. Those exporting or destroying synthetic gases will be eligible to receive emissions units for the reduction in emissions that would have otherwise occurred in New Zealand. Waste and synthetic gas participants may begin voluntarily reporting on 1 January 2011, must begin reporting from 1 January 2012 and will have full obligations for the surrender of emission units from 1 January 2013.
- The agricultural sector will enter the NZ ETS on 1 January 2015 but may begin voluntary reporting from 1 January 2011 and must begin mandatory reporting from 1 January 2012.
- Those choosing to voluntarily opt in to the NZ ETS will be subject to the same obligations, regulations and requirements as mandatory participants.

WHAT IS REQUIRED?

- As the point of obligation currently lies high in the supply chain, only a limited number of businesses will be mandatory participants. Generally, these will be miners and importers of coal and gas, those removing liquid fossil fuels from the refinery, or those undertaking specific industrial processes.
- Businesses who are not participants will also need to consider the financial impact on aspects of their business given the indirect flow on costs associated with carbon pricing.
- Transitional rules apply to participants, other than forestry. Participants must calculate the emissions from their activities and, until 31 December 2012, surrender one emission unit or pay \$25 for every two tonnes of greenhouse gas emissions for which they are responsible.
- Participants must register under the NZ ETS within 20 days of becoming a participant and apply to open a holding account for emissions units.
- Free allocations of emission units may be available to a business if it conducts a specified activity which is both emissions intensive and trade exposed. Specific applications must be filed and businesses must respond to relevant Gazette notices within prescribed dates.
- Participants will need to have robust systems in place to facilitate measurement of emissions and annual reporting. These compliance systems must also be able to inform tax and accounting requirements.



COST

Transitional phase: To facilitate a smooth entry into the NZ ETS, a two limb transitional phase from the 1 July 2010 to 31 December 2012 will be used to soften the cost of carbon to participants. The stationary energy, industrial processes and liquid fossil fuel sectors will be subject to a 'two for one' system where surrender of one compliant unit will be required for every two tonnes of CO₂e emitted. These sectors, and the forestry sector, will also be able to satisfy emissions liabilities with a Government facilitated \$25 fixed price option, rather than having an obligation to acquire emissions units from the market to meet their obligations under the NZ ETS.

Industrial Allocations: As the NZ ETS is specific to New Zealand, it may create an inherent disadvantage for emission intensive, internationally trade exposed industries. Therefore, activities deemed at risk will be given free allocations of units to shield them from the full cost of carbon and avoid leakage. Activities determined to be highly emissions intensive will receive initial assistance of 90% of a prescribed baseline and moderately emissions intensive activities will receive a 60% free allocation. Allocation is based on an industry average and will continue until 31 December 2012 when assistance

will be phased out at a rate of 1.3% per annum until 2050. The pool of available credits for allocation is uncapped. Waste, synthetic and gas liquid fossil fuels activities will not be eligible for free allocation. Baselines will be reviewed five yearly.

Penalties: Participants must have up to date systems for measuring and monitoring emissions to avoid facing severe financial penalties. A participant must meet their surrender obligations and correctly submit an emissions return on the due date, under a self assessment system. Failure to do so will result in a need to 'make good' and the business may face a \$30 penalty per tonne if the shortfall is not paid within 20 days of the determination of a breach. This rate increases to a \$60 penalty per tonne of shortfall if the act is done knowingly. Failure to meet obligations can also result in civil and criminal penalties.

Indirect costs: Whilst not all businesses participate in the ETS, most will face increased costs, particularly from fuel and electricity, and as a result should consider the impact on their operations, profitability and financial position.

RISKS

Financial: the cost of carbon will have a significant impact, necessitating the need to have strong carbon management strategies and carbon purchasing strategies in place, where relevant.

Regulatory: strict compliance with the NZ ETS will avoid penalties for misreported emissions, failure to surrender sufficient units or failure to meet reporting deadlines.

Market: focus should be on changing business practice to prepare businesses for potentially the full international market price of carbon from 2013.

Systems: businesses need to have emissions measuring and reporting systems in place which also inform accounting and tax requirements. This information can also be used to educate investment decisions.

Contractual: businesses need to be aware of the risk involved with the pass through of costs under supply agreements.

Investment: investors should consider the impact of a cost of carbon on asset purchases, ongoing operations and the value of potential investments.

New Zealand's actions in addressing climate change facilitates significant opportunities for business wishing to pursue investment in New Zealand. Businesses investing in New Zealand will also need to factor in the associated obligations and financial impacts of a price on carbon on their operations, and manage these in a competitive manner.

If you require further advice there are carbon advisory firms offering advice and assistance in this area.

OPPORTUNITIES

New Zealand has an abundance of clean energy and a well educated population responsive to innovation. This makes New Zealand the ideal location for investment:

Clean economy: There is investment opportunity within the five pillars of a clean economy; clean energy, clean transport, clean industry, clean agriculture and clean environment.

Energy: New Zealand's has a 65% renewable energy profile. Specific investment potential surrounds development of wind, geothermal and tidal energy.

Agriculture: as one of New Zealand's largest exports, the New Zealand Government is strongly focussed on ways to reduce the emissions produced by agriculture. Significant opportunities exist.

Low carbon footprint: As an educated economy with a low carbon footprint, New Zealand is an ideal location to incubate new businesses. The combination of a highly skilled workforce and plentiful access to renewable energy means the carbon footprint for products produced or services supplied from New Zealand is low.