



New Zealand Emissions Trading Scheme

What it means for the tourism industry



Photo: Devang Tailor

Introduction

The New Zealand Emissions Trading Scheme (ETS) is a key part of the Government's response to global climate change. It is the primary means by which New Zealand will meet its obligations under international agreements such as the Kyoto Protocol (http://unfccc.int/kyoto_protocol/items/2830.php).

Under the ETS some businesses will be legally required to surrender 'emission units' to cover their direct greenhouse gas emissions or the emissions associated with their products. The need to acquire these emission units will effectively put a price on emissions of these greenhouse gases.

The trading component of the ETS does not apply to the tourism industry (with the exception of domestic aviation*), however, operators will be impacted by downstream price increases and will pay higher prices for electricity, petrol, food and waste.

*Aviation

Domestic aviation

All fuel used for domestic flights is covered by the ETS, regardless of which airline buys the fuel.

International aviation

Emissions from fuel used by international aviation and marine transport are exempt from the scheme, consistent with the Kyoto Protocol. However, large domestic users of jet fuel can participate voluntarily in the ETS at any time. New Zealand is also involved in discussions about how to reduce international aviation emissions with the International Civil Aviation Organisation and the United Nations Framework Convention on Climate Change.



Photo: Auckland Airport

Visitors offsetting emissions

International visitors do have the option of buying voluntary credits to offset their emissions. Some airlines and travel companies now offer this option when travellers book their trips (e.g. Air New Zealand, Qantas, Virgin Blue Network)

Impacts

Price rises as a result of the Emissions Trading Scheme:

Petrol prices

A fuel price rise is expected in mid-2010 when transport fuels are included in the ETS. The ETS may initially add around 3 cents a litre to the price of fuel. After the transition phase (July 2010 to December 2012) the increase in fuel prices will partly depend on the international price of carbon at the time.



Photo: Magic Travellers Network

Electricity prices

An electricity price rise is expected in mid-2010 when electricity production is included in the ETS. The ETS will initially add around 1% to the price of a kWh of electricity. After the transition phase (July 2010 to December 2012), the increase in electricity prices will partly depend on the international price of carbon at the time.

Food prices

Small price rises in food and other items may occur when fossil fuels are included in the ETS in July 2010 because it will become more expensive to transport them.



Photo: Nelson Tasman Tourism

Waste disposal prices

A small price rise in the cost of disposing of waste at some landfills is expected when the waste sector joins the ETS in 2013.

Inflation

The Government says inflation impacts from the ETS will be mostly the result of electricity and fuel prices, but are expected to be small.

Background



NEW ZEALAND EMISSION UNIT REGISTER
A Business Unit of the Ministry of Economic Development

How the ETS works

By 2015, once the emissions trading scheme has been fully phased in, it will cover greenhouse gas-emitting activities in all major sectors of the economy: forestry, stationary energy, industrial processes, transport fuels, agriculture, synthetic gases and waste.

Companies covered by the ETS are called participants and they must account for the emissions that result directly or indirectly from their activities.

The majority of participants will be large, sophisticated companies. Small or medium-sized businesses, with the exception of some parts of forestry and agriculture, and households won't face any direct obligations or compliance costs.

Participants must register with the New Zealand Emission Unit Registry. They then record and report greenhouse gas emissions and surrender emission units when required. This is done on an annual basis. (There is also the option of 'removal activities' – these activities remove or reduce emissions or prevent them being released into the atmosphere).

The ETS uses self-assessment for monitoring and reporting emissions produced by participants. The emissions reports may be audited (verified) on a random basis. The method for calculating emissions production and removal is – or will be – detailed in regulations for each sector.

Timeframe for sectors to enter the trading emissions scheme

Sector	Voluntary reporting	Mandatory reporting	Full obligations
Forestry	-	-	1 January 2008
Liquid fuels *	-	1 January 2010	1 July 2010
Electricity production	-	1 January 2010	1 July 2010
Industrial processes	-	1 January 2010	1 July 2010
Synthetic gases	1 January 2011	1 January 2012	1 January 2013
Waste	1 January 2011	1 January 2012	1 January 2013
Agriculture	1 January 2011	1 January 2012	1 January 2015

*Almost entirely for transport. Fuel suppliers who take fuel from the refinery or who import it will be required to participate in the ETS (this currently includes BP, Caltex, Gull, Mobil and Shell). Individual vehicle users are not participants. And see aviation above.

Emissions trading

Emissions trading is a market-based approach for reducing emissions of greenhouse gases. Emission units – sometimes called ‘carbon credits’ – are traded between participants in the ETS.

The ETS introduces a price on greenhouse gas emissions to provide an incentive for people to reduce those emissions and plant forests to absorb carbon dioxide.



Photo: Pa Harekeke Eco Cultural Centre

Emissions trading provides flexibility in how participants in the scheme comply with their obligations, enabling them to choose the least-cost way to reduce their emissions.

The New Zealand scheme covers emissions of the following six greenhouse gases: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF₆). These are the greenhouse gases covered by the Kyoto Protocol to which New Zealand is a signatory.

The emissions trading scheme is internationally linked and reflects international climate change rules

Emission Unit of trade

The primary unit of trade for the ETS is the New Zealand Unit (NZU), which is the unit created and distributed by the Government.

Participants are required to surrender NZUs to the Crown to meet their obligations under the ETS. Most of the emission units created internationally under the Kyoto Protocol are also acceptable for surrender.

During the transition phase (July 2010 to December 2012) participants must surrender one emission unit to the Government for every two tonnes of greenhouse gas emissions in a calendar year. During this period, participants will be able to buy emission units from the Government for a fixed price of \$25. This limits the effective cost of emissions to NZ\$12.50 per tonne.

After the transition phase, one emission unit will be equal to one tonne of gas emissions. After the transition phase, the price of emission units will be determined in the trading market and will tend to match the international price of emission units.

Those that need to buy emission units to comply with their obligations under the ETS can buy them directly from other scheme participants who may have a surplus, or through a carbon market broker.

NZUs can only be traded domestically, however they can be converted into Kyoto units to be traded offshore.

In certain circumstances, participants may be allocated emission units from the Government (see Allocation below).

How does emissions trading work?

The emissions trading scheme can be explained by using this example.

- Firm A is an oil company. It needs to buy emission units to cover the greenhouse gas emissions it is responsible for.
- Firm B is a large forestry company that receives emission units for land it is planting in forests. It is also cutting down some trees, leading to emissions for which it has to surrender emission units. Initially, Firm B has a shortfall of units but, as the new forest matures over time, it will have spare units it can sell.
- Firm C is a major industrial user of electricity and sees an increased cost in its electricity prices as a result of the ETS. To help Firm C adapt to these higher costs, the Government gives Firm C a free allocation of emission units, which Firm C can sell to offset its increased electricity costs.

Under the ETS, Firm A and Firm B both buy Firm C's emission units in the short term to cover their emissions. Because it now has to pay higher energy prices, Firm C finds it is cheaper to invest in energy efficiency. Over time, as its forest matures, Firm B has spare emission units available and sells them to Firm A.

Allocation for trade-exposed industries

The Government intends to give some emission units to firms that will be significantly adversely affected by the costs imposed by the ETS. This is called 'allocation' or free emission units. These are gifted free to some individuals or companies by the Government.

Allocation of emission units will protect the competitiveness of firms that face a large increase in costs as a result of the introduction of the ETS but will not be able to pass those costs on to customers through higher prices. This applies to firms that are (1) trade-exposed, i.e. they face competition from foreign firms that do not face a comparable cost on emissions in their home countries, and (2) particularly emission-intensive

Those eligible for allocation of emission units include trade-exposed industrial producers, forest owners with pre-1990 exotic forests, fishing quota owners, and the agriculture sector. Businesses that can pass on the costs of the emissions trading scheme to their customers, for example fuel suppliers, are not eligible for allocation. They'll have to buy the EUs they need to meet their obligations to surrender units under the emissions trading scheme.



Photo: Tourism Dunedin

The Government is currently consulting with industry about the allocation of emission units. Climate Change Issues Minister Nick Smith says allocations for trade-exposed industries that are emissions intensive is the most complex aspect of the ETS. He says these are necessary to avoid the problem of exporting these industries and their emissions and jobs offshore. Allocation submissions close 12 February 2010.

Government proceeds

Because participation in the ETS is being phased in over or after the first Kyoto protocol commitment period, the Government will bear responsibility for meeting much of New Zealand's Kyoto compliance

costs until 2013. Beyond 2013, costs and benefits to the Government will depend on any post-2012 emissions reduction targets. The Government's aim is for the ETS to be revenue neutral.

Administration

ETS emission reporting, surrenders, allocations and other transactions are administered through the NZ Emission Unit Register (NZEUR). The Ministry of Economic Development administers the ETS and runs the NZEUR.

Development of the regulations that govern emission reporting and allocations, and consultation on each of them, are led by:

- The Ministry of Agriculture and Forestry for forestry and land use
- The Ministry of Transport for liquid fuels
- The Ministry for the Environment for the stationary energy and industry sectors

These arrangements are likely to change over the next two years with the establishment of an Environmental Protection Authority (EPA).

ETS reviews

The ETS will be reviewed every five years with the first review in 2011. Reviews will consider social, economic and environmental effects of the ETS and how it links with other ETSs.

Reducing your costs

Individuals and companies not included in the ETS can take steps to reduce fuel and electricity bills, for example by using public transport and implementing energy efficiency measures.

Those who want to take direct responsibility for emissions can buy carbon credits on the Kyoto or voluntary market to offset emissions or choose goods and services from providers who are offsetting the emission associated with their products.



Photo: Grand Mercure Nelson

Renewable energy

You can't claim carbon credits directly for small-scale renewable energy projects, but electricity prices will rise as a result of the ETS putting a cost on fossil fuels. This will provide an incentive for renewable sources of energy which will become cheaper relative to fossil-fuelled electricity generation.

Biofuels

Biofuels combusted to produce electricity and industrial heat will not be covered by the ETS.



Photo: Windflow Technology

Kyoto Protocol

The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty signed in 1992, aimed at combating global warming. The Kyoto Protocol is a protocol to the UNFCCC and was signed in 1997. It sets binding emissions targets for developed countries, covering the period from 2008 to 2012.

Why we are concerned

Rushed implementation

The tourism industry has always supported the important environmental outcomes of the ETS, but we continue to believe that the timeframe for implementation has been rushed. There has also been inadequate identification of the long-term impacts of emission trading from industries generally.

Economic impact

It is disproportionate for a small country like New Zealand to be attempting to become a global leader on climate change policy if doing so risks internal economic instability. Although the trading component of the ETS will not apply to the tourism industry (with the exception of domestic aviation), the associated downstream impact from utility/food/waste price increases will impact on small to medium sized enterprises and larger participants such as hotels and attractions.

Competitive disadvantage

The introduction of the ETS into New Zealand in advance of many of our major trading partners, in particular Australia, risks placing many businesses in this country at a competitive disadvantage. The price of carbon is likely to undermine New Zealand's international competitiveness in areas that have previously demonstrated competitive advantage.

New Zealand's tourism industry is facing increasing competition from traditional markets like Australia (which will not introduce its ETS until mid-2011), and also from emerging markets, especially in Asia and South America. Increased operational costs as a result of the ETS could place the industry at a competitive disadvantage. Although New Zealand is positioned as a top end destination, price remains a key driver for traveller decisions. It will not be feasible to pass on increased costs to customers and expect to grow the business and attract visitors.

While tourism operators are increasingly looking to become more energy efficient, they must not do so to the detriment of the visitor experience. For instance, they can't reduce heating in cold winter months or reduce air-conditioning in hot summer months to compensate for energy price increases.

TIA made two submissions about the ETS on behalf of members. Read them on the TIA website.

[\[http://www.tianz.org.nz/main/environmental\]](http://www.tianz.org.nz/main/environmental)

Sources of information

Climate change information New Zealand
www.climatechange.govt.nz

Ministry of Economic Development
www.med.govt.nz

New Zealand Emission Unit Register

www.eur.govt.nz

Ministry for the Environment

www.mfe.govt.nz

Environmental Protection Authority

www.epa.govt.nz

MAF – Sustainable Forestry

www.maf.govt.nz/sustainable-forestry/

Energy Efficiency and Conservation Authority

www.eeca.govt.nz

New Zealand Government

www.beehive.govt.nz

International

United Nations Framework Convention on Climate Change (and Kyoto Protocol)

www.unfccc.int/

European Union Emission Trading System

<http://ec.europa.eu/environment/climat/emission/>

Australian Government Department of Climate Change

<http://www.climatechange.gov.au/government/initiatives/cprs.aspx>

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