



PROACTIVE RELEASE COVERSHEET

Minister	Hon Simon Watts	Portfolio	Climate Change
Name of package	2026 ETS settings	Date to be published	20 August 2026

List of documents that have been proactively released

Date	Title	Author
4 December 2025	25-BRF-00017 - Options for early signalling of 2026 ETS settings	Ministry for Cities, Environment, Regions and Transport
20 February 2026	26-BRF-00354-Options for signals on ETS auctions	Ministry for Cities, Environment, Regions and Transport
19 March 2026	26-BRF-00324-Key judgements and preliminary options for 2026 ETS settings	Ministry for Cities, Environment, Regions and Transport
30 March 2026	26-BRF-00490 - Appendix 2- Paper 2.1 2026 ETS settings direction	Ministry for Cities, Environment, Regions and Transport
23 April 2026	26-BRF-00746-2026 ETS settings: options for consultation	Ministry for Cities, Environment, Regions and Transport
24 April 2026	26-BRF-01054-ETS settings 2026 and default carbon look up tables work programme	Ministry for Cities, Environment, Regions and Transport
5 May 2026	26-BRF-01082-Approval to consult on ETS settings and regulatory updates for 2026	Ministry for Cities, Environment, Regions and Transport
19 May 2026	26-BRF-01294- Approval to lodge – Approval to consult on 2026 NZ ETS settings and annual regulatory update	Ministry for Cities, Environment, Regions and Transport
21 May 2026	26-CAB-00747 - Approval to consult on 2026 NZ ETS settings and annual regulatory updates	Ministry for Cities, Environment, Regions and Transport
27 May 2026	ECO-26-MIN-0092 Minute	Cabinet Office
22 July 2026	26-BRF-01783 - 2026 ETS settings - Final decisions	Ministry for Cities, Environment, Regions and Transport
22 July 2026	2026 ETS Settings Summary of Submissions	Ministry for Cities, Environment, Regions and Transport
22 July 2026	Accordance assessment - 2026 ETS Settings	Ministry for Cities, Environment, Regions and Transport

3 August 2026	2026 ETS unit and price control settings for units - Regulatory Analysis Summary	Ministry for Cities, Environment, Regions and Transport
31 March 2026	ETS overview and market commentary	Ministry for Cities, Environment, Regions and Transport
13 April 2026	2026 ETS unit limits and price controls scenarios - MAG consultation	Ministry for Cities, Environment, Regions and Transport
14 April 2026	MAG session 2 - Scenario testing	Ministry for Cities, Environment, Regions and Transport

Information redacted YES

Any information redacted in this document is redacted in accordance with the Ministry for Cities, Environment, Regions and Transport's policy on proactive release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Summary of reasons for redaction

Some information has been withheld for privacy reasons, to maintain legal privilege, to protect the confidentiality of advice tendered by officials, and for policy decisions still under consideration.

Note

- Figure 1 in 26-BRF-00490 - Appendix 2- Paper 2.1 2026 ETS settings direction is based on information provided by Jarden Group Limited and released with permission.
- Draft versions of documents are not provided when final versions are available.
- Documents 15-17 are already publicly available, but are included for the sake of completeness.

BRIEFING

Options for early signalling of 2026 ETS settings

Date:	4 December 2025	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	25-BRF-00017

	Action sought	Response by
Hon Simon Watts Minister of Climate Change	Discuss options with officials	8 December 2025

Action for Minister's Office staff

Appendices and attachments

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Kirsty Flannagan	General Manager		
Simon Mandal-Johnson	Manager	9(2)(a)	✓
Arek Wojasz	Author		

The following departments/agencies have been consulted
N/A

Minister's office to complete:

☐ Noted	☐ Approved	☐ Declined
☐ Overtaken by Events	☐ Needs change	☐ Seen
	☐ See Minister's Notes	☐ Withdrawn

Minister's Comments

BRIEFING

Options for early signalling of 2026 ETS settings

Date:	4 December 2025	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	25-BRF-00017

Purpose

1. This briefing provides options on early signalling or announcements of 2026 New Zealand Emission Trading Scheme (ETS) settings to help improve ETS market confidence.

Key points

2. You have requested advice for options for the early signalling or announcement of ETS settings to help improve ETS market confidence and reduce current price volatility.
3. There are four major factors to consider for any early signal:
 - a. Content: How far to signal 'tighter' ETS settings, balancing short term considerations with the need to ensure long-run functioning of market.
 - b. Timing: When the signal should be sent (especially: do you want to send a signal in advance of consultation, planned for May?).
 - c. Process: How closely the signal aligns with both market expectations of the 'right' process and the procedural requirements set down in the Climate Change Response Act 2002 (CCRA).
 - d. Cabinet: The need for Cabinet agreement to any substantive decision.
4. There are a range of options across these dimensions that you can choose from, and there are trade-offs for both the substance of the message and how the message is delivered.
5. Content: Making it clear that there is no intention to increase auction volumes or weaken price controls would address concerns that the Government intends to loosen settings in the future. However, actions that restrict supply now (to address short-term price volatility) risk overly restricting future supply, given our projections suggest that supply could be increasingly tight as we approach 2030.
6. Timing: Sending a signal through the consultation document in May would be more compatible with market expectations of the 'right' process and would have the fewest legal risks but would mean a delay in responding to current uncertainty.
7. Process: The more direct and specific the announcement or signal on ETS settings, the more likely it is to provide reassurance to the market. However, responding out of sequence with the standard ETS settings process sends a signal of rushed and reactive policy. It will also be important to ensure that any process complies with your legal obligations under the CCRA, including for decisions to be informed by the advice of the Climate Change Commission (the Commission) and consultation.

8. Cabinet: Cabinet agreement will be required for any options makes a firm signal of Government intent and would be advisable for all options. This is necessary to provide credibility to any early signal or announcement and ensure they are reflected in final settings decisions. Any later deviations from an early signal would significantly negatively impact market confidence.
9. We have listed several options for early signals or announcements below. Importantly, all of the options presented are provisional and would require fuller analysis before final decisions are made
- Option 1 - Signal policy intent by publicly seeking advice from the Commission on tighter settings (potentially via a s5k request)
 - Option 2 - Signal policy intent via a speech without specific commitment
 - Option 3 - Signal policy intent via a preferred option in consultation document
 - Option 4 - Make an early announcement on part of ETS settings – maintain existing price controls
 - Option 5 - Make an early announcement on part of ETS settings – committing to tight unit supply in response to auction volumes going unsold
 - Option 6- Make an early announcement of both price control and auction volume settings
10. We see value in following the standard ETS settings process without an early signal or announcement. It demonstrates that the Government is focused on medium-term market fundamentals and New Zealand's emissions reduction targets and will likely be viewed as more considered and less reactive.
11. This is compatible with **Option 3 – Signal policy intent via preferred option in consultation document**. Adopting this option would allow the Government to send a clear signal in May as to its preferred direction, several months earlier than normal whilst remaining within the standard process.
12. Alternatively, if you wish to send a signal earlier than May, then we recommend following **Option 4 - announce a plan to maintain existing price controls**, prior to formal consultation. This would send a clear signal to the market that the Government is committed to the NZU price rising and that additional auction volumes will not be allowed to come to the market without a significant increase in market price. This would be followed by the standard ETS settings consultation where we would test this approach to price controls and consult on a range of auction volume options.
13. This approach allows for an early, credible signal, with the least risk to future market functioning given uncertainty and challenges with determining appropriate auction volumes, and the likelihood of a future supply crunch. Previous advice from the Commission and feedback from consultation also provides a strong rationale for maintaining existing price control settings.
14. If you wish to send an early signal, but a less definitive one, and do not wish to get early engagement with Cabinet, then it is worth considering **Option 1 - Signal policy intent by publicly seeking advice from the Commission on tighter settings**. This could be progressed without Cabinet approval as it represents a request for additional advice, rather than a more formal Government signal. However, there is still a high risk of negatively impacting market confidence if the Government does not ultimately follow through on the

Commission's advice. Given that, if you pursue this option, you should still consider whether a Cabinet process is helpful, including via an oral item.

15. We recommend that you discuss the possible options with officials before providing direction on your preferred approach.
16. Early signalling of 2026 ETS settings may help provide short-term direction for the market but will not address more fundamental underpinning concerns on the design of the ETS or the Government's commitment to climate objectives. We have not considered these within the scope of this advice.

17. 9(2)(h)

[REDACTED]

Recommended action

The Ministry for the Environment recommends that you:

1. **Discuss** options with officials

Agree / Disagree



Simon Mandal-Johnson
Manager, ETS Policy
Ministry for the Environment

22 / 1 / 2026

Hon Simon Watts
Minister of Climate Change

___ / ___ / 2026

Options for early signalling of 2026 ETS settings

Background

1. In response to recent Government climate announcements, the New Zealand Unit (NZU) price has dropped significantly and remains volatile. Volatility and uncertainty are damaging for the market and a low NZU price may discourage investment in emissions reduction activities going forward.
2. You have requested advice on options to provide an early signal or announcement of New Zealand Emissions Trading Scheme (ETS) settings that could help to improve market confidence in the future of the ETS and to reduce current price volatility.

Policy advice

ETS settings can help improve confidence to the ETS market but have limitations

3. This advice focuses on ETS settings. An early signal on ETS settings could be effective at providing short-term certainty and addressing some of the underlying drivers for the volatility and lack of confidence in the ETS market.
4. However, ETS settings options are limited in their ability to address more fundamental underpinning concerns on the design of the ETS or the Government's commitment to climate objectives. Furthermore, ETS settings cannot rapidly address the large stockpile of units overhanging the market. Because of this, these options are limited in how much they can improve market confidence. Sending an early signal also has significant risks to market confidence if it were not ultimately reflected in final ETS settings decisions.

There are several options for what signal to send and how

5. There are a range of options available to provide an early direction or signal to the market on expected 2026 ETS settings decisions. It is important to consider both what message you wish to send, and how

Content: Signals on auction volumes can be challenging to balance short-term and long-term impacts

6. Since the November announcement, several commentators have expressed concerns that the removal of the New Zealand's Nationally Determined Contribution (NDC) accordance requirement could be used to allow for a loosening of ETS settings in future decisions. Making it clear that there is no intention to increase auction volumes or weaken price controls would help to address those concerns.
7. You could go further and commit to even tighter auction volumes. However, this approach comes with risks. MfE modelling suggests the ETS market will become tighter as we approach 2030 because of a combination of the following:

- a. Proactive reduction of the surplus stockpile through tightened auction volumes in 2024 and 2025 ETS settings decisions.
 - b. Some forestry units earned in the fifth mandatory emissions return period (2026-30) will not be issued to foresters until 2031
 - c. Surrender obligations remain high
 - d. Recent auctions have not cleared and price floor (intentionally) is expected to restrict future auction clearance
 - e. 2025 ETS settings decisions have kept auction volumes relatively tight.
8. These modelling estimates reflect our best projection of the future but forward projections are highly uncertain and depend on a range of assumptions, particularly around the liquidity of stockpiled units.
 9. The result is that we expect that, all else held equal, the NZU price will rise between now and 2030 as liquid supply becomes increasingly constrained amidst fairly consistent demand. Actions that further restrict supply now to address short-term price volatility risk overly restricting future supply and inadvertently leading to higher prices than needed to meet emissions budgets and further price volatility.
 10. These possible risks to the long-term stability of the market support the need for thorough and careful analysis of the short and long-term impacts of any auction volumes options.
 11. On the other hand, we consider options that maintain (or increase) price control settings, especially the auction floor to be less risky in terms of long-term stability. The auction floor provides a guardrail but does not directly drive price. It will send a clear signal that the Government will not auction volumes at a lower price. It will also send a clear signal to the market that a key policy concern from Settings 2024 has been decisively ruled out.

Process: There are tradeoffs in the timing and nature of early ETS settings signals or announcements

12. The more direct and more specific the announcement or signal on ETS settings, the more likely it is to provide reassurance to the market, but there are important trade-offs regarding the process.
13. Responding out of sequence to the standard ETS settings process sends a signal of rushed and reactive policy. This could further exacerbate market volatility and undermine the market-led approach. However, this would depend on the nature of the response: an early full settings decision would send a stronger signal than a direction-setting speech.
14. Additionally, your recent decision to move to biennial ETS settings was based on the rationale that more frequent settings decisions contribute to market instability. An early, out-of-sequence pre-announcement on ETS settings risks being seen as running counter to this rationale.
15. 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]

16. Cabinet agreement will be required for any option that makes a firm signal of Government intent and would be advisable for all options, given the risk posed to market confidence if an early signal is not followed through. This will bring forward the first substantive Cabinet discussions on ETS settings by several months. The need for Cabinet approval means that the earliest that any announcements could be made would likely be February 2026.

Major options for early signals or announcements

17. We have highlighted some of the major options for early signals that could be considered in the summary table below. More detailed explanations of these options are available in **Appendix One**.
18. Other content/process variations and combinations are also possible and could be discussed further, if desired. All of the options presented are provisional and would require fuller analysis before final decisions are made.

Option	Pros	Cons
Option 1 – Signal policy intent by publicly seeking advice from the Commission on tighter settings	- Aligned with existing settings process – no process risks - Avoids rushed settings decisions - Could be followed without Cabinet approval (though with high risk of undermining market confidence if signal is not later followed by Cabinet)	- No specific plan or announcement - less effective at influencing market - Would need to agree scope and timing for work with Commission
Option 2 – Signal policy intent via a speech without specific commitment	- Can highlight circumstances and suggest ETS settings will remain tight but without making any firm commitments - Aligned with existing settings process – few process risks	- Lacks strong and precise commitment – limits effectiveness - Signal must be conditional on Commission advice and consultation – limits effectiveness - Signal on auction volumes requires rushed and incomplete analysis – risks longer term supply crunch or change in settings decision
Option 3 - Signal policy intent via preferred option in consultation document	- Clearer market signal than early expressions of intent - Aligned with existing settings process – no process risks - Avoids rushed decisions	More delayed signal – May 2026
Option 4 - Early announcement on part of ETS settings – maintain existing price controls	- Provides clear signal Government won't add volume until NZU price rise - Addresses key market uncertainty - Aligned with both 2025 Commission advice and consultation feedback	- Mis-aligned with existing settings process – appears reactive - Requires rushed and potentially incomplete analysis – risks change in settings decision - Announcement must be conditional on Commission advice and consultation – limits effectiveness

Option 5 - Early announcement on part of ETS settings – committing to tight unit supply in response to auction volumes going unsold	• Can make clear commitment – address specific uncertainty for market participants • Aligned with existing settings process – no process risks	• Specific commitment – doesn't preclude broader auction volume or price control changes • Less effective at influencing market than broader announcement. • Requires rushed and potentially incomplete analysis – risks longer term supply crunch or change in settings decision
Option 6 - Early announcement of both price control and auction volume settings	• Clear signal on both auction volumes and price controls.	• Requires rushed and potentially incomplete analysis – risks longer term supply crunch or change in settings decision • Mis-aligned with existing settings process - appears reactive • Announcement must be conditional on Commission advice and consultation – limits effectiveness

We see value in following the standard ETS Settings process, expected by the market.

19. Following the standard ETS settings process without an early signal or announcement demonstrates that the Government is focused on medium-term market fundamentals and New Zealand's emissions reduction targets and is not responding to short-term price changes or volatility. It also means the Government's response will likely be viewed as more considered and less reactive.
20. Crucially, it would allow for full internal analysis, Commission advice and consultation feedback to inform ETS settings decisions and ensure they are robust and effective in the short and longer term.
21. **This is also compatible with Option 3 – Signal policy intent via preferred option in consultation document.** This would allow the Government to send a clear signal in May as to its preferred direction, while still staying within the standard ETS settings process.

If you wish to send an earlier signal, we recommend announcing a plan to maintain existing price controls

22. **Announcing early in 2026 that the Government intends to maintain existing price controls (Option 4)** would send a clear signal to the market that the Government is committed to the NZU price rising and that additional auction volumes will not be allowed to come to the market without a significant increase in market price. This would be followed by the standard ETS settings consultation where we would test this approach to price controls as well as consulting on a range of auction volume options.
23. Doing so allows for an early credible signal with the least risk to future market functioning (given uncertainty and challenges with determining appropriate auction volumes, and the likelihood of a future supply crunch). Previous advice from the

Commission and consultation feedback also provides a strong rationale for this option. However, it still represents a departure from the standard process, rushes advice on price controls and could be seen by the market as reactive, with a possible impact on confidence. Cabinet approval would also be required for this option.

24. There is a risk that this option may not reassure the market as much as an announcement that also includes auction volumes, but there will be an opportunity to further tighten auction volumes through the standard ETS settings process if it is supported by more comprehensive analysis and advice from the Commission
25. If you wish to send an early signal, but a less definitive one, and do not wish to get early engagement with Cabinet, then it is worth considering **Option 1 - Signal policy intent by publicly seeking advice from the Commission on tighter settings**. This could be progressed without Cabinet approval as it represents a request for additional advice, rather than a more formal Government signal. However, there is still a high risk of negatively impacting market confidence if the Government does not ultimately follow through on the Commission's advice. Given that, if you pursue this option, you should still consider whether a Cabinet process is helpful, including via an oral item.

9(2)(h)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Next steps

30. We recommend that you discuss the possible options with officials before providing direction on your preferred approach.
31. If you want to consider any of the options in this paper, officials will provide you with more detailed advice early in 2026 on your preferred option, including consideration of communication options and detailed timelines for agency and ministerial engagement, and Cabinet approval. This will also consider how any approach to ETS settings will intersect with other policy decisions, including decisions on afforestation on Crown land and changes to the carbon default lookup tables.
32. As highlighted above, we highly recommend seeking Cabinet approval for most options. Depending on the agreement sought, this could require significant early ministerial engagement, as commitments will have implications for cost-of-living impacts. The need for Cabinet approval means that the earliest that any announcements could be made would likely be February 2026.

Appendix One – Major options for early signals or announcements of 2026 ETS settings

Option One - Signal policy intent via (public) direction to the Commission

1. You could direct the Commission, to include in its 2026 ETS settings advice additional settings options with tighter volumes, increasing accordance with the third emissions budget (EB3)².
2. This could take place early next year and send a signal that Government is considering maintaining or increasing ambition for 2026 ETS settings and is considering acting on the gap to EB3. It also avoids disrupting the existing settings process and would not risk violating the consultation and commission-advice requirements. However, it would be less effective at influencing the market than a specific plan or announcement.
3. This could be progressed without Cabinet approval as it represents a request for additional advice, rather than a more formal Government signal. However, there is still a high risk of negatively impacting market confidence if the Government does not ultimately follow through on the Commission's advice. Given that, if you pursue this option, you should still consider whether a Cabinet process is helpful, including via an oral item

Option Two - Signal policy intent via a speech without specific commitment

4. You could make a speech early next year to reassure the market that the Government is intending to maintain tight ETS settings through its 2026 ETS settings decision, without making a specific commitment. This could include highlighting some of the trends or factors likely to require unit settings to remain relatively tight and signalling that the rationale for keeping existing price controls still holds.
5. You recently agreed to announce updates to carbon lookup tables in early 2026. These could be an appropriate timing for such an announcement and would align with the ETS implications of the carbon lookup table announcement.
6. This approach would provide an early signal without disrupting the existing settings process and would not risk violating the consultation and commission-advice requirements. However, it would be less effective at influencing the market than a specific commitment.

Option Three - Signal policy intent via preferred option in consultation document

7. Historically, ETS settings options have been framed neutrally in consultation documents. The Government could instead present an option in the consultation document as the Government's preferred option. Presenting a preferred option that maintains existing price controls and relatively tight auction volumes would provide a strong signal to the market that the Government is committed to maintaining tight ETS settings.
8. This signal would be later than other options, as consultation is expected to begin in April/May 2026.

² This direction could be provided using a CCRA s5k request.

9. This option sticks closely to the required advice and consultation process, limiting any process-related risks. The preferred option would need be framed as pending consultation feedback in order to meet the consultation requirements outlined in the CCRA.

Option Four - Make an early announcement on part of ETS settings – maintain existing price controls

10. The Government could make an early announcement in early 2026 that it plans to maintain existing price controls.
11. Price controls are currently a more significant constraint than unit settings given the current market price. Announcing a plan to maintain existing price controls will signal that the Government will not allow further supply to come to market until the price rises significantly. It would also set the focus of discussion more squarely on price rather than auction volumes, which may be more impactful given the current gap between the auction floor price and market price.
12. This would again need to be caveated as pending Commission advice and consultation, but the clear signals from both the Commission and consultation feedback through the 2025 settings process make this plan more reliable than a plan that includes auction volumes, which are subject to far more uncertainty and diverse views on the appropriate level.

13. 9(2)(h)

Option Five - Make an early announcement on part of ETS settings – treatment of unsold auction volumes

14. The Government could make an early announcement in early 2026 committing to maintaining tight unit supply in response to auction volumes going unsold. The treatment of unsold auction volumes has been a source of uncertainty amongst market participants. This commitment would provide a signal that unsold units will not roll into future auction volumes.
15. This early announcement does not commit the Government to overall unit settings and would not disrupt the standard ETS settings process. It could be framed as stemming from the ETS Framework Review, noting that auction activity over the last year suggests a sizeable surplus, so we don't expect that additional auction volume will be needed in the 2026 settings.
16. However, this commitment is fairly specific and does not provide a broader commitment to not loosen ETS settings for other reasons. This early announcement may therefore have a limited impact in addressing market confidence.

17. 9(2)(h)

Option Six - Make an early announcement on full ETS settings

18. The Government could make an early announcement in early 2026 with a plan outlining specific unit limits and price controls that it expects to deliver through 2026 ETS settings, sending early and clear direction.
19. There would be significant surprise in the market at the Government making (even preliminary) ETS settings decisions so early, and it could be seen as reactive and not fully considered. This would run counter to the Government's goal of providing certainty and improving market confidence.
20. It would also be highly challenging to determine appropriate ETS settings given those timeframes and the ETS settings announced early would not be informed by advice from the Commission. This advice is important to ensuring the settings are fit for purpose and meet accordance requirements.
21. The requirement for ETS settings decisions to be informed by consultation and advice from the Commission means that any plan would need to be caveated as dependent on the Commission's advice and consultation feedback, weakening the possible signal.
22. This option holds reputational risks as settings would be substantially announced in early 2026 but the final accordance assessment would still need to take place as part of final ETS settings decisions approximately 4-6 months later, following consultation and advice from the Commission. Circumstantial changes could occur through the year that would require changes to the announced ETS settings in order to maintain accordance.
23. 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]



BRIEFING

Options for signals on ETS auctions

Date:	20 February 2026	Priority:	Urgent
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-00354

	Action sought	Response by
Hon Simon Watts Minister of Climate Change	Discuss with officials Identify your preferred options for inclusion in a paper to CPMG on 30 March	23 February 2026

Action for Minister's Office staff

Appendices and attachments

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Kirsty Flannagan	General Manager		
Ameera Clayton	Manager		✓

The following departments/agencies have been consulted

Minister's office to complete:

- | | |
|---|---------------------------------------|
| ☐ Approved | ☐ Declined |
| ☐ Noted | ☐ Needs change |
| ☐ Overtaken by Events | ☐ Seen |
| ☐ See Minister's Notes | ☐ Withdrawn |

Minister's Comments



BRIEFING

Options for signals on ETS auctions

Date:	20 February 2026	Priority:	Urgent
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-00354

Purpose

1. To seek direction on further work for options for auction settings for the New Zealand Emissions Trading Scheme (ETS) market.

Options for signals on ETS auctions

2. Although there has been a small recovery recently, ETS market prices remain well below auction reserve prices after a drop following the 4 November Climate Change Response Act (CCRA) amendment announcement.¹
3. You are presenting to the Climate Priorities Ministers' Group (CPMG) at its meeting on 30 March and we understand there may be interest in sending an immediate signal to the ETS market through pausing or cancelling 2026 auctions.
4. The CCRA sets out a reasonably prescriptive process for setting and running ETS auctions. But you have options for sending a strong message by tightening auction volumes.
5. One option is to use the 2026 ETS settings process. You have choices around how far into the 5-year period you tighten (or zero out) auction volumes as well as choices around the auction reserve price and reducing frequency of auctions. Your first formal market opportunity to set out your intention would be via the publication of the ETS settings discussion document in May.
6. Another option is to seek to cancel auctions outside the current ETS settings process through either revoking all ETS auction regulations or legislative change. 9(2)(h) This would enable cancellation of auctions scheduled for the latter half of 2026 as well as beyond. These options would also take several months to implement, although the Government could announce its intention to cancel auctions once Cabinet has agreed to an option. The legislative option could cancel auctions faster but would require House time.
7. **Appendix One** provides a more detailed assessment of these options. Overall, officials consider it is difficult to anticipate with certainty the relative market reactions to cancelling auctions outside of the 2026 settings process. The options to revoke or legislate in order to cancel auctions may send a sharp message of intent to the market but may also raise concerns around stable, predictable policy settings and CCRA integrity. The impact might

¹ More detail on the drivers of recent ETS price movements can be found in your Weekly Updates, particularly: January 2026 Update on the ETS Market - Key Insights (within the 23 January Climate Weekly Update), and 13 February and 20 February Climate Weekly Updates.

also be neutral given most participants are already expecting that 2026 auctions will not clear. We could test this further with targeted market experts if desired.

8. Our advice and preferred approach would be to send a strong message through the ETS settings process. This could include a preferred option to effectively cancel auctions for 2027/2028. This would have a similar effect (in terms of NZU volumes and signal of intent) but avoid risks around more unpredictable options.
9. You could use a CPMG discussion to seek initial support for this approach, ahead of bringing a Cabinet Paper on ETS settings options to include in consultation.

9(2)(h)

Next steps

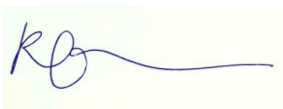
12. We recommend that you discuss the possible options with officials and indicate options you would like included in a paper to CPMG. At your request, we are also inviting a market participant to the CPMG meeting who can provide market commentary directly to Ministers.
13. Based on your direction, officials can prepare a paper outlining your preferred option (and any other options you want to include for consideration) for you to take to the CPMG meeting on 30 March. An initial draft will be provided to you in early March for feedback before final versions are circulated on 19 March.
14. Any preferences related to the 2026 ETS settings process discussed at CPMG would need to be 'in-principle', as the CCRA requires that final decisions consider advice from the Climate Change Commission and feedback from consultation.
15. Officials will also provide you with a briefing on initial 2026 ETS settings options in mid-March.

Recommended action

The Ministry for the Environment recommends that you:

1. **Discuss** options for signals on New Zealand Emissions Trading Scheme auctions with officials *Agree / Disagree*

2. **Identify** your preferred options for a signal on ETS auctions for inclusion in a paper to be discussed at the Climate Priorities Ministerial Group on 30 March 2026 *Agree / Disagree*
 - a) Full suite of potential options
 - b) Options within 2026 ETS settings process only *Agree / Disagree*



Kirsty Flannagan
General Manager
Climate Change Mitigation and Resource
Efficiency, Ministry for the Environment

20 / 02 / 2026

Hon Simon Watts
Minister of Climate Change

___ / ___ / 2026

Appendices

Appendix 1: Table of signalling options

Appendix 1: Table of signalling options [highly market sensitive]

Option	Timeframes	Pros	Cons
Option 1: Cancelling 2026 ETS auctions by revoking auction regulations (removing all future auctions). Can remake auction regulations through 2026 ETS settings process.	Likely at least 6 months, including a minimum 3-month stand-down period². Change could be signalled earlier.	• Willingness for Government to intervene to reduce supply could send a strong signal to the market. • Provides certainty on NZU supply from 2026 auctions. • May be seen as a course correction following the large market shift in 2025, resulting in an impact on NZU price. Although a full rebound is unlikely and sustained action in this direction would be required to maintain the effect in the long term.	• Option requires temporarily cancelling all future auctions before restoring auctions volumes for 2027-2031 through the 2026 ETS settings process – there would be significant timing challenges to complete both processes in time to enable 2027 auctions. • May only be seen as a symbolic gesture, particularly in the medium-to-longer term, with perceptions of reduced climate ambition continuing to drive low market confidence. • Sends signal that the Government is willing to override the legislation for short-term goals. • Process delay – several auctions would pass before auctions are formally cancelled. • Process of revoking and remaking regulations would require two sets of consultation, which would be confusing and burdensome for stakeholders. • 9(2)(h) [REDACTED]
Option 2: Cancelling 2026 ETS auctions through legislative change.	Dependent on timing of CCRA Amendment Bill - may be passed by the election but this is uncertain. Could be faster if able to obtain House time for an additional amendment bill or through Budget night legislation. Change could be signalled earlier.	As above.	• Process delay – several ETS auctions would pass before auctions are formally cancelled. • May only be seen as a symbolic gesture, particularly in the medium-to-longer term, with perceptions of reduced climate ambition continuing to drive low market confidence. • Sends signal that the Government is willing to override the legislation for short-term goals. • 9(2)(h) [REDACTED]
Option 3: Signalling via 2026 ETS settings process, with a preferred option in the settings consultation document. No change to 2026 auctions. (Current plan)	May – consultation material released.	• Takes effect earlier than legislative approach. • Sends impactful signal about medium-term auction volumes covering auctions out to 2031. • Supports the Government's objective of stability and confidence in the ETS by following an expected and established process. • Work is underway – no pressure on legislative processes or additional resourcing required. • Allows for auctioning of NZUs, should price rally. • Could include option to stop auctions in 2027 and 2028 (and beyond).	• Does not specifically address 2026 ETS auctions. • Signal may have limited impact, depending on the preferred settings option.

² The stand-down period could be bypassed if the Minister of Climate Change considers it is in the national interest that regulations be made urgently

BRIEFING

Key judgements and preliminary options for 2026 ETS settings

Date:	19 March 2026	Priority:	Medium
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-00324

	Action sought	Response by
Hon Simon Watts Minister of Climate Change	Discuss the content of this briefing with officials	23 March 2026

Action for Minister's Office staff
N/A

Appendices and attachments
Appendix 1: Supply and demand in the ETS

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Kirsty Flannagan	GM, Markets	9(2)(a)	
David Mead	Chief Advisor	9(2)(a)	✓
Tabitha McMaster	Author		

The following departments/agencies have been consulted
N/A

Minister's office to complete:

☐ Noted

☐ Overtaken by Events

☐ Approved

☐ Needs change

☐ See Minister's Notes

☐ Declined

☐ Seen

☐ Withdrawn

Minister's Comments

BRIEFING

Key judgements and preliminary options for 2026 ETS settings

Date:	19 March 2026	Priority:	Medium
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-00324

Purpose

1. In late April, you are due to decide on this year's New Zealand emissions trading scheme (ETS) settings options for consultation. This briefing provides early insight into the key judgements you will need to make and the early options we are developing for consultation. We are not seeking decisions on ETS settings at this stage.

Context

2. Under the Climate Change Response Act 2002 (CCRA), you must update ETS settings by 30 September 2026.
3. ETS settings can influence New Zealand emissions unit (NZU) prices directly through future supply expectations and indirectly as a signal of broader climate change policy. This impact will diminish as government auctions phase out and forestry becomes the primary source of new supply.¹ Appendix 1 includes a summary of current and forecast ETS supply and demand dynamics.
4. The November CCRA amendment announcement triggered a significant NZU price drop to the low \$30s. Prices have remained volatile and have only partially recovered to an average of \$42 over February 2026. Despite this, some ETS market commentary is beginning to focus on the likelihood of the market being undersupplied in the future.²
5. Upcoming consultation on this year's ETS settings provides an opportunity to send a strong signal about the Government's commitment to climate targets. Broader climate policy signals outside ETS settings are likely to be needed to assist full market price recovery.
6. The Climate Change Commission (the Commission) is due to provide formal recommendations to you on ETS settings on 23 April. You are required to consider the Commission's advice, as well as consult publicly, before making final decisions. Our advice is preliminary and our recommendations are also subject to receiving the Commission's final advice and public consultation.

¹ Industrial allocation supply will remain but is comparatively minor compared with forestry supply.

² Undersupply risk refers to insufficient NZUs available in the market to meet demand. This may lead to sudden and rapid price increases, impacting on the proper functioning of the market. If severe enough, the cost containment reserve may be triggered, releasing additional units but putting budget achievement at risk.

There are four key judgements for 2026 ETS settings

Auction volumes: balancing short-term signals with medium-term stability

7. Despite current secondary ETS market prices, some commentators are speculating on the possibility of future undersupply risk. The Commission has also raised this in discussion with you. An undersupply scenario poses risks to the proper functioning of the ETS. The objective of sending a strong signal to the market about climate commitments therefore needs to be weighed up against the risk of undersupply in later second emission budget (EB2) years.
8. Our initial view is that, while the market will show some fundamental tightening towards the back end of EB2, there is low risk to the proper functioning of the ETS from undersupply due to sufficient NZU stockpile supply and liquidity over this period. However, we think this is an area that warrants testing with the Market Advisory Group, as well as further analysis and future monitoring as market information becomes available.³
9. This is why the high-level options included in this brief (see below) include an option which increases auction volumes to address this risk. Decisions over whether to include such an option in the consultation can be taken after further analysis, testing with the Market Advisory Group, and receipt of the Commission's advice.

Auction volumes: distribution of auction volumes in the early vs later years

10. We understand you may be interested in setting auction volumes to zero for 2027 and 2028 [BRF-00354 refers]. This could be achieved either by simply reducing total auction volume, or by redistributing auction volume from early years to later years.
11. Doing so could support a strong signal to the market but may be seen as a significant departure from established settings practice. We intend to test both removing and phasing 2027/28 volumes with the ETS Market Advisory Group and will provide further advice in our upcoming April briefing.

EB3 accordance

12. The CCRA requires you to be satisfied that the combination of unit limits and price control settings are in accordance with the notified emissions budgets and the 2050 Target. Settings need not 'strictly accord' with the emissions budgets if a departure is justified,⁴ but they must still 'accord'.
13. This is the first year that ETS settings directly reach into EB3 (2031-35), drawing more attention to EB3 accordance. A gap between projections and the EB3 limit existed for 2025 ETS settings, and in the most recently published projections. The Government's framing of the ETS as the main tool for achieving emissions budgets sets an expectation for the ETS to drive achievement of EB3, particularly in the absence of other agreed policies.

³ We are expecting biennial settings to be delayed due to the CCRA amendment bill being a category 5 on the legislative agenda. If so, you will have the chance to review this risk in 2027.

⁴ After considering prescribed matters in s 30GC(5).

14. However, the ETS will not be able to deliver EB3 alone. Modelling suggests that even permanently reducing auction volumes to zero from 2027 would not fully close the EB3 gap, because auction volumes make up a relatively small proportion of total NZU supply. Participants will be able to continue to source NZUs from foresters and the stockpile, instead of reducing emissions to remain under the cap. This means complementary policies will have an increasingly important role for meeting EB3.

15. 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]

- [REDACTED] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
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[REDACTED]
[REDACTED]

18. We recommend that, as part of the pre-consultation Cabinet Paper, you seek a Cabinet mandate to initiate work on complementary policies to support achievement of EB3. This work would be necessarily high-level and could report back to Ministers early in the next term to seek direction on policies for further exploration. This would also start to address the Commission's advice that government needs to act ahead of EB3.

Price controls

19. We believe that the status quo price floor remains appropriate. While a technical case exists for a small reduction, consulting on lowering it risks a material negative market reaction and would not align with sending a strong signal of the Government's commitment to climate targets. Our preliminary advice is to extend existing price control settings, including cost containment reserve triggers and volumes, with only routine inflation adjustments applied.

Preliminary options for ETS settings

20. Below is an indication of the high-level options we are developing for consultation, presented to give you a sense of the options you may be asked to consider, alongside key trade-offs.
21. The main factor that drives different high-level options is the approach to trading off your objective of sending a strong signal to the ETS market by reducing volumes with the risk of proper functioning of the ETS from undersupply in the later EB2 years. The way you balance these trade-offs could drive changes in the secondary market price, mainly driven by short-term market sentiment, and have marginal flow on cost-of-living impacts.
22. These are preliminary options only and are subject to change as we continue our analysis, consider the Commission's advice once received, and following any further direction from you. The below volumes options retain current price controls (discussed above).

Table 1: Indicative ETS auction volume options 2027-31

	Auction volumes 2027-31 (total NZUs)	Key trade-offs
Option 1: Status quo	13.1m ⁵	More likely than option 3 to send a stronger market signal and to put upward pressure on NZU prices (all else being equal) over time as volume tightens in later EB2 years. Marginally better manages the risk of undersupply compared with option 2.
Option 2: Lower volumes	11.7m	Similar to option one, however, potentially larger impact on NZU prices due to market reaction to 'stronger' signal of market tightening. However, undersupply risk in later years of EB2 increases substantially compared to option 3 and marginally increases compared to option 1.
Option 3: Higher volumes	27.2m	More likely (all else being equal) than options 1 and 2 to put downward pressure on NZU prices and risks a negative market reaction. Stronger response to risk of undersupply in the later EB2 years compared to options 1 and 2
Option 4: lower/zero auction volumes in 2027/28	Varied - may be a feature of options 1-3	If cancelling 2027/2028 volumes: opportunity to send a strong supply tightening signal in the near-term, yet greatly increases undersupply risk in later EB2. If redistributing volumes from 2027/2028 to later years: opportunity to send a strong tightening signal in the near term and substantially decrease undersupply risk in later EB2 year. May be seen as a significant departure from established practice.

23. Note that our modelling so far suggests little difference in cost-of-living impacts across options. Particularly in the short-term, cost-of-living impacts from the ETS are estimated to be modest due to other market drivers (e.g., weak sentiment). An ETS

⁵ For comparison, the implied 2025 status quo volumes for 2027-31 is 17.6m NZUs.

price increase of \$10 would increase regular petrol prices by around 2.5 cents per litre and diesel by around 2.9 cents per litre.

Next steps

24. We intend on focussing our engagement with the Market Advisory Group on the above four key areas (paragraphs 7-19). We will report back to you on the outcome of that engagement in April.
25. We would like to discuss the judgements in paragraphs 7-19 with you to inform our April advice and to establish whether early engagement is required with other agencies and your Ministerial colleagues regarding the EB3 accordance approach prior to consulting on the draft Cabinet paper.
26. Final advice from the Commission is due in late April. A draft consultation document and Cabinet paper to you will follow shortly thereafter (including seeking delegated decision-making authority for final decisions, as agreed in 25-BRF-00017). This will include annual regulatory updates.

Table 2: Detailed timeline

Milestone	Timeframe
Climate Change Commission final advice	Expected 23 April 2026
Draft Cabinet paper and discussion document to MCC	23 April 2026 (dependent on the Commission's advice)
Ministerial consultation	27 April – 11 May 2026
ECO consideration	20 May 2026
Cabinet consideration	25 May 2026
Public consultation	26 May – 26 June 2026

Recommended action

The Ministry for the Environment recommends that you:

- | | |
|---|-------------------------|
| 1. Note you are required to update 2026 ETS auction volume and unit settings by 30 September. | <i>Noted</i> |
| 2. Note the material shifts in the secondary market since 2025 settings decisions. | <i>Noted</i> |
| 3. Note officials have identified four key judgements for 2026 settings in addition to auction volumes, including balancing short-term signals with medium-term stability, volume redistribution, EB3 accordance and price controls. | <i>Noted</i> |
| 4. 9(2)(h) [REDACTED]
[REDACTED] | <i>Noted</i> |
| 5. Note a Cabinet mandate to initiate work on complementary policies will help manage risks around EB3 accordance | <i>Noted</i> |
| 6. Agree to officials engaging with the Market Advisory Group, on the key judgements for 2026 ETS settings. | <i>Agree / Disagree</i> |
| 7. Discuss the key judgements for 2026 ETS settings with officials. | <i>Yes / No</i> |



Kirsty Flannagan
General Manager
 Markets Unit, Ministry for the Environment

Hon Simon Watts
Minister of Climate Change

19 / 03 / 2025

___ / ___ / 2025

Appendix 1: Supply and demand in the NZ ETS

The NZ ETS is a net-based, cap-and-trade system that incentivises net emissions reductions by putting a price on emissions and rewarding removals. The NZ ETS currently covers a little under half (43%) of New Zealand's gross emissions.

Compliance demand in the NZ ETS (ie, gross emissions in NZ ETS-covered sectors) is projected to steadily decline regardless of what the New Zealand Unit (NZU) price does, due to factors such as steady improvements in energy efficiency, increasing renewable electricity generation and battery electric/hybrid vehicle take-up. Demand/gross emissions might reduce faster if the NZU price is high enough for long enough to incentivise further investments in emissions reducing technologies and activities. Compliance demand is projected at about 32Mt in 2026, reducing to about 28Mt in 2030.

Currently, compliance demand is met through a combination of sources – auctioned units, units freely allocated via industrial allocation, forestry units from the sequestration of carbon, and units drawn from the sizeable existing stockpile.

Auction volumes currently in regulations steadily reduce from 5.2M NZUs in 2026 to 1.7M NZUs in 2030. **Industrial allocation** volumes are expected to steadily decline with the legislated phase out rates and are not tied to NZ ETS market outcomes. Industrial allocation is forecast at around 4.5M NZUs per annum for 2026 and 2027, before stepping down to 4Mt per annum from 2028. The change is driven by the expected closure of Methanex.

Forestry units, predominately from exotic pine, are already the largest single source of new supply into the NZ ETS and from the late 2020s, will be almost all the new units coming into the scheme. Forestry market dynamics are complex, resulting from a very diverse range of players operating over relatively long investment horizons and with different business models and levels of sophistication. In general terms, exotic afforestation for production/harvest provides a greater return on investment than some sheep and beef farms, which is the main alternate land use of less productive land, at comparatively low NZU prices (~\$25–\$75). At moderate NZU prices (from around \$75), permanent exotic forestry starts to become more profitable than both production forestry and sheep and beef farming.

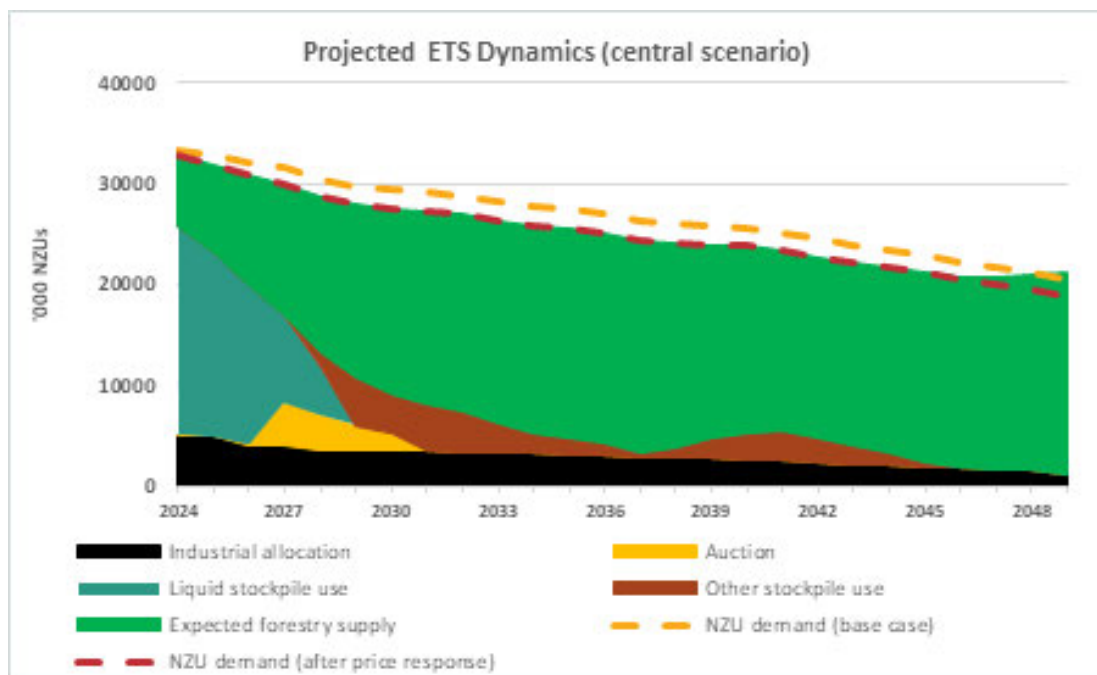
The **stockpile** is also a significant source of supply over the medium term, made up of different components such as surplus units (NZUs held mainly for speculative purposes as opposed to held against surrender obligations), forestry units held against future harvest liabilities, and NZUs held for future surrender obligations i.e., hedging. These stockpile components also vary in liquidity, meaning how easily and quickly units can be sold. Generally, the surplus is the most liquid component of the stockpile, and units held for near term compliance obligations are the most illiquid. Complex forestry behaviour, such as harvesting decisions and afforestation decisions, is a large driver of the forecast stockpile uncertainty.

Government auctions are a comparatively smaller source of supply and are forecast to end somewhere in the early to mid-2030s. Despite this, Government decisions on auction volumes and price control play an important role in signalling Government ambition and commitment to climate budgets and targets. In the short term, we expect the market to continue to be driven by short-term sentiment as opposed to long term fundamentals which suggest a tightening of supply in the late 2020s.

Within the broad outlook for supply and demand outlined above, the NZ ETS could drive quite different price outcomes depending on where market pricing power rests and how responsive firms and foresters are to price signals. The most likely outcome is that prices are low over the medium to long term – sufficient to incentivise exotic afforestation but unlikely to drive much additional decarbonisation. NZU prices may vary from year-to-year but are likely to revert to trend, potentially matching the long-run marginal cost of forestry, on average over time.

Figure 2 below, is an illustration of broader supply and demand dynamics overtime under the assumption that market confidence remains low over the next year, and 2026 auctions do not clear; thereafter, confidence recovers in 2027 and auctions clear starting in 2027.

Figure 1: Illustrative Indication of Future Supply and Demand Dynamics





CPMG Paper: 2026 ETS settings direction

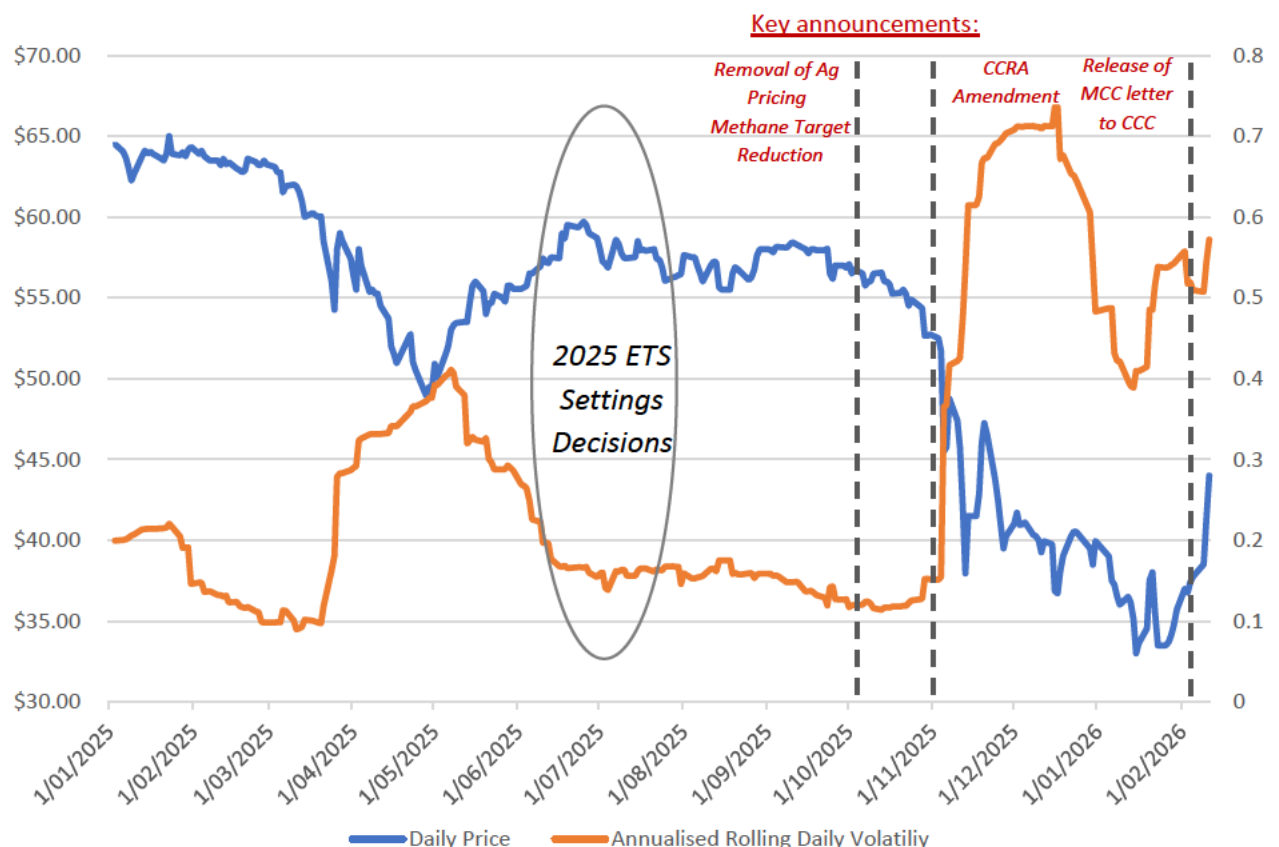
Purpose

To provide CPMG with an update on the recent Emissions Trading Scheme (ETS) market trends and a high-level direction and next steps for the 2026 ETS settings process

Recent ETS market trends

1. Following the Government's CCRA amendment announcement on 4 November 2025 there was a material decline in the ETS New Zealand Unit (NZU) price and increase in volatility. Though there has been a small recovery recently, prices remain below the pre-announcement level, and the current unit price remains too low to meaningfully incentivise gross emissions reductions. Figure 1, below, shows the recent shifts in NZU price and volatility.

Figure 1: NZU price and volatility since 1 Jan 2025



2. Market commentators attributed the price response to reduced confidence in the Government's commitment to reducing emissions and increased policy uncertainty. This is particularly due to the decoupling of the ETS from New Zealand's Nationally Determined Contribution targets, which some commentators suggested could be intended to enable a loosening of future ETS settings.
3. The ETS market is not solely driven by surface-level expectations of supply and demand, but also expectations of Government action. Political signals can therefore have significant influence on prices.

A strong signal is needed through 2026 ETS settings

4. The upcoming consultation (in May/June 2026) on ETS regulatory settings for 2027-2031 (ETS Settings) is our earliest opportunity to send a strong signal about the Government's commitment to meeting its climate targets and improve market confidence. ETS settings affect price in two ways:
 - a. Directly – by determining the future supply of units available at auctions.
 - b. Indirectly – by sending a signal of Government intention.
5. The CCRA sets out a prescriptive process that ETS settings must follow. Any final decisions on ETS settings must:
 - a. be informed by advice from the Climate Change Commission (expected by 23 April)
 - b. be informed by public consultation (expected in May and June)
 - c. meet the 'accordance test' – ensuring the settings enable us to meet our emissions budgets and 2050 target
 - d. be informed by consideration of a list of matters specified in the CCRA.
6. Within these constraints, there are possible options to send a strong signal that the Government is committed to achieving our climate targets, with the ETS as a core tool. These options could include further tightening volumes from current levels and/or effectively cancelling auctions for the next 1-2 years.
7. The Minister of Climate Change will bring a Cabinet paper in May that provides a full analysis and seeks agreement on options for consultation, including a preferred option. Consulting on a preferred option will send a clearer signal to the market of the government's intentions, but would still be subject to consultation feedback, as per the requirements of the CCRA.
8. The Cabinet paper will also seek delegated authority for the Minister of Climate Change to make final ETS settings decisions following consultation. This would free up valuable Cabinet time in July and allow earlier announcement of final ETS settings decisions.

Recommendations

We recommend that you **note** recent ETS market trends and the proposed direction and process for 2026 ETS settings.

Yes | No | Discuss

Kirsty Flannagan

General Manager

Climate Change Mitigation and Resource Efficiency

30 March 2026



BRIEFING

2026 ETS settings: options for consultation

Date:	23 April 2026	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-00746

	Action sought	Response by
Hon Simon Watts Minister of Climate Change	Indicate your direction on consultation options for 2026 ETS settings	28 April 2026

Action for Minister's Office staff

Return this briefing to the Ministry for the Environment.

Appendices and attachments

Appendix One: Plausible alternative ETS auction price floor paths

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Kirsty Flannagan	GM, Markets	9(2)(a)	
James Coombes	Manager	9(2)(a)	✓
Tabitha McMaster	Author		

The following departments/agencies have been consulted

N/A

Minister's office to complete:

☐ Noted

☐ Overtaken by Events

☐ Approved

☐ Needs change

☐ See Minister's Notes

☐ Declined

☐ Seen

☐ Withdrawn

Minister's Comments



BRIEFING

2026 ETS settings: options for consultation

Date:	23 April 2026	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-00746

Purpose

1. This briefing seeks your direction on options for 2026 New Zealand Emissions Trading Scheme unit limits and price control settings (ETS settings) to be included in your upcoming Cabinet paper and consultation document.

Key points

2. In late May, you will seek Cabinet's approval to consult on the 2026 ETS settings to align with statutory deadlines. In March 2026, we provided you early insight into the key judgements for this year's ETS settings decisions [26-BRF-00324 refers]. Since our March briefing, secondary market prices have increased, from the low-mid \$40s to high \$40s/low \$50s as of 23 April. The Climate Change Commission (the Commission) provided you with advice on ETS settings on 23 April.
3. The Government's objective has been to maintain a stable and credible ETS market to ensure it is fit for purpose as the core emissions reduction tool. You have a legal requirement to ensure ETS settings accord with emissions budgets and targets. ETS settings are also an opportunity to signal Government commitment to climate change.
4. We have developed four options within the legal limitations that provide different signals¹:
 - a. Option 1 (preferred): Status quo 2027-30, plus 2031 volumes (13.2m NZUs)
 - b. Option 2 (recommend consult): Commission recommendation, status quo 2027-30, plus higher 2031 volumes (14.7m NZUs)
 - c. Option 3 (seeking direction): Lower volumes² (8.4m NZUs)
 - d. Option 4 (not recommended): Higher volumes (22.5m NZUs)
5. These options are underpinned by the four key judgements set out in our March advice and your choice of consultation options depends on your position on those judgements.

¹ Auction volumes are derived from using the ETS Framework and differ in assumptions from within the seven steps methodology

² Section 30GB(5) of the CCRA requires years 1 and 2 can only be changed under certain circumstances. The lower volumes option requires redistributing some volume from 2027 and 2028 to avoid negative volumes in later EB2 years. 9(2)(h)

We have also provided insights on these judgements from the Market Advisory Group (MAG). MAG members emphasised stability and predictability as critical for market confidence. They noted that any departure from the status quo (especially novel approaches such as cancelling 2027 auction volumes) would require a strong rationale, particularly given current economic uncertainty, to avoid damaging market confidence. This was particularly in the context of broader economic uncertainty and volatility.

6. Key judgement one - Balancing short-term signals with medium-term stability: Sustained low and volatile prices could warrant tighter settings. On the other hand, the Commission and some market commentators have warned of an undersupply risk late in the second emissions budget (EB2) period. Our modelling does not support a high risk of undersupply emerging and highlights the substantial uncertainty in this risk. As such, acting on undersupply could create unstable settings if the Government responds prematurely. **We do not recommend increasing volumes in response to the undersupply risk, rather, the Government can review the risk in 2027 settings.** MAG views were mixed about the likelihood of undersupply and most preferred the Government wait to act on the risk until it becomes more certain.
7. Key judgement two - Distribution of auction volumes in the early vs later years: **We do not recommend redistributing or cancelling auction volume early in the EB2 period** to respond to signals from the market it is well supplied in the short term. The auction price floor effectively withholds auction volume if the market does not require it. MAG members broadly agreed with this, noting a redistribution approach would likely be seen as unexpected and reactionary, potentially damaging market confidence.
8. Key judgement three – Demonstrating accordance with the third emissions budget (EB3): As previously advised, ETS settings alone cannot close the EB3 gap. 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
We recommend seeking a Cabinet mandate to initiate work on complementary policies to help close the EB3 gap, with a report back early in the next parliamentary term. We also recommend adjusting the EB2 and EB3 ETS caps to demonstrate accordance:
 - a. Align the EB2 cap to 2025 projections, at 81.9Mt (from the current 89.4Mt). This aligns with the Government's efforts to strengthen its position for meeting EB2 and is recommended by the Commission.
 - b. Rely on 'with existing measures' (WEM) estimates of agricultural emissions to reduce the risk of assuming emissions reductions not associated with government policy. This, in addition to assuming ETS sectors address the EB3 gap, translates to a provisional EB3 cap of 24Mt (from the current 40.7Mt).³
9. Key judgement four - Price controls: We assess the status quo auction price floor and cost containment reserve settings remain appropriate. While a technical case exists for a

³ This approach differs from the amended Second Emissions Reduction Plan (amended ERP2), which used the 'with additional measures B' scenario. This difference is justified by the distinct statutory requirements applying to ERP2 versus ETS settings decisions (i.e. the legal accordance requirement).

small reduction, consulting on lowering it risks a negative market reaction and would undermine signals of commitment to climate targets. **We recommend only consulting on extending existing price controls with inflation adjustments**, consistent with Commission advice and MAG views.

We recommend consulting on options 1 and 2, along with status quo price controls and seek your direction on whether to consult on option 3

10. Provided you agree with the positions on the four key judgements in paragraphs 6-9, we recommend the below options. Final numbers are still subject to further refinement as we finalise our analysis following receiving the Commission's final advice.

Table 1: ETS settings consultation options and recommendations

Option	Recommendation
<u>Option 1</u> : Status quo 2027-30, plus 2031 volumes (13.2m NZUs)	Consult and indicate as your preferred option as it best supports market predictability and stability and continues to position New Zealand well to meet emissions budget and targets. Key difference with option 2 - takes a more conservative approach to meeting EB3 (1.5m NZUs in 2031).
<u>Option 2</u> : Commission recommendation, status quo 2027-30, plus <u>higher</u> 2031 volumes (14.7m NZUs)	Consult as Commission's option, note option includes 3m NZUs in 2031.
<u>Option 3</u> : Lower volumes (8.4m NZUs)	We seek your direction on whether to consult. This option would signal further tightening but provides less predictability and stability to the market. Based on a very rapid draw down of the surplus, which may be viewed as unbalanced in the context of undersupply risk.
<u>Option 4</u> : Higher volumes (22.5m NZUs)	Do not consult given high budget accordance risks and risk of negative market reaction.

11. Noting you are making these decisions within broader context of spiking fuel prices, modelling suggests little impact and variation between the options on fuel prices and cost of living. In general, an ETS price increase of \$10 increases regular petrol prices by around 2.5 cents per litre and diesel by around 2.9 cents per litre. Attempting to respond to the fuel spike via ETS settings would likely significantly damage market confidence.

Next steps

12. We recommend you table the Commission's recommendations in the House of Representatives as soon as practicable. We have prepared reactive lines to support any media responses.
13. We intend to discuss the recommendations in this briefing with you at the officials meeting on 28 April. Following that, we will reflect your direction in the draft Cabinet paper and consultation document due to you on 29 April. At the same time, we will also seek your approval to begin Ministerial consultation on annual regulatory ETS updates.
14. We propose public consultation begin in early June 2026. To ensure this milestone is met, we are aiming for ECO consideration on 20 May and Cabinet consideration on 25 May.

Recommended action

The Ministry for the Environment recommends that you:

- | | |
|--|-----------------------------|
| 1. Note you are required to consult on ETS unit limit and price control options in June to meet statutory deadlines | <i>Noted</i> |
| 2. Indicate which auction volume options to consult on: | |
| a. Status quo volumes over 2027-30, plus 2031 volumes, 13.2m NZUs total (recommend preferred) | <i>Preferred / Yes / No</i> |
| b. The Commission's recommendation, status quo volumes over 2027-30, plus <u>higher</u> 2031 volumes, 14.7m NZUs total (recommend consult) | <i>Preferred / Yes / No</i> |
| c. Lower volumes, 8.4m NZUs over 2027-31 | <i>Preferred / Yes / No</i> |
| d. Higher volumes, 22.5m NZUs over 2027-31 (not recommended) | <i>Preferred / Yes / No</i> |
| 3. Agree to seek a Cabinet mandate to undertake initial work on complementary policies to achieve EB3 | <i>Agree / Disagree</i> |
| 4. Agree to consult on extending status quo price controls, with inflation adjustments | <i>Agree / Disagree</i> |
| 5. Agree to consult on adjusting the EB2 cap to 81.9Mt | <i>Agree / Disagree</i> |
| 6. Agree to consult on adjusting the provisional EB3 cap to 24Mt | <i>Agree / Disagree</i> |
| 7. Note 'with existing measures' estimates have been used to forecast agricultural emissions to support accordance and this approach differs to the amended second emissions reduction plan | <i>Noted</i> |
| 8. Note public consultation on 2026 ETS settings and annual regulatory updates is due to begin in late early June | <i>Noted</i> |



Kirsty Flannagan
General Manager
 Markets, Ministry for the Environment

Hon Simon Watts
Minister of Climate Change

23/04/2026

___ / ___ / 2026

Background

1. Changes to New Zealand Emissions Trading Scheme unit limits and price control settings (ETS settings) for the period 2027-2031 must be published in regulations no later than 30 September of this year (to come into force on 1 January 2027). Consultation on these changes is a statutory requirement set out in the Climate Change Response Act 2002 (CCRA).

There has been an increase in the secondary market to around \$50

2. Since our March briefing [26-BRF-00324 refers], secondary market prices have increased, from the low-mid \$40s in March to high \$40s/low \$50s as of 23 April. This is still approximately \$20-\$30 below the current auction price floor.
3. Most commentators link the current lower price with continued short-term uncertainty and low market confidence as opposed to long-term market fundamentals. Commentators have differing views about the causes of this, including lack of confidence in the Government's commitment to climate change, the Middle East Crisis, the upcoming general election and recent forestry land use changes. This broadly aligns with what we heard during our sessions with the Market Advisory Group (MAG).

Climate Change Commission advice

The Commission recommends maintaining status quo settings

4. The Commission has recently provided you with advice on ETS settings for this year. Key recommendations include:
 - a. maintaining current ETS auction volumes between 2027-30
 - b. setting 2031 volumes on the basis that the surplus will be fully depleted by 2030
 - c. maintaining and extending the current price control settings.

The Commission identified an undersupply risk in the late 2020s, however, has not recommended higher volumes to prevent further undermining market confidence

5. The analysis suggests that the surplus could be drawn down as early as 2028 and cause a unit shortfall. The Commission warns the consequences of undersupply risk may seriously undermine the effectiveness of the ETS. At the same time, the Commission has noted significant uncertainties in undersupply risk.
6. Due to the risk of undermining market confidence, the Commission has not recommended increasing volumes to respond to undersupply risk. It has instead recommended clearly signalling and testing with the market options for addressing undersupply risk.

The Commission recommends status quo price controls, but advises a lower tier cost containment reserve is needed if there are no updates to ETS settings in 2027

7. The Commission advises that existing price control settings remain fit for purpose and recommends extending them to 2031, with inflation adjustments from 2029.
8. The delay to biennial settings, meaning there will be ETS settings updates in 2027, has been communicated to the Commission and the market. However, the Commission has suggested that if there are no updates to ETS settings in 2027, the Government should adopt a temporary lower tier cost containment reserve (CCR) to manage the potential for undersupply. This may be viewed as a novel approach to ETS settings by the market; we recommend that your consultation should clarify the Government is not considering this approach due to 2027 ETS settings updates going ahead.

Auction volume consultation options

9. We have identified four auction volume options for your consideration in Table 2. Final numbers are still subject to further refinement as we finalise our analysis following receiving the Commission's final advice. Final numbers will be provided in next week's briefing; however, we do not expect there to be material changes.

Table 2: Base auction volume options, (NZUs millions)

Options	2027	2028	2029	2030	2031	Totals
1. Status quo 2027-30, plus 2031 volumes (preferred)	4.3	3.3	2.4	1.7	1.5	13.2
2. Commission recommendation, status quo 2027-30, plus <u>higher</u> 2031 volumes					3.0	14.7
3. Lower volumes	2.3	1.9	1.6	1.4	1.2	8.4
4. Higher volumes (not recommended)	4.3	3.3	7.7	5.7	1.5	22.5

10. These options are underpinned by the four key judgements from our March advice [26-BRF-00324 refers]. Your decision about consultation options will depend on your position on the key judgements and you may also be informed by technical insights from the MAG, provided below.
11. Estimates from the ETS Market Model suggest little variation in ETS price impacts between options. Across the options, prices⁴ are modelled at the ~\$75 mark in 2027, increasing gradually to ~\$80 in 2030, followed by a gradual downwards track to ~\$50 (around the long-term marginal cost of forestry). In the higher volumes option, the price falls marginally below the floor in 2030, resulting in no units being auctioned that year.
12. Noting you are making these decisions within the broader context of spiking fuel prices, modelling suggests little impact and variation between the options on fuel prices and

⁴ Prices are stated in 2026-dollar terms.

cost of living. In general, an ETS price increase of \$10 would increase regular petrol prices by around 2.5 cents per litre and diesel by around 2.9 cents per litre. Attempting to respond to the fuel spike prices via ETS settings would likely significantly damage market confidence.

Key judgements for consultation

We have identified four key judgements for 2026 ETS settings

13. Across all key judgements is a broader strategic question about how you want to position the Government's priorities for the ETS. 2026 ETS settings is an opportunity to signal Government commitment to meeting emissions budgets and a credible market.
14. Key judgements include:
 - a. Auction volumes: Balancing short-term signals with medium-term stability
 - b. Auction volumes: Distribution of auctions volumes in the early vs later years
 - c. Demonstrating accordance with the third emissions budget (EB3) and responding to the EB3 gap
 - d. Price controls

Auction volumes: Balancing short-term signals with medium-term stability

15. The legislated purpose of the ETS is assisting achievement of domestic emissions budgets and targets and it is the Government's core emissions reduction tool. ETS settings can therefore signal the Government's commitment to meeting budgets. MAG members noted ETS settings may have a marginal impact on market confidence but that consistent, practical actions towards meeting emissions budgets are needed for full recovery. You need to balance ensuring budget achievement and signals of commitment with medium-term market stability. Some commentators and the Commission have warned that a potential undersupply risk later in the second emissions budget (EB2) period could affect stability.
16. The undersupply risk is subject to significant uncertainty. Divergence on this risk between MfE and the Commission largely reflects differing surplus estimates and liquidity assumptions.⁵ Our analysis points to a fundamental tightening of the market toward the end of EB2 and upward price pressure, but within the bounds of a proper functioning market. MAG views on undersupply risk were mixed. Some considered it unlikely, while others saw it as plausible given forestry supply uncertainty and changing hedging behaviour. Most preferred the Government wait to respond until the risk is clearer.
17. Given the limited evidence for undersupply risk and the potential for a negative market reaction, **we recommend against acting on undersupply risk and instead**

⁵ A large point of difference between our analysis of the undersupply risk and the Commission's is the potential size of the surplus. The Commission note the surplus could be as large as about 42m units, whereas we think the surplus may be larger at about 53m units.

continuing last year's approach of strongly positioning New Zealand to achieve emissions budgets, with an opportunity to review settings in 2027, due to the delay in the change to biennial settings.

Auction volumes: Distribution of auctions volumes in the early vs later years

18. **We do not recommend redistributing or cancelling auction volumes in the early EB2 years to respond to signals from the market it is well supplied in the short term.** There is limited benefit to setting auction volumes to zero in 2027/28 given the auction price floor effectively already withholds auction volume if the market does not require it. The Government will also have an opportunity to review settings in 2027 in light of future market conditions.
19. Any potential benefit, in our view, is far outweighed by the risk of signalling Government appetite for market intervention that responds to shorter term price volatility rather than longer term fundamentals. This does not align with Government signals to date that have focussed on stability and predictability. MAG members broadly agreed with this, noting such an approach would likely be seen as unexpected and reactionary, potentially negatively impacting market confidence.

Auction volumes: recommendations for consultation options

20. Based on the two above judgements, we recommend the following approach to consultation options:

Table 3: 2026 ETS consultation options, recommendations and key assumptions

Option recommendation	Rationale	Key modelling assumptions
<u>Option 1:</u> Status quo 2027-30, plus 2031 volumes (13.2m NZUs) Consult and indicate as your preferred option	Best supports market predictability and stability and continues to position New Zealand well to meet emissions budget and targets. Key difference with Option 2 - takes a more conservative approach to meeting EB3 (1.5m NZUs in 2031).	Conservative surplus assumption, consistent with 2025 approach. Agriculture emissions: 'With existing measures' (see later discussion).
<u>Option 2:</u> Commission recommendation, status quo 2027-30, plus <u>higher</u> 2031 volumes (14.7m NZUs) Consult	It is a main matter for you to consider the Commission's advice when recommending decisions about ETS settings to Cabinet. ⁶ Consulting on the Commission's recommendations assists with meeting this obligation (but is not in itself sufficient). Note option includes 3m NZUs in 2031.	Conservative surplus assumption, aligned with Option 1. Agriculture emissions: 'With additional measures' scenario B.

⁶ Section 30GC(5)(e).

<u>Option 3</u> : Lower volumes (8.4m NZUs) ⁷ Seeking direction	Would signal further tightening but provides less predictability and stability to the market. Based on a very rapid draw down of the surplus, which may be viewed as unbalanced in the context of undersupply risk.	Very conservative surplus size assumption. Agriculture emissions: 'With existing measures'.
<u>Option 4</u> : Higher volumes (22.5m NZUs) Do not consult	High budget accordance risks and risk of negative market reaction.	'Central' surplus size assumption. Agriculture emissions: 'With existing measures'.

Demonstrating EB3 accordance and responding to the EB3 gap

21. Any changes to ETS settings must accord with the relevant emission budgets and the 2050 target. Strict accordance requires there to be a very high probability that ETS settings sufficiently constrain ETS sector emissions for it to play the role it is required in meeting the relevant budgets and targets. When settings do not meet this threshold, 'general accordance' (a good probability) of meeting the targets may be justified. ETS settings must always be in strict accordance with achieving the 2050 target. If settings are not in strict accordance with achieving emissions budgets, you must be satisfied that any departure is justified with reference to the considerations listed in the CCRA.
22. We will provide a full accordance assessment at the time of seeking final decisions on changes to ETS settings following consultation, but preliminary analysis has highlighted risks regarding accordance with EB3 across all options.
23. As previously advised, there is a gap between emissions projections and the EB3 budget⁸ and the ETS will not be able to deliver EB3 alone [26-BRF-00324 refers]. A gap also existed for 2025 ETS settings and the expected role of the third emissions reduction plan (ERP3) in meeting EB3 played a key role in mitigating accordance risks. However, the gap poses a greater accordance challenge this year because:
 - a. this is the first year that ETS settings directly reach into EB3 (2031-35), drawing more attention to EB3 accordance
 - b. recent Government decisions on the 2050 methane target and the removal of agricultural pricing have increased reliance on ETS-covered sectors to meet EB3 and increased the size of the gap.

24. 9(2)(h)

⁷ Section 30GB(5) of the CCRA requires years 1 and 2 can only be changed under certain circumstances. The lower volumes option requires redistributing some volume from 2027 and 2028 to avoid negative volumes in later EB2 years. 9(2)(h)

⁸ Details on the exact size of the gap depend on the projections used and are explained in the secondary policy decisions section below

9(2)(h)

Cabinet mandate for additional complementary policies

26. We recommend seeking a Cabinet mandate to initiate work on complementary policies to help close the EB3 gap, with a report back early in the next parliamentary term. This would include:
 - a. recognition that the ETS cannot close the EB3 gap on its own and complementary policies are essential to meeting EB3
 - b. commitment to the proactive development of complementary policy options in advance of 2027 ETS settings decisions
 - c. direction to agencies to appropriately resource the required policy work.
27. This approach does not require commitment to adopt individual policies at this time; you will still need to work through the process requirements to commit to ERP3 in due course. We recommend that the Climate Change Interagency Executive Board Unit is tasked with coordinating this work and reporting back on the range of possible complementary policies ahead of 2027 ETS settings decisions. Key agencies to be involved in this work include: MfE, the Ministry of Business, Innovation and Employment, Ministry for Primary Industries, Ministry of Transport and Treasury. This would also start to address the Commission's advice that government needs to act ahead of EB3.
28. In the absence of the Cabinet mandate, any options above the lower volumes option would not be consistent with the ETS maximising its contribution, and even the lower volumes option would need to be carefully justified in that context.

Our analysis reconfirms that existing price controls remain fit for purpose

29. Analysis of price paths required to meet emissions budgets suggest there is a technical case for a small reduction in the auction price floor (alongside lower auction volumes), as shown in Appendix One. However, there is little expected benefit to the market for a minor adjustment, and opening the possibility of lowering the auction price floor is expected to have a significant negative market reaction, similar to when such an option was included in consultation on 2024 ETS settings. We recommend only consulting on extending the existing auction price floor (adjusted for inflation).
30. It is also possible to increase the auction price floor. However, our analysis suggests the status quo settings are sufficient to drive emissions reductions required to meet

emissions budgets. Increasing the auction price floor would therefore be unnecessary and at odds with the Government's cost-effective approach to emissions reductions.

31. Our analysis does not suggest any change in cost containment reserve (CCR) volumes or trigger prices is required, so we recommend extending current CCR settings.

Secondary policy decisions

WEM agricultural projections should be used to support EB3 accordance

32. 9(2)(h)
33. Table 4 sets out the key distinctions between using the 'With Existing Measures' (WEM) projection and 'With Additional Measures' (WAM) scenario B and relative pros and cons. We strongly recommend using WEM to support the accordance test. While this departs from the amended second emissions reduction plan (amended ERP2), this difference is justified because accordance is better supported when it is based on existing policies. This does not reflect a view that the WAM B scenario will not eventuate.

Table 4: Key differences between agricultural emissions projections

Projection/Scenario	Key assumptions	EB3 gap	Pros/cons
With existing measures (WEM)	Existing Government policy	13.7Mt	Different approach to the amended ERP2 Reflects existing measures, better supports accordance
With additional measures scenario B (WAM B)	Existing Government policy plus higher agricultural technology uptake, without supporting policies	8.7Mt	Same approach as the amended ERP2 Increases challenge in demonstrating accordance as relies on hypothetical policies

The EB2 cap needs to be adjusted to reflect updated projections

34. As part of 2025 ETS settings decisions, the Government set an EB2 cap of 89.4Mt CO₂e, based on ERP2 projections. Subsequent 2025 projections showed higher net emissions outside the ETS. Maintaining the current cap at 89.4Mt in combination with increased emissions outside the ETS could lead to an EB2 budget overshoot at ~4Mt, if ETS emissions were allowed to reach the cap.
35. To maintain accordance with EB2 and keep a small buffer to meeting EB2 (consistent with previous years), we recommend reducing the EB2 cap to 81.9Mt CO₂e to align the EB2 cap with 2025 projections for ETS-covered sectors. This aligns with the

Government's efforts to strengthen its position for meeting EB2 and the Commission's recommendation. However, it departs from the position in the 2025 ETS settings consultation, which indicated that projections would not trigger changes to the cap. Regardless, changes are required to ensure budget accords.

We recommend adjusting the provisional EB3 cap to account for the EB3 gap

36. As part of the 2025 ETS settings decision, the Government set a provisional EB3 cap of 40.7Mt CO₂e. 2025 projections now show the gap between projected emissions and EB3 have increased. We recommend you set the provisional EB3 cap at 24Mt CO₂e, assuming ETS sectors make up the entirety of the EB3 gap. This aligns with the approach taken last year, the use of the WEM agricultural projection, and best supports accordance requirements.
37. Auction volumes and price impacts have been provided based on this EB3 cap. Complementary policies via the proposed initial work and through ERP3 will be required to ensure ETS sectors stay under this significantly reduced cap.
38. Based on MAG insights, we do not expect a significant market reaction to this cap reduction. However, it will be important to carefully communicate the change, given the potential for complementary policies outside the ETS to allow the provisional cap to be increased in future. In particular, we suggest that the change to the provisional cap is communicated as just that – provisional in order to support a conservative approach to setting auction volumes this year, with the potential to change in the future, depending on progress with complimentary policies.

Proposed changes to default exotic forestry look up tables have not been included in the options

39. Separate advice regarding the proposed changes to the default exotic forestry look up tables has been provided alongside this briefing [26-BRF-01054 refers]. For clarity, the auction volumes in this briefing do not currently account for the proposed changes.

9(2)(h)

Government	Percentage
Current government	85%
Previous government	15%

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

9(2)(h)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Next steps

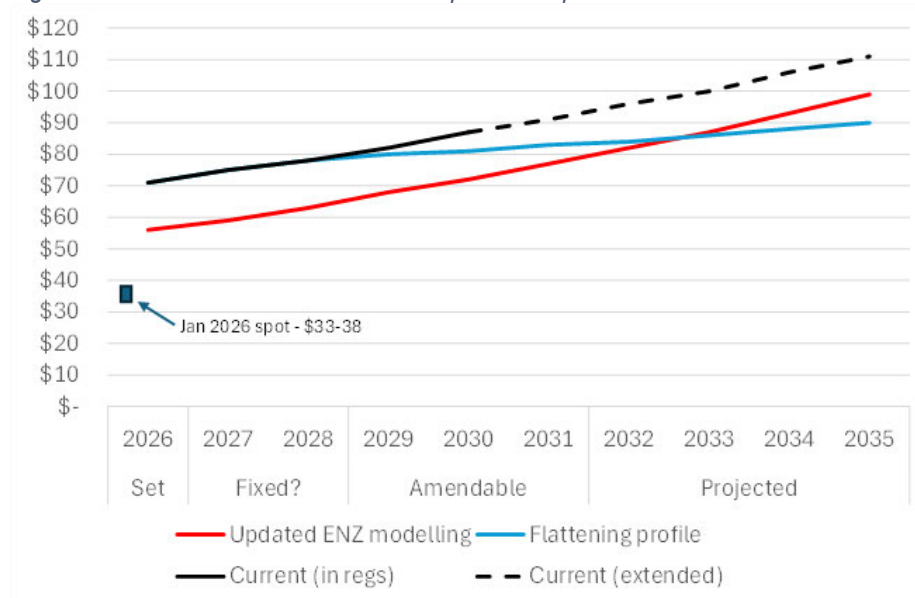
42. Section 5L of the CCRA requires the Commission's advice to be presented to the House within 10 working days after receipt or as soon as practicable. Accordingly, we recommend that you table the Commission's advice as soon as practicable.
43. We intend to discuss the recommendations in this briefing with you at the officials meeting on 28 April. See the detailed timeline for further next steps.

Table 5: Detailed ETS settings timeline through consultation

Milestone	Timeframe
Draft Cabinet paper and discussion document to MCC	29 April 2026
Ministerial consultation	30 April – 11 May 2026
Lodgment	14 May 2026
ECO consideration	20 May 2026
Cabinet consideration	25 May 2026
Public consultation	Early June (TBC)

Appendix One: Plausible alternative ETS auction price floor paths

Figure 1: Plausible alternative lower ETS price floor paths



44. Flattening profile: One potential approach is to allow the auction price floor to continue rising for the “fixed” years of the settings period (i.e. 2027 and 2028) and then hold it constant in real terms thereafter (i.e. adjust for expected inflation only). This would be combined with keeping the unit settings relatively tight, i.e. managing down the upper end of the surplus estimate.
45. Updated Emissions in New Zealand (ENZ) modelling: This modelling relied on various modelling assumptions to produce a ‘plausible’ lower auction price floor, such as assumptions about more favourable global and domestic conditions for driving lower emissions (a ‘tailwinds’ type scenario). This approach would entail lowering the auction floor price from the status quo levels. This would be combined with keeping the unit settings relatively tight i.e. managing down the upper end of the surplus estimate.



BRIEFING

ETS settings 2026 and default carbon look up tables work programme

Date:	24 April 2026	Priority:	Urgent
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-01054

	Action sought	Response by
Hon Simon Watts Minister of Climate Change	Provide direction on default carbon look up tables work programme	29 April 2026
Hon Todd McClay Minister of Forestry	Copy for your information	N/A

Action for Minister's Office staff

Return signed copy to Ministry for the Environment (advice@mfe.govt.nz) and, if agreed, forward to the Minister of Forestry's office.

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Kirsty Flannagan	General Manager	9(2)(a)	
Meredith Davis	Manager	9(2)(a)	✓
Stuart Malthus	Author		

The following departments/agencies have been consulted

Ministry for Primary Industries

Minister's office to complete:

☐ Noted

☐ Overtaken by Events

☐ Approved

☐ Needs change

☐ See Minister's Notes

☐ Declined

☐ Seen

☐ Withdrawn

Minister's Comments



BRIEFING

ETS settings 2026 and default carbon look up tables work programme

Date:	24 April 2026	Priority:	Urgent
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-01054

Purpose

1. This briefing should be read alongside 26-BRF-00746 [2026 ETS settings: options for consultation].
2. This briefing seeks confirmation on the timing of progressing work on the exotic and indigenous default carbon look up tables (look up tables) to inform the data used for the New Zealand Emissions Trading Scheme auction volumes and price control settings (NZ ETS settings) process for 2026 and 2027.

Key points

3. The NZ ETS settings process for 2026 is well underway. As part of developing options for auction volumes and price controls, officials modelled the impact of future allocation of New Zealand Units (NZUs) to forestry participants using in part the look up tables.
4. You have previously agreed to seek final Cabinet decisions on updating exotic look up tables (BRF-7224 refers). However, we understand that Ministers now do not propose to seek Cabinet decisions to update the exotic look up tables this parliamentary term.
5. Given that 2026 ETS settings decisions are now underway, we agree making look up table decisions next parliamentary term is now preferable. This would mitigate risks against adding an additional layer of complexity, with NZU supply from forestry being recalculated after public consultation on ETS settings options. This might negatively impact market confidence and credibility.

6. 9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]

7. 9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Recommended action

The Ministry for the Environment recommends that you:

1. **Confirm** your intention is to return to Cabinet seeking final policy decisions on updating the default tables for exotic forests in the next parliamentary term Yes/No

2. **Note** that this means using the existing default carbon look up table data for the 2026 ETS settings process Noted

3. **Agree** to provide an indication of the status on this policy within the ETS settings public consultation document to support market expectations Agree / Disagree

4. 9(2)(f)(iv) [REDACTED] Noted

5. 9(2)(f)(iv) [REDACTED] Agree / Disagree

6. **Forward** this briefing to the Minister of Forestry Agree / Disagree



Meredith Davis
Manager, Land Use and Removals
 Climate Change and Resource Efficiency,
 Ministry for the Environment

Hon Simon Watts
Minister of Climate Change

24 / 04 / 2026

___ / ___ / 2026

Background

NZ ETS settings process

8. The NZ ETS settings process is an annual¹ process that considers a range of factors in setting auction volumes and price controls for the next five years (2027-2031). Further detail is provided for you in 26-BRF-00746, to be read alongside this paper.
9. The amount of NZUs made available at auction considers, among other things, the supply of NZUs in the NZ ETS from other sources, such as forestry. Changes to unit supply affects the number of units made available at auction via the settings process.
10. To retain confidence in the market, officials recommend applying consistent inputs to options modelling across the entire ETS settings process.

Default carbon look up tables

11. NZ ETS forestry participants must regularly calculate and report the carbon that is stored in their forests to earn NZUs. The Climate Change (Forestry) Regulations prescribes the methods participants must use for these calculations:
 - a. Small-scale forestry participants (less than 100 hectares of registered forest) must use a set of default carbon tables, which are simple reference tables of expected average carbon stocks by forest age and forest type.
 - b. Large-scale forestry participants (100 or more hectares registered) use the FMA to physically measure their forests and generate bespoke carbon tables.
12. Around 80 percent of the 4,500 forestry participants are considered “small-scale” and use the default tables, although collectively they account for less than 20 percent of the 675,000 hectares of registered forest land.
13. The Maximising Forest Carbon Programme (the Programme) was stood up through Budget 2022 to update the default tables. Improving the accuracy of the default carbon look up tables in line with current science, supports the Government’s efforts to restore confidence and improve integrity in the NZ ETS, and ensures small-scale forestry participants are rewarded equitably for their carbon storage.
14. The Programme has delivered research on creating a new forest type and default tables for Redwoods and updating the default tables for Exotic Softwoods, Exotic Hardwoods and Pinus radiata.
15. Following public consultation in 2025, you agreed to return to Cabinet seeking final policy decisions on updating the default tables for exotic forests (BRF-7224 refers). Currently, Cabinet decisions have not been taken, and officials’ understanding is they will not be taken this parliamentary term.
16. 9(2)(f)(iv)

¹ ETS settings are proposed to change to every two years under the Climate Change Response (Adaptation and other matters) Amendment Bill

9(2)(f)(iv)

ETS settings 2026 require a decision on default look up tables

17. To support the development of options for ETS setting 2026 officials require a decision on the timing of the updating default carbon look up tables for exotic forests policy.
18. Your decision is required now to enable officials to work with you to provide Cabinet and the public with a consultation document that best reflects government policy and allows for consistent use of one set of default carbon look up tables throughout this year's ETS settings process.
19. The use of the existing look up tables for the options presented during public consultation, then changing to the updated look up tables for the options presented to Cabinet for final policy decisions may negatively impact market confidence as market participants and the wider public may perceive that they were not fairly presented with accurate options. This risk can be mitigated by noting in the consultation document that values for the look up tables may change prior to final policy decisions.

Retaining the existing default look up tables

20. Given, officials' understanding is the updates to look up tables for exotic forests will not progress in 2026, it is recommended you proceed with the existing look up tables for the 2026 ETS settings process. The material provided as part of 26-BRF-00746 reflects this approach.
21. The updates to the look up tables for exotic forests would therefore likely be considered as part of the 2027 ETS settings process.
22. The forestry sector is expecting the look up tables to updated and given public consultation was undertaken in April and May 2025 the sector may view the lack of their inclusion in the ETS settings process as a delay in the policy.

Using the updated default look up tables for exotic forests

23. If you intend to return to Cabinet for final policy decisions on updating the look up tables for exotic forests prior to completion of the 2026 ETS settings process officials will update the options in the associated Cabinet paper and make reference to the possibility of changes in the consultation document.
24. Officials estimate that using the updated look up tables would increase the supply of NZUs into the market without a corresponding increase in emissions reductions, requiring a reduction in auction volumes. 9(2)(f)(iv)

9(2)(f)(iv) [REDACTED]
[REDACTED].

9(2)(f)(iv) [REDACTED]
[REDACTED]

[REDACTED] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] [REDACTED]
[REDACTED]

[REDACTED] [REDACTED]
[REDACTED]

[REDACTED] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] [REDACTED]
[REDACTED]

Next steps

30. Officials will reflect your decisions in the draft cabinet paper and consultation document for this year's ETS settings.
31. Officials will continue to work to deliver the updates to the default carbon look up tables for both exotic and indigenous forests, with the timing to be confirmed following direction from Ministers.



BRIEFING

Approval to consult on ETS settings and regulatory updates for 2026

Date:	5 May 2026	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-01082

	Action sought	Response by
Hon Simon Watts Minister of Climate Change	Agree to consult on ETS regulatory updates Agree to request Cabinet approval for delegated authority for final decisions on regulatory updates Agree to begin Ministerial consultation on draft consultation documents and accompanying Cabinet paper for: 2026 ETS settings - Annual ETS regulatory updates	6 May 2026
Hon Nicola Grigg Minister for the Environment	Copy for your information	N/A

Action for Minister's Office staff

Return this briefing to the Ministry for the Environment (advice@mfe.govt.nz)
Initiate Ministerial consultation

Appendices and attachments

Appendix 1: Draft Cabinet paper
Appendix 2: 2026 ETS settings consultation document
Appendix 3: 2026 ETS regulatory updates consultation document

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Kirsty Flannagan	General Manager	9(2)(a)	
Rebecca Clements/James Coombes	Manager/Manager	9(2)(a)	✓
Melita Foster	Author		

Minister's office to complete:

☐ Noted	☐ Approved	☐ Declined
☐ Overtaken by Events	☐ Needs change	☐ Seen
	☐ See Minister's Notes	☐ Withdrawn

Minister's Comments



BRIEFING

Approval to consult on ETS settings and regulatory updates for 2026

Date:	4 May 2026	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-01082

Purpose

1. This briefing seeks your agreement to:
 - a. publicly consult on ETS regulatory updates for 2026
 - b. request delegated authority from Cabinet to make final decisions and issue drafting instructions following consultation
 - c. begin Ministerial consultation on the draft Cabinet paper and consultation documents for ETS settings and regulatory updates for 2026.

Key points

You are required by the Climate Change Response Act to consult before making annual updates to ETS unit limits and price controls (ETS settings)

5. Changes to New Zealand Emissions Trading Scheme (ETS) settings and regulations must be published in regulations no later than 30 September of this year. Consultation on these changes is a statutory requirement set out in the Climate Change Response Act 2002 (CCRA).

ETS settings 2026

6. Officials have incorporated your direction from the briefing provided on 23 April seeking decisions on consultation options [26-BRF-00746 refers] into a draft Cabinet paper (see appendix 1) and ETS settings consultation document (see appendix 2).
7. The draft Cabinet paper includes both the ETS settings and regulatory updates content. Officials are seeking your feedback on the draft Cabinet paper and ETS settings consultation document, prior to initiating Ministerial consultation.
8. As a general approach, ETS settings rely on latest official projections where applicable (for example, to project future emissions from non-ETS sectors). We are in the process of compiling the 2026 projections and are expecting changes in some areas since 2025. The consultation makes a general acknowledgement of these uncertainties. It is possible to be more specific about these uncertainties, for example, by identifying what

policies are uncertain. However, we view the policy risk in communicating uncertainties about specific policies before having evidence about changes outweighs any benefit.

Annual ETS regulatory updates

9. Each year officials review and update the regulations that govern the ETS to ensure the scheme is accurate, operating efficiently, and up to date with the latest available data and evidence. Officials recommend consulting on seven annual regulatory updates to the ETS this year. These proposals are detailed in the draft ETS regulatory updates consultation document attached for your review (see appendix 3).
10. In March, you agreed to consult on two waste regulatory updates [26-BRF-00032 refers]. Officials seek your agreement to consult on an additional five regulatory updates. These include technical updates to default emissions factors, a further technical update for waste sector participants, and a general ETS exemption for waste from historic contaminated sites.
11. You have delegated authority to make decisions on and issue drafting instructions for minor and technical updates to the ETS regulations [CAB-24-MIN-0156 refers] following consultation. This year, four proposed updates do not meet the definition of being purely technical in nature. For these proposals, officials seek your agreement to request delegated authority from Cabinet.

Proposed consultation approach

12. Officials propose to run consultation for both ETS settings and annual regulatory updates from 12 June for four weeks. This includes online submissions and virtual consultation sessions.

Next steps

13. As set out below, following Ministerial consultation and Cabinet approval, consultation is expected to begin on 12 June, following the 9 June ETS auction and pre-auction window period.

Milestone	Timeframe
Ministerial consultation	7—18 May
ECO lodgement	21 May
Cabinet Committee (ECO)	27 May
Cabinet	2 June
ETS auction	9 June
Consultation begins	12 June

Recommended action

The Ministry for the Environment recommends that you:

Noted

1. **Note** you are required to consult on ETS settings and regulatory updates and the draft Cabinet paper requesting this is attached for your review

2. **Note** you agreed to consult on the following two waste policy options as part of the ETS regulatory updates consultation:

Noted

- a. Update the default emissions factor for waste participants
- b. Increase information requirements for UEF applications with high landfill gas capture rates

3. **Agree** to consult on the following ETS regulatory proposals:

Agree / Disagree

- c. Update the default emissions factors for natural gas activities
- d. Update the default emissions factors for geothermal activities
- e. Update the default emissions factors for liquid fossil fuels
- f. Remove the oxidation factor from UEF applications
- g. Exempt the disposal of waste from remediation of historic contaminated sites

4. **Note** that you have existing delegated authority to make decisions and issue drafting instructions for minor and technical updates to the ETS regulations following consultation

Noted

5. **Agree** to seek Cabinet approval for additional delegated authority to make decisions and issue drafting instructions for:

Agree / Disagree

- a. Updating the default emissions factor for waste participants
- b. Increasing information requirements for UEF applicants with high landfill gas capture rates
- c. Removing the oxidation factor from UEF applications
- d. Exempting the disposal of waste from remediation of historic contaminated sites

6. **Indicate** whether you have feedback on:

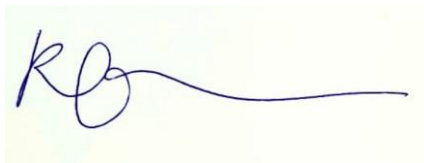
a. The draft Cabinet paper Yes / No

b. The draft 2026 ETS settings consultation document Yes / No

c. The draft ETS regulatory updates consultation document Yes / No

7. **Agree** to undertake Ministerial consultation, subject to any feedback being incorporated, on the draft Cabinet paper and two consultation documents. *Agree / Disagree*

8. **Agree** to the proposed approach to public consultation *Agree / Disagree*



Kirsty Flannagan
General Manager
Markets, Ministry for the Environment

___ / ___ / 2025

Hon Simon Watts
Minister of Climate Change

___ / ___ / 2025

Background

1. Changes to New Zealand Emissions Trading Scheme unit limits and price control settings (ETS settings) for the period 2027-2031 must be published in regulations no later than 30 September of this year (to come into force on 1 January 2027).
2. Each year officials also review and update the regulations that govern the ETS to ensure the scheme is accurate, operating efficiently, and up to date with the latest available data and evidence. These regulatory updates are also required to be published in regulations no later than 30 September.
3. The Climate Change Response Act 2002 (CCRA) requires you to consult on both the ETS settings and regulatory updates before making any decisions.

ETS settings

4. On 23 April, officials sought your direction on 2026 ETS consultation options [26-BRF-00746 refers]. Following officials on 28 April and further testing with your office, officials have incorporated your direction into the attached draft Cabinet paper and consultation document.
5. Options include:
 - e. Option 1 (preferred): Status quo 2027-30, plus 2031 volumes (13.0 million NZUs)
 - f. Option 2: Commission recommendation, status quo 2027-30, plus higher 2031 volumes (14.7 million NZUs)
 - g. Option 3: Lower volumes (8.0 million NZUs)
6. In line with your direction and following testing with your office, the consultation document also tests auctioning no units in 2027 under option 1 and 3 to respond to some market commentators who question the value of auctions in the near term.
7. Officials have also included a consultation question testing whether the shift to biennial settings will exacerbate the undersupply risk in the later 2020s (see consultation questions 15 and 16). This is supported by broader context about the undersupply risk, rather than presented as a standalone option.

Reliance on official emissions projections

8. As a general approach, ETS settings rely on latest official projections where applicable (for example, to project future emissions from non-ETS sectors). This supports the integrity of the settings process and manages the risk of picking and choosing where to use updated information.
9. We are in the process of compiling the 2026 projections and are expecting changes in some areas since 2025 including due to external factors, changes to policies to reduce emissions, methodological changes, ETS price assumptions and private sector behaviour. The consultation makes a general acknowledgement of these uncertainties.

10. 9(2)(f)(iv) [REDACTED]
11. 9(2)(h) [REDACTED]
12. Officials are seeking your feedback on the draft Cabinet paper and consultation document content. The Ministers for/of Finance, the Environment, Transport, Forestry and Agriculture are likely to be interested in the Cabinet mandate being sought for work on strategic options to help close the EB3 gap as it will require agency resourcing. Officials suggest you or your office highlight this point during Ministerial consultation.

Annual ETS regulatory updates

13. In March, you and the Minister for the Environment agreed to consult on two waste policy options [26-BRF-00032 refers] in the annual ETS regulatory updates this year. Going forward, the Minister for the Environment will be copied in on progress to this work. These are connected to the delivery of waste sector emissions abatement projections under the second emissions reduction plan:
- a. a proposal to update the default emissions factor for the waste sector
 - b. a proposal to link unique emissions factor (UEF) use to operator evidence (modelled to achieve 0.84Mt abatement in EB2 and 1.95Mt abatement in EB3, to a 2050 cumulative total of 7.63Mt).
14. Officials seek approval to consult on a further five ETS regulatory updates. These include technical updates to default emissions factors, a further technical update for waste sector participants, and a general ETS exemption for waste from historic contaminated sites.

Technical updates to default emissions factors

14. Technical updates are outlined in the consultation document on pages 8–13. Officials recommend consulting on the proposed new default emissions factors for:
- a. natural gas activities
 - b. geothermal activities

¹ That is, accounting for AOCL decreases the number of auctioned units in 2031 by ~0.5 million. This is based on the official 2025 'with existing measures' projections for both forestry and agriculture, which both assume no AOCL impact.

c. liquid fossil fuels.

15. These updates are based on the most recent data available and ensure ETS reporting remains accurate. Placeholder tables for the new figures are included in the consultation document. Once data is received from the EPA, officials will run the necessary calculations and complete internal quality assurance processes before incorporating the figures into the consultation document.

Technical updates for the waste sector

16. In March, you agreed to consult on updating the default emissions factor for the waste sector and to link unique emissions factor use to operator evidence as part of the annual ETS regulatory updates this year. Officials have made some technical clarifications to these proposals in the consultation document. Waste updates are detailed on pages 14–22. Officials are working with sector representatives and Eunomia to refine the final data that would be required to implement these options.
17. Officials recommend consulting on a third technical proposal for waste participants. Officials recommend changing the oxidation factor from 10 percent to 0 percent. This is used when landfills that have a landfill gas capture and destruction system apply for a unique emissions factor. Functionally, this removes the oxidation factor from the calculation requirements. This change will increase the accuracy of the UEF and reduce the risk of under-reporting emissions.
18. All three waste updates are intended to have a commencement date of 1 February 2027 to reduce disruption to business planning by avoiding introducing costs on waste disposed in 2026 that have not been accounted for.

Options for remediated historic contaminated waste under the ETS

19. In April 2025, Cabinet approved an exemption for Waitaki District Council for ETS charges on historic remediated waste [ECO-25-MIN-0038 refers]. Following that decision, officials advised you that they would investigate options for a general ETS exemption for remediated waste to avoid disincentivising future remediation projects and to reduce reliance on ongoing case by case exemptions.
20. Officials recommend consulting on two options: the status quo and introducing a general exemption for waste resulting from the remediation of historic contaminated sites.
21. Option 1 – status quo: Historic waste or waste that does not include organic matter has considerably fewer emissions than new organic waste. However, the waste still incurs ETS charges as all waste disposed at a landfill is treated as new waste.
22. Option 2 – introduce a general exemption with defined parameters that captures only eligible historic contaminated material, while maintaining ETS obligations for waste streams with future emissions potential. This option is possible under section 60 of the Climate Change Response Act 2002. This proposal is detailed on pages 23–25 of the consultation document. A general exemption would remove an unjustified financial barrier that may influence disposal choices away from the best environmental outcome.

Price of carbon and synthetic greenhouse gas levy updates

23. Annual updates to the price of carbon and synthetic greenhouse gas levies will also be part of the ETS regulatory updates package. They are not required to be consulted on as they are calculated according to the methodology set in the Regulations.

Proposed consultation approach

24. Officials propose consultation on both ETS settings and annual regulatory updates to run for four weeks from 12 June 2026. Officials propose this includes online submissions and four virtual sessions.
25. Consulting on biennial settings may affect when the CCRA Bill can be referred to select committee, as consultation cannot occur at the same time given the same proposal is in the bill. On current timelines, this is not an issue—the Bill is due to be introduced two weeks after consultation on ETS settings closes. We will advise you if this changes.

Requesting delegated authority to make decisions without returning to Cabinet

Approval to make policy decisions on 2026 ETS settings without returning to Cabinet

26. You have delegated decision-making authority under the CCRA to make annual updates to ETS unit limits and price controls. However, you would usually still require Cabinet approval to make policy decisions to issue drafting instructions. You indicated your preference to seek approval to decide this without returning to Cabinet in February 2026 [26-BRF-00354 refers] and officials have reflected this in the draft Cabinet paper.
27. The draft also notes you will consult with the Minister of Finance before issuing drafting instructions to provide additional assurance over the process. You may wish to consult with additional Ministers or remove the consultation.

Additional delegated authority for four ETS regulatory proposals

28. You have existing delegated authority to make decisions and issue drafting instructions for minor and technical updates to the ETS regulations [CAB-24-MIN-0156 refers] following consultation. Three of the seven proposals meet the threshold for minor and technical delegation. These are:
- a. updating the default emissions factors for natural gas activities
 - b. updating the default emissions factors for geothermal activities
 - c. updating the default emissions factors for liquid fossil fuels.
29. Officials are seeking your agreement to request delegated authority from Cabinet for the following four proposals. They do not meet the definition of purely technical matters as they are not considered routine and will impose further obligations on participants:

- a. update the default emissions factor for waste participants
- b. increase information requirements for UEF applicants with high landfill gas capture rates
- c. remove the oxidation factor from UEF applications
- d. exempt the disposal of waste from remediation of historic contaminated sites.

Delegated authority for three climate-related items

30. You indicated your preference to seek delegated authority on the following three climate-related items which has been reflected in the draft Cabinet paper [weekly report 17 April 2026 refers]:
- a. the response to the Climate Change Commission's annual monitoring report (ERM report) on progress towards emissions reductions (must be tabled within three months from receipt in July)
 - b. the response to the Commission's biennial progress report on the National Adaptation Plan (must be tabled within six months from receipt in July)
 - c. the annual report back on the adaptive management approach required by ERP2, to confirm whether the Government remains on track to meet the second emissions budget

Agency consultation on ETS regulatory updates

31. Officials have undertaken agency consultation on the ETS regulatory updates consultation document with the Ministry of Business, Innovation and Employment, Department of Conservation and the Environmental Protection Agency (EPA). Feedback from the EPA has been incorporated into the attached version of the ETS regulatory updates consultation document.

Next steps

32. Officials will incorporate any feedback received into the draft Cabinet paper and consultation documents. After which, your office can commence Ministerial consultation and officials will undertake the remaining agency consultation on 2026 ETS settings.
33. Prior to Cabinet consideration, a Quality Assurance Panel from the Ministry will assess the discussion documents and the Climate Implications of Policy Assessment (CIPA) will assess the emissions impacts of the proposals.

Milestone	Timeframe
Ministerial consultation	7—18 May
ECO lodgement	21 May
Cabinet Committee (ECO)	27 May
Cabinet	2 June
ETS auction	9 June
Consultation begins	12 June

Appendix 1: Draft Cabinet paper - *Approval to consult on 2026 ETS settings and annual regulatory updates*

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Appendix 2: Consultation Document – *Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2026*

Appendix 3: Consultation document – *Proposed changes to the New Zealand Emissions Trading Scheme Regulations 2026*



BRIEFING

Approval to lodge – Approval to consult on 2026 NZ ETS settings and annual regulatory update

Date:	19 May 2026	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-01294

	Action sought	Response by
Hon Simon Watts Minister of Climate Change	Approve lodgement of the Cabinet paper, <i>Approval to consult on 2026 NZ ETS settings and annual regulatory updates</i> and appendices	21 May 2025
Hon Nicola Grigg Minister for the Environment	Copy for your information	N/A

Action for Minister's Office staff

Return this briefing to the Ministry for the Environment.

Appendices and attachments

Appendix 1: Summary of key changes
Appendix 2: Cabinet paper, including appended Crown Law advice
Appendix 3: 2026 NZ ETS settings consultation document
Appendix 4: 2026 NZ ETS regulatory updates consultation document

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Kirsty Flannagan	GM/Dep Sec	9(2)(a)	
Rebecca Clements/James Coombes	Manager/Manager	9(2)(a)	✓
Tabitha McMaster	Author		

The following departments/agencies have been consulted

N/A

Minister's office to complete:

- | | | |
|--|---|------------------------------------|
| ☐ Noted | ☐ Approved | ☐ Declined |
| ☐ Overtaken by Events | ☐ Needs change | ☐ Seen |
| | ☐ See Minister's Notes | ☐ Withdrawn |

Minister's Comments

BRIEFING

Approval to lodge – Approval to consult on 2026 NZ ETS settings and annual regulatory updates

Date:	19 May 2026	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	26-BRF-01294

Purpose

1. This briefing seeks your agreement to lodge the Cabinet paper, *Approval to consult on 2026 NZ ETS settings and annual regulatory updates* and appendices to the Cabinet Economic Policy Committee (ECO), for consideration on 27 May 2026.

Key points

Changes to NZ ETS unit limits and price controls and annual regulatory NZ ETS updates are required by 30 September 2026

2. Changes to New Zealand Emissions Trading Scheme (NZ ETS) settings and regulations must be published in regulations no later than 30 September of this year. Consultation on these changes is a statutory requirement set out in the Climate Change Response Act 2002 (CCRA).
3. Each year, officials review and update the regulations that govern the NZ ETS to ensure the scheme is accurate, operating efficiently, and up-to-date with the latest available data and evidence. For 2026, you agreed to consult on seven regulatory updates [26-BRF-00032 and 26-BRF-01082 refers].
4. We provided you a draft Cabinet paper and two consultation documents regarding NZ ETS settings and annual regulatory updates on 5 May [26-BRF-01082 refers]. Ministerial consultation began on 8 May and finished on 18 May.

We have amended the draft Cabinet paper and appendices following agency and ministerial consultation

5. A table setting out key changes to documents following agency and Ministerial consultation is provided as Appendix 1.¹ No Ministerial feedback has been received at this stage.

¹ Agencies consulted included the Department of Prime Minister and Cabinet, Treasury, Ministry of Business, Innovation and Employment, Ministry of Primary Industries, Te Puni Kōkiri, and the Ministry of Transport.

6. You agreed to include three options for consultation, noting final auction volumes have marginally changed following continued refinement:

- a) Option 1 (preferred): Status quo 2027-30, plus 2031 volumes (13.0m NZUs)
- b) Option 2: Climate Change Commission recommendation, status quo 2027-30, plus higher 2031 volumes (14.7m NZUs)
- c) Option 3 (seeking direction): Lower volumes (7.7m NZUs)

7. 9(2)(g)(i)

8. As noted in 26-BRF-00746, the lower volumes option (Option 3) would signal further tightening. However, the option provides less predictability and stability to the market, and it may be viewed as unbalanced in the context of undersupply risk. 9(2)(g)(i)

Agencies did not oppose the Cabinet mandate sought to undertake work on strategic options to support major emitting sectors to meet EB3

9. The Cabinet paper seeks a mandate to direct officials to develop strategic options to support major emitting sectors to meet EB3. Relevant agencies have been receptive to the proposal, however, a political mandate is required to resource this work and demonstrate efforts are being made to address the EB3 gap. We did not receive any feedback from Ministers on this. If the Cabinet mandate is not secured, you will need to reconsider indicating the Government status quo option as your preferred option and the importance of the lower auction volumes (Option 3) increases. We will provide further advice on this to support you during ECO.

Minor update to the lower auction volumes option following consultant's review

10. We contracted Ernst and Young (EY) to provide an independent review of our modelling and calculations for NZ ETS settings. Overall, EY did not identify any material issues in the methodology and calculations supporting NZ ETS settings during its review. EY judge, however, that the lower bound hedging assumptions (which inform the estimated surplus range) were unrealistically low. We agree with this assessment and have adjusted the assumptions accordingly.

11. The key consequence of this change is that the auction volumes for the lower auction volumes option (Option 3) are now 7.7m units compared with the previous 8.4m units. In our view, this change is largely technical and does not materially impact the core trade-offs between options, as signalled in 26-BRF-00746. The Cabinet paper and consultation document have been updated to reflect this change.

12. In addition to the independent review, we applied an internal quality assurance process consistent with standard practice for high-impact modelling, such as NZ ETS settings analysis. This process included commissioning dedicated quality assurance roles, separate model ownership and validation, and verification of cited figures against source data.

9(2)(h)

Next steps

14. We will prepare suggested talking points to support the consideration of the Cabinet paper and appendices at ECO on 27 May. We are also preparing material to support public consultation and communication of the consultation.

Milestone	Timeframe
ECO lodgement	21 May
Cabinet Committee (ECO)	27 May
Cabinet	2 June
NZ ETS auction	9 June
Pre-announcement	11 June
Consultation begins	12 June
Consultation ends	12 July

Recommended action

The Ministry for the Environment recommends that you:

1. **Note** changes to New Zealand Emissions Trading Scheme (NZ ETS) settings and regulations must be published in regulations no later than 30 September of this year and must be consulted on *Noted*

2. **Approve** lodgement to the Cabinet Economic Policy Committee of the Cabinet paper, *Approval to consult on 2026 NZ ETS settings and annual regulatory updates*, including the following documents: *Approved / Not approved*
 - a. Consultation document: Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2026
 - b. Proposed changes to the New Zealand Emissions Trading Scheme regulations 2026



Kirsty Flannagan
General Manager
 Markets, Ministry for the Environment

Hon Simon Watts
Minister of Climate Change

19 / 05 / 2026

___ / ___ / 2026

Appendix 1: Summary of key changes²

Agency/Minister/Internal	Amendment
Cabinet paper	
[Agency] Department of the Prime Minister and Cabinet	[Paragraph 20-21] Clarify in the body that approval is sought for delegated authority to reverse Cabinet's previous decision to change NZ ETS settings from an annual process to biennial [Paragraph 31-32] Further explain the changes proposed to the NZ ETS caps 9(2)(h)
[Agency] The Treasury	[Paragraph 43, recs 6.1-6.2] Make explicit in the recommendations that MCC will consult with relevant Ministers before making decisions and issuing drafting instructions on NZ ETS settings [Paragraph 20-21, rec 8] Clarify the approval sought to reverse Cabinet's previous decision to change NZ ETS settings from an annual process to biennial
[Agency] Ministry of Business, Innovation and Employment	[Paragraph 31-32] Further explain the changes proposed to the NZ ETS caps, including impacts on critical sectors
Internal	Lower option aligned with revised hedging assumption following EY feedback
Consultation document: Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2026	

² There have been editorial and minor edits made not set out in appendix 1. No material changes were made to the NZ ETS annual regulatory updates consultation document. Additional minor feedback was received from the Ministry of Primary Industries and Te Puni Kōkiri.

Internal	Lower option aligned with revised hedging assumption following EY feedback [Page 20-21] Refinement of options framing, including less emphasis on emissions reductions given limited variation in modelling results and highlighting additional downside of Option 3 negatively impacting predictability because it changes years 1+2 [Page 22-23] Additional detail and analysis in the undersupply and impacts on economy and households sections [Page 34] Addition of how NZ ETS links with 2030 and 2050 biogenic methane targets. Explaining NZ ETS has minimal role in meeting those targets and we do not consider them impacting accordence 9(2)(h) [Page 34-35] Changing overall assessment of Option 3 from neutral to negative
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Appendix 2: Cabinet paper – *Approval to consult on 2026 NZ ETS settings and regulatory updates*

Appendix 3: Consultation Document – Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2026

Appendix 4: Consultation document – *Proposed changes to the New Zealand Emissions Trading Scheme Regulations 2026*

CLASSIFICATION

Office of the Hon Simon Watts Minister of Climate Change

ECO - Cabinet Economic Policy Committee

Approval to consult on 2026 NZ ETS settings and annual regulatory updates

Proposal

- 1 I seek agreement to consult on the 2026 options for unit limit (auction volumes) and price control settings for the New Zealand Emissions Trading Scheme (NZ ETS settings) to meet the requirements of the Climate Change Response Act 2002 (the Act). I also seek agreement to consult on annual NZ ETS regulatory updates.¹
- 2 Final decisions on these proposals, plus other climate deliverables, will be due near the 2026 General Election 'the Election'. As such, I also seek approval to:
- 3 Proceed with NZ ETS settings and regulatory updates decisions and issue drafting instructions without returning to Cabinet following consultation; and
 - 3.1 approve three climate monitoring deliverables including public release without returning to Cabinet.

Relation to government priorities

- 4 This paper supports the Government's Climate Strategy (pillar two: credible markets and the delivery of the Government's Target 9). This paper also enables the Government to meet its statutory obligations to consult under the Act.

Executive Summary

- 5 The NZ ETS is currently the Government's main tool to reduce emissions. Annual NZ ETS settings updates determine the number of New Zealand units (NZUs) the Government will auction in future years and at what prices.² This requires balancing alignment with emissions budgets against avoiding overly tightening supply. Updates also signal the Government's commitment to climate obligations, supporting investment confidence.
- 6 In August 2025, I maintained status quo NZ ETS settings to support achievement of emissions reduction obligations while maintaining predictability. Currently, the secondary market price is ~\$20 below the auction price floor³ and has remained below the floor for some time. Since February 2026, NZU prices have been relatively stable following significant price volatility late last year and early this year. More recently, the market has shown signs of a gradual recovery.
- 7 The Climate Change Commission (the Commission) has identified a potential undersupply of NZUs in the later 2020s; however, this is highly uncertain and not reflected in market behaviour due to short-term focus and weak sentiment. Lower

¹ Annual regulatory updates are separate to the ETS unit limits and price controls regulations.

² The Government has made policy decisions to change the annual process to biennial through the upcoming Climate Change Response Amendment Bill.

³ The minimum price the Government will sell auctioned units.

auction volumes will increase the risk. Additionally, the current fuel crisis underscores the need to maintain stability and meet legal requirements without overtightening.

- 8 The NZ ETS imposes a cost on fuel: a \$10 rise in the NZ ETS price increases petrol prices by ~2.5 cents per litre and diesel by ~2.9 cents per litre. Ministry for the Environment modelling shows little variation in central scenario price impacts between the options in this paper. In the status quo option, prices are modelled to rise to around \$80⁴ by 2030. In the short-term, I do not expect significant upward price pressure from the proposals in this paper based on market sentiment and broader uncertainty. There is a risk that further ad hoc interventions result in negative market reactions.
- 9 I seek approval to consult on ETS settings options for four weeks in June 2026:
 - 9.1 **Auction volumes:** status quo auction volumes as the broad approach, also proposed by the Commission. I also propose consulting on a lower volumes option and to seek feedback on zero auction volume in 2027.
 - 9.2 **Price controls:** maintaining current price control settings (including the price floor, the minimum price at which units may be sold at auction) with inflation adjustments only. This is in line with the Commission's recommendation.
- 10 A credible NZ ETS remains crucial, but as the share of New Zealand's net emissions it covers falls, it will be unable to meet the third emissions budget (EB3 gap) on its own. To assist with this, and to ensure budgets will be met, I seek Cabinet agreement for officials to begin identifying and developing strategic options to close the EB3 gap. This should identify opportunities across key emitting sectors to reduce emissions in the 2030s. Officials should report back after the Election but before the 2027 NZ ETS settings process to seek further direction on which opportunities to progress.
- 11 Commencing this work now ensures Ministers deciding on the third emissions reduction plan have a set of detailed, realistic, implementable options to achieve EB3.
9(2)(h)

Annual NZ ETS regulatory updates

- 12 I seek approval to consult on seven annual NZ ETS regulatory updates over the same four-week period as the NZ ETS settings consultation.

Delegated decision-making authority

- 13 Decisions on NZ ETS settings, regulatory updates and other non-NZ ETS climate deliverables will be due near the Election. I seek authority to progress decisions and issue drafting instructions for the 2026 NZ ETS settings and annual regulatory updates without returning to Cabinet, to provide market certainty and reduce Cabinet workload. I also seek delegated authority for three non-NZ ETS climate deliverables to enable timely decisions. I would revert to Cabinet in the case of any significant changes.

Background

- 14 The NZ ETS prices emissions. Emitters in covered sectors (~40% of gross emissions) must surrender one NZU per tonne of carbon dioxide equivalent emitted each year. NZUs are obtained via Government auctions, industrial allocation, or the NZ ETS

⁴ Prices are stated in 2026-dollar terms.

market, including carbon removals units (eg, forestry). The NZ ETS is currently the Government's primary tool to meet emissions budgets and targets.

NZ ETS unit limits and price control settings

- 15 The NZ ETS settings update is an annual process to set the number of units the Government will auction in future years and at what prices. Changes must be set in regulations no later than 30 September this year. The Commission must provide annual advice on NZ ETS settings. The Act requires me to consult on these changes, consider the Commission's advice and that⁶ NZ ETS settings must accord with legislated emission budgets and must strictly accord with the 2050 target.⁶
- 16 NZUs can be banked indefinitely in private accounts, forming the stockpile. The surplus stockpile—units not needed for future surrender—poses a risk to meeting emissions budgets. In 2024, auction volumes were reduced by ~50% to eliminate the surplus stockpile by 2030 [CAB-24-MIN-0303 refers]. I maintained this objective in 2025.
- 17 The NZ ETS unit price fell sharply, from ~\$50 to the low \$30s, following November 2025 announcements to change the Act. The price has slowly recovered to the low \$50s; ~\$20 below the auction price floor. Commentators attribute this to policy and political uncertainty due to the November announcements, the Election, recent forestry policy changes and the Middle East conflict. Commentators also forewarn that short-term sentiment does not align with medium-term fundamentals of tighter supply towards the end of the 2020s. A resulting risk of undersupply is discussed in this paper.

Annual NZ ETS regulatory updates

- 18 Annual NZ ETS regulatory updates is an additional process that follows the NZ ETS settings timeline. The regulations detail the information that NZ ETS participants are required to collect, report on and use to calculate emissions. They are reviewed regularly to ensure they are up-to-date and fit-for-purpose.

Proposals: auction volumes and price controls

- 19 I intend to consult on the following options for auction volumes and status quo price controls across all volume options, also recommended by the Commission:

Auction volume option	Rationale
Option 1 - Commission-recommended volumes (14.7 million NZUs)	Status quo EB2 volumes most appropriate to support market confidence. 2031 volumes set based on surplus being depleted and EB3 cap of 28.9 Mt CO ₂ e.
Option 2 - Government-recommended volumes (13.0 million NZUs)	Status quo EB2 volumes – matching Commission recommendation and rationale to support market confidence. 2031 volumes reduced to increase NZ ETS contribution to EB3 achievement.
Option 3 – Lower volumes (7.7 million NZUs)	Reduces auction volumes across EB2 to increase NZ ETS contribution to EB2 achievement but higher undersupply risk. Reflects a maximum estimate of the surplus stockpile. 2031 volumes similar to Option 2.

The Commission's recommendations (Option 1) and testing biennial settings change

- 20 The Commission's recommendations aim to support a stable and predictable market. The Commission also identifies a risk of undersupply from as early as 2028, potentially

⁶ Section 3A(b)(iv), 3B(3)(b) and 3B(4), 30GC(2)(b).

leading to rapidly rising and volatile prices. This could result in emissions reductions via plant closures or reduced production. This analysis relies on significant and uncertain assumptions about key market factors, including the stockpile, forestry supply and hedging behaviour. The Commission therefore recommends ongoing monitoring, including reassessment in 2027.

- 21 In 2025, Cabinet decided to shift NZ ETS settings from an annual process to biennial through the Climate Change Response Amendment Bill (the Bill) that is yet to be introduced [CAB-25-MIN-0324 refers]. The Commission notes the shift to biennial settings may exacerbate undersupply risk as there will be fewer opportunities to respond. I intend to test this view through consultation. I seek delegation from Cabinet to revisit this policy decision so that if, after consultation, I am convinced that the risks of biennial settings outweigh the benefits, I can remove this proposal from the Bill.
- 22 I propose to consult on the Commission's recommendations. The Government is not required to accept the Commission's advice nor take the same approach; however, consultation supports statutory requirements and enables testing of stakeholder views.

My preferred option (Option 2)

- 23 I agree with the Commission that predictability and stability is critical, particularly given broader economic uncertainty. Officials undertook engagement with a Market Advisory Group, composed of NZ ETS market representatives. All participants emphasised the need for predictability to restore market confidence. Modelling shows current auction volumes and price controls are sufficient to meet emissions budgets and targets. As such, I propose to consult on Option 2 and current price controls, extended to 2031, as my preferred option. My preferred 2031 volumes are lower than the Commission's due to assuming that the burden on NZ ETS sectors to meet EB3 could be higher based on current Government policies.

Additional consultation options/ topics

- 24 In addition to the Commission's recommendations, I propose to consult on a lower-volume option (7.7m NZUs for 2027–2031) to test support for tighter settings. This option carries a marginally higher risk of undersupply in the late 2020s.
- 25 Auctions not clearing are a feature of the NZ ETS allowing the market to decide whether it needs auction volume. Given the persistent gap between the secondary price and the auction floor, and recent non-clearing auctions, some commentators have questioned the value of auctions. I will test this view, including consulting on auctioning no units in 2027 under either Government option and redistributing it to later years.⁷ This carries higher risk of negative market reaction as it may be unexpected and would represent increased Government appetite for market intervention.
- 26 There are similar projected price pathways across options. For the status quo option, NZ ETS prices are modelled at ~\$80 in 2030, before gradually declining to ~\$50 (around the long-term marginal cost of forestry). All else equal, prices could peak at higher levels, ~\$110 in 2030, under Option 3. This is compared with a current ~\$50 price, which is projected to rise as units become scarcer.

The gap to meeting the third emissions budget (EB3) creates significant issues for the Government within the NZ ETS settings process

⁷ The government is contractually obliged to pay for operating costs of auctions even if they are set at zero volumes.

- 27 NZ ETS settings must, by law, accord with emissions budgets and targets. According with emissions budgets requires a 'good probability' that NZ ETS settings sufficiently constrain NZ ETS sector emissions for the NZ ETS to play its required role in meeting budgets⁸. NZ ETS settings must meet the accordance requirement, after accounting for expected emissions from sectors outside the NZ ETS. This ensures we are overall on track for our emissions budget. This is the first year NZ ETS settings reach into the EB3 period (2031-35). There is currently an estimated ~9-19Mt gap to meeting EB3.⁹
- 28 To support accordance, we need to ensure the NZ ETS is fulfilling its role to help close the gap (reflected in our conservative preferred auction volume option) and there is a visible, material effort to look beyond the NZ ETS to close the rest of the gap. 9(2)(h)
- 29 A credible NZ ETS will remain crucial, but it will be unable to close the EB3 gap on its own as the share of New Zealand's net emissions it covers falls. I am therefore seeking Cabinet's agreement and direction to agencies that officials should commence work on identifying and developing strategic options across major emitting sectors to support meeting EB3. This work will be coordinated by the Climate Change Chief Executives Board with a report back to Ministers after the Election, but before 2027 NZ ETS settings to seek further direction on which opportunities to progress. Key agencies to be involved in this work include: Ministry for the Environment, Ministry of Transport¹⁰, Ministry for Primary Industries, and Ministry of Business Innovation and Employment.
- 30 Identifying and developing strategic options across major emitting sectors is important to support the accordance test for NZ ETS settings. It can also assist with our public climate change narrative; provide opportunities to accelerate our Electrify NZ programme and improve energy resilience; help to address the Commission's advice on closing the EB3 gap and ensure Ministers have detailed, realistic and implementable options when deciding on the third emissions reduction plan (ERP3).

Amendment to the EB2 and provisional EB3 NZ ETS cap is required to achieve budgets

- 31 The 'NZ ETS cap' sets the NZ ETS sector share of the emissions budget and is set during the NZ ETS settings process as the basis for auction volumes and price settings. In September 2025, Cabinet set the EB2 cap at 89.4Mt CO₂-e [CAB-546 refers]. Since then, 2025 emissions projections indicate higher net emissions outside the NZ ETS and lower net emissions within the NZ ETS over EB2. In line with the Government's efforts to strengthen its position to meet EB2, I propose to consult on a tighter cap of 81.9Mt CO₂-e, aligned with 2025 projections. This is not expected to have a significant impact on NZ ETS sectors and is the Commission's recommended approach.
- 32 Cabinet also set a provisional EB3 NZ ETS cap of 40.7Mt CO₂-e in 2025. This cap does not account for the EB3 gap noted in paragraph 26. To ensure NZ ETS emissions and settings are in line with achieving EB3 and my statutory obligations are met, I recommend consulting on a provisional EB3 cap of 24.8Mt CO₂-e. Noting this material reduction, there is potential for negative impacts on critical sectors, including energy and transport, if the Government does not identify options to meet EB3 and demand

⁸ This is the general accordance requirement. It is applicable only if departure from strict accordance is justified with reference to the considerations listed in the Act. Relevant budgets include the Second and Third Emissions Budgets (2026-35).

⁹ Based on the 'with existing measures' (WEM) and 'with additional measures' (WAM) pathways used in the 2025 official projections.

¹⁰ The Ministry of Cities, Environment, Regions and Transport will be a key agency once stood up, replacing the Ministry for the Environment and Ministry of Transport in this work programme.

for NZUs significantly exceeds supply.¹¹ The EB3 cap may also increase in the future if there are further emissions reductions in non-NZ ETS sectors. As such, I will emphasise the provisional nature of the EB3 cap given the proposed work on strategic options for major emitting sectors may identify reductions over EB3.

Proposals: annual updates to NZ ETS regulations

- 33 I seek Cabinet approval to consult on proposals to update NZ ETS regulations covering technical updates to default emissions factors, technical updates for waste sector participants and NZ ETS options for remediated historic and contaminated waste.

Technical updates to default emissions factors

- 34 Participants can use default emissions factors (DEF) to calculate their emissions each year. I propose to consult on updates to the default emissions factors for natural gas activities, geothermal activities and liquid fossil fuels. These updates are based on the latest emissions data reported by sector participants. This is important for maintaining the accuracy of emissions reporting and NZ ETS surrender obligations.

Technical updates for the waste sector

- 35 The waste sector is responsible for delivering 1.8Mt CO₂e of abatement under ERP2. As part of delivering on this, I propose to consult on updates to the default waste emissions factor, and on improved information requirements for landfills applying for a unique emissions factor that reflects a high-efficiency landfill gas capture system.
- 36 Officials have worked with an informal stakeholder advisory group made up of representatives from across the waste and resource recovery sector to develop the proposals I am presenting for consultation. The proposals are designed to encourage higher efficiency landfill gas capture infrastructure, reduce operators' NZ ETS obligations and improve the accuracy of emissions data.
- 37 The proposal to update the default emissions factor for waste will improve accuracy. The updated DEF will use the most recent information on the composition of disposed waste. It will improve the alignment of reported emissions in the NZ ETS and those reported towards emissions targets. I am seeking views from the sector on this proposal and information that can help officials improve the accuracy of this figure.
- 38 The proposal to increase information requirements for waste disposal facility operators applying for a unique emissions factor is estimated to reduce emissions by up to 0.84Mt in EB2 and 1.95Mt in EB3. This proposal removes the 90 percent cap on efficiency rates in the NZ ETS. Capture efficiency rates represent the percentage of methane generated by a landfill that is collected by its gas management system rather than released into the atmosphere. This would allow operators to claim up to 100 percent efficiency if they can evidence this and reduce their emissions liability.
- 39 I am seeking views from the sector on whether we have the right settings to incentivise emissions abatement and innovative improvements to landfill gas capture infrastructure. Additionally, stakeholders and United Nation expert reviewers have said we need more robust evidence for our reported landfill gas capture efficiency rates. This proposal introduces requirements that will help us deliver this evidence.

¹¹ Ministry for the Environment modelling suggests that in this scenario, price spikes are likely to be avoided if participants choose to draw down their stockpiled units or sell them on the secondary ETS market. In this scenario, sharp cost increases on the economy may be avoided in the short term, however, EB3 would likely be exceeded.

- 40 The third technical proposal for waste participants is to change the oxidation factor from 10 percent to 0 percent. This is used when landfills that have a landfill gas capture and destruction system apply for a unique emissions factor (UEF). Functionally, this removes the oxidation factor from the calculation requirements. This change will increase the accuracy of the UEF and reduce the risk of under-reporting emissions.

Options for remediated historic contaminated waste under the NZ ETS

- 41 I propose to consult on removing NZ ETS charges for historic contaminated waste disposed at landfill, given no emissions remain. This avoids disincentivising remediation projects by removing unjustified costs and reduces ad hoc exemptions.

Price of carbon and synthetic greenhouse gas levy updates

- 42 Annual updates to the price of carbon and synthetic greenhouse gas levies will also be part of the NZ ETS regulatory updates package in 2026. These updates are not required to be consulted on as they are calculated according to the methodology set in the Climate Change (Synthetic Greenhouse Gas Levies) Regulations 2013.

I seek delegated decision-making authority on several matters

- 43 2026 NZ ETS settings: I have decision-making authority, under the Act, to recommend regulations for NZ ETS settings to the Governor-General. I seek approval to issue drafting instructions for NZ ETS settings without returning to Cabinet. This will allow timely decisions ahead of the Election, provide earlier market certainty and reduce Cabinet workload. I have outlined my preferred approach and will consult the relevant Ministers before final decisions. If consultation leads to a material change in approach, I will return to Cabinet.
- 44 If consultation highlights that the risks of biennial settings outweigh the benefits, I seek delegation to reverse Cabinet's decision on biennial settings and issue drafting instructions to amend the Bill.
- 45 NZ ETS regulatory updates: In addition to my existing delegated authority for minor and technical updates to the NZ ETS regulations, I am seeking delegated authority to make decisions and issue drafting instructions for the following regulatory proposals:
- 45.1 update the default emissions factor for waste
 - 45.2 increase information requirements for unique emissions factor applicants with high landfill gas capture rates
 - 45.3 remove the oxidation factor from unique emissions factor calculations
 - 45.4 exempt the disposal of waste from remediation of historic contaminated sites.
- 46 Climate monitoring: There are three non-NZ ETS related climate change deliverables for which decisions are needed in September:
- 46.1 the response to the Commission's annual emissions reduction monitoring report (ERM report) on progress towards emissions reductions (must be tabled within three months from receipt in July)
 - 46.2 the response to the Commission's biennial progress report on the National Adaptation Plan (must be tabled within six months from receipt in July)

- 46.3 the annual report back on the adaptive management approach required by ERP2, to confirm if the Government remains on track to meet EB2
- 47 I seek delegation to approve these deliverables in consultation with relevant Ministers without returning to Cabinet. This ensures appropriate consultation across relevant portfolios and enables timely, efficient decision-making. If any significant issues arise, I will revert to Cabinet. If the adaptive management assessments show significant risks to EB2, requiring policy action, Cabinet can consider this after the election.
- 48 The content of the ERM Report is not yet known. Last year, the Commission found New Zealand is likely to meet EB1 and can meet EB2 but recommended early action ahead of ERP3 to reduce risks to EB2 and support meeting EB3. Strategic options across major emitting sectors to support meeting EB3 would help respond to this.

Cost-of-living Implications

- 49 Current fuel supply pressures reinforce the need to maintain stability and meet legislative requirements without unnecessary tightening. There are no cost-of-living implications of approving consultation. For the status quo options, the NZ ETS impact on the average household is estimated to rise from ~\$450 annually today to ~\$650 in 2030. The impacts on consumer inflation are expected to be modest under all unit volume options, adding about 0.1 per cent per year to inflation.

Financial Implications

- 50 There are no financial implications of approving consultation. Under the preferred option, if all auctions clear, cash receipts are estimated at ~\$1 billion over 2027-31, compared to ~\$0.6 billion under option 3 and ~\$1.2 billion under the Commission's recommendation.¹² While auctions generate a cash inflow for the Crown and reduce net debt, they do not immediately impact Crown revenue as auctioned NZUs are a liability for the Crown.¹³ The NZ ETS regulation updates are, on aggregate, likely to increase NZ ETS revenue for the Crown and positively impact the operating balance.

Legislative Implications

- 51 Amendments to the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 will be required. I intend to make post-consultation decisions and approve drafting, provided I do not need to return to Cabinet. I have delegated authority to do so on purely technical matters in the regulations [CAB-24-MIN-0156 refers].

Impact Analysis

Regulatory Impact Statement

- 52 The Ministry for the Environment QA panel has reviewed the two appended discussion documents and determined they will lead to effective consultation and enable the development of future impact analysis. A separate regulatory impact statement (RIS) is not required at this stage. A full RIS will be completed at a later stage, if required.

Climate Implications of Policy Assessment

- 53 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal. While the estimated

¹² NZU price assumption based on the ETS price floor.

¹³ The liability represents the obligation to accept NZUs for ETS participants' emission responsibilities.

emissions impacts are below the quantitative threshold at +0.04 MtCO₂e and -0.02 MtCO₂e in EB2 and EB3 respectively, the proposal affects two ERP actions. The proposal's preferred option is to maintain status quo NZ ETS volume and price control settings. This is assessed as best supporting a stable and credible NZ ETS market, which relates to ERP2 action "Supporting a credible NZ ETS and broader market confidence". Additionally, this proposal relates to the ERP action, "Aligning the scheme with the second emissions budget", with settings at a level that will help achieve EB2.

Population Implications

- 54 NZ ETS prices disproportionately impact lower socio-economic groups because those groups spend a greater portion of their income on emissions-intensive items and have less capacity to substitute for low-emissions options.

Human Rights

- 55 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Use of external Resources

- 56 EY was contracted to review and QA the Ministry for the Environment's modelling and calculations for NZ ETS settings.

Consultation

- 57 The Department of Prime Minister and Cabinet, the Ministry of Business, Innovation and Employment, the Ministry for Primary Industries, Te Puni Kōkiri, the Ministry of Transport and the Treasury were consulted on this paper. Where I received feedback, it has been considered and incorporated as appropriate.

Communications

- 58 I intend to consult on these proposals from mid-June 2026. I consider that four weeks enables stakeholders sufficient time to submit on the proposals, while balancing the need to make timely decisions. The Ministry for the Environment will publish supporting technical modelling information alongside the consultation document.

Proactive Release

- 59 As soon as practicable after decisions being confirmed by Cabinet and public announcements being made, I intend to proactively release this paper, subject to redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister of Climate Change recommends that the Committee:

- 1 **note** annually the Minister is required by the Climate Change Response Act 2002 to update the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 (NZ ETS regulations) to determine NZ ETS settings for the next five-years
- 2 **note** the Climate Change Commission (the Commission) has made recommendations to the Minister and that consultation on the Commission's recommendations helps to support market confidence and demonstrate compliance with statutory requirements

- 3 **agree** that the Ministry for the Environment carry out consultation on NZ ETS settings and annual updates proposed to the NZ ETS regulations from mid-June for four weeks
- 4 **direct** officials to identify and develop strategic options across major emitting sectors to support meeting the third emissions budget (EB3), reporting back after the 2026 election and ahead of the 2027 NZ ETS settings process
- 5 **approve** the release of the attached documents to support consultation on this update:
 - 5.1 *Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2026*
 - 5.2 *Proposed changes to the New Zealand Emissions Trading Scheme regulations 2026*
- 6 **authorise** the Minister of Climate Change to approve minor changes to the consultation documents consistent with this decision, prior to public release.
- 7 **authorise** the Minister of Climate Change to issue drafting instructions following consultation, without returning to Cabinet regarding:
 - 7.1 2026 NZ ETS settings final policy decisions, in consultation with relevant Ministers, unless significantly different from the current preferred approach
 - 7.2 the second emissions budget (EB2) NZ ETS cap and provisional EB3 NZ ETS cap, in consultation with relevant Ministers
 - 7.3 updates to the default emissions factor for waste
 - 7.4 increased information requirements for unique emissions factor applicants with high landfill gas capture rates
 - 7.5 removing the oxidation factor from unique emissions factor calculations
 - 7.6 exempting the disposal of waste from remediation of historic contaminated sites, including issuing drafting instructions
- 8 **note** Cabinet agreed to change the annual NZ ETS settings process to biennial [CAB-25-MIN-0324 refers]
- 9 **authorise** the Minister of Climate Change to reverse the change to biennial NZ ETS settings and issue drafting instructions to amend the Climate Change Response Amendment Bill, if consultation shows the risks of the change outweigh the benefits
- 10 **agree** to delegate to the Minister of Climate Change approval of the following matters, unless significant issues are identified:
 - 10.1 2026 response to the Commission's emissions reduction monitoring report
 - 10.2 2026 adaptive management assessment of whether New Zealand remains on track for EB2
 - 10.3 the response to the National Adaptation Plan Progress Report.

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

Appendices

9(2)(h)

Appendix 2: Consultation document – Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2026

Appendix 3: Consultation document – Proposed changes to the New Zealand Emissions Trading Scheme regulations 2026



Cabinet Economic Policy Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

2026 NZ ETS Settings and Annual Regulatory Updates: Approval to Consult

Portfolio **Climate Change**

On 27 May 2026, the Cabinet Economic Policy Committee:

- 1 **noted** that the Minister of Climate Change (the Minister) is required by the Climate Change Response Act 2002 to annually update the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 (NZ ETS regulations) to determine NZ ETS settings for the next five years;
- 2 **noted** that the Climate Change Commission (the Commission) has made recommendations to the Minister and that consultation on the Commission's recommendations helps to support market confidence and demonstrate compliance with statutory requirements;
- 3 **agreed** that the Ministry for the Environment carry out a four-week consultation on NZ ETS settings and annual updates proposed to the NZ ETS regulations from mid-June 2026;
- 4 **directed** officials to identify and develop strategic options across major emitting sectors to support meeting the third emissions budget (EB3), and to report back to the Minister after the 2026 General Election and ahead of the 2027 NZ ETS settings process;
- 5 **approved** the release of the following documents, attached under ECO-26-SUB-0092, to support consultation:
 - 5.1 Annual updates to NZ ETS limits and price control settings for units 2026;
 - 5.2 Proposed changes to the NZ ETS regulations 2026;
- 6 **authorised** the Minister to approve minor changes to the above consultation documents, consistent with the proposals in the paper under ECO-26-SUB-0092, prior to public release;
- 7 **authorised** the Minister to issue drafting instructions to the Parliamentary Counsel Office following consultation, without further reference to Cabinet, regarding:
 - 7.1 2026 NZ ETS settings final policy decisions, in consultation with relevant ministers, unless significantly different from the current preferred approach;
 - 7.2 the second emissions budget (EB2) NZ ETS cap and provisional EB3 NZ ETS cap, in consultation with relevant ministers;
 - 7.3 updates to the default emissions factor for waste;

- 7.4 increased information requirements for unique emissions factor applicants with high landfill gas capture rates;
- 7.5 removing the oxidation factor from unique emissions factor calculations;
- 7.6 exempting the disposal of waste from remediation of historic contaminated sites;
- 8 **noted** that, despite the authorisation in paragraph 7 above, the Minister will seek Cabinet approval to the final drafted regulations;
- 9 **noted** that in September 2025, ECO agreed to change the annual NZ ETS settings process to biennial [ECO-25-MIN-0151];
- 10 **authorised** the Minister to reverse the above change to biennial NZ ETS settings and to issue drafting instructions to amend the Climate Change Response Amendment Bill accordingly, if consultation shows the risks of the change outweigh the benefits;
- 11 **authorised** the Minister to approve the following matters, unless significant issues are identified:
- 11.1 2026 response to the Commission's emissions reduction monitoring report;
- 11.2 2026 adaptive management assessment of whether New Zealand remains on track for EB2;
- 11.3 the response to the National Adaptation Plan Progress Report.

Rachel Clarke
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Shane Jones
Hon Simeon Brown
Hon Paul Goldsmith
Hon Louise Upston
Hon Tama Potaka
Hon Simon Watts
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon Scott Simpson
Hon James Meager
Hon Cameron Brewer
Simon Court MP

Officials present from:

Office of Hon Simon Watts
Office of Hon Cameron Brewer
Officials Committee for ECO



2026 ETS settings – final decisions

Date:	22 July 2026	Priority:	High	Tracking number:	26-BRF-01783
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To	Action sought	Response by
Hon Simon Watts Minister of Climate Change	Agree to set unit limits and price control settings for the 2027-2031 settings period Agree to adjust the EB2 and EB3 ETS caps to reflect updated projections Provide direction on whether to proceed with the shift to biennial ETS settings decisions. Forward this briefing to the Ministers of Finance, Transport, Agriculture and Forestry, the Ministers for Energy and the Environment, and the Associate Minister for Energy	23 July 2026

Contact for discussion (if required)

Name	Position	Telephone	1 st contact
Kirsty Flannagan	General Manager	9(2)(a)	☐
James Coombes	Manager	9(2)(a)	☒
Arek Wojasz	Author		☐

Action for Minister's Office staff



Purpose

1. To seek your final decisions on 2026 Emissions Trading Scheme (ETS) unit and price control settings (ETS settings), which need to be gazetted before 30 September 2026.

Key points

2. On 2 June, Cabinet agreed to consult on three ETS settings options, including a Government-recommended option, specifically:
 - a. maintaining status quo auction volumes across 2027-2030 and offering 1.3 million units in 2031 (Government-recommended auction volumes)
 - b. extending existing price controls with adjustments for inflation.
3. Cabinet granted delegated authority for you to make final ETS settings decisions post consultation consistent with the recommended option.

Consultation feedback largely supported Government analysis

4. Public consultation on 2026 ETS settings has concluded and a summary of submissions is attached as **annex 1**.
5. Consultation feedback and evidence was split across the Government-recommended option and the lower auction volumes option, but nothing provided causes us to change our advice on the recommended option (Government-recommended auction volumes). We view this as the option that best balances constraining auction volumes to support meeting domestic emissions reduction targets, while maintaining the proper functioning of the ETS.

Technical adjustments have slightly reduced 2031 auction volumes

6. During the consultation period, officials have continued to update the underlying technical analysis. These updates have slightly reduced the Government-recommended auction volumes for 2031 from 1.3 to 1.1 million units. This results from updated industrial allocation forecasts and including a small amount of ongoing surplus reduction (based on consultation feedback). We consider these adjustments to be minor and within your delegated authority to make final ETS settings decisions.

Other options are possible

7. You could alternatively choose the lower auctions volume option, which received the most support during consultation, or a variation of the Government-recommended option where 2027 auction volumes are redistributed into 2028-2030 years. The 2027 auction volumes redistributed to later years option received split support through consultation. We do not recommend these options because the Government-recommended auction volumes best supports market confidence and proper functioning of the ETS.
8. If you prefer either of these options, you would need to seek Cabinet agreement, as Cabinet's delegated approval was for the Government-recommended auction volumes.



All options can meet the requirements of the CCRA

9. The Climate Change Response Act 2002 (CCRA) requires the ETS settings accord with relevant emission reduction targets. All options are assessed to strictly accord with the second emissions budget (EB2) and the 2050 target, and accord with the third emissions budget (EB3) with justified departure from strict accordance. An accordance assessment is attached as **annex 3**.
10. The CCRA also requires changes to unit limits for 2027 and 2028 to be justified with reference to special circumstances. We advise that proposed changes to those years can be justified.

Respondents were split on the move to biennial ETS settings decisions

11. Feedback on the planned move to biennial ETS settings decisions largely reflected the pros and cons highlighted in our earlier advice. This decision primarily depends on your weighting of the predictability and stability of a biennial process against the responsiveness of an annual process. This is an on-balance judgement. As we have previously advised, we place greater weight on the responsiveness of an annual process.

Final decisions and next steps

12. We continue to support the Government-recommended option, with the above technical adjustment, and we seek your final decision on ETS settings for the 2027-2031 settings period. A draft Regulatory Analysis Summary to support your decision is attached as **annex 2**.
13. You agreed to consider the feedback of relevant ministers before making final decisions. We recommend you forward this briefing to the Ministers of Finance, Transport, Agriculture and Forestry, the Ministers for Energy and the Environment, and the Associate Minister for Energy and provide them the opportunity to provide feedback before final decisions are announced.
14. Following your decisions, we will draft a Cabinet paper for you to seek Cabinet approval to the final amendment regulations. You'll receive this in late August.



Recommendations

15. We recommend you:

- a. **note** that following consultation feedback and evidence, we continue to support the Government's recommended ETS settings
- b. **agree** EITHER option (i) below (Government-recommended auction volumes) **(recommended)** OR option (ii) below (2027 auction volumes redistributed to later years) **(not recommended)**:
 - i. **agree** to issue drafting instructions to the Parliamentary Counsel Office to draft amendment regulations to set the following unit limits and price controls based on Government-recommended auction volumes (Government-recommended auction volumes) **(recommended)**

	2027	2028	2029	2030	2031
Unit limits (millions)					
Base auction volumes	4.3	3.3	2.4	1.7	1.1
Total CCR volumes	5.9	5.3	4.7	3.9	3.5
NZUs available by auction	10.2	8.6	7.1	5.6	4.6
Industrial allocation (not subject to NZ ETS settings decision)	4.0	3.8	3.7	3.7	3.6
Approved overseas units	0	0	0	0	0
Overall limit on units	14.2	12.4	10.8	9.3	8.2
Price controls					
Auction price floor	\$75	\$78	\$84	\$89	\$93
CCR Tier 1	\$213	\$224	\$241	\$253	\$266
CCR Tier 2	\$267	\$280	\$301	\$316	\$332
CCR Tier 1 volume (millions)	2.1	1.9	1.7	1.4	1.2
CCR Tier 2 volume (millions)	3.8	3.4	3.0	2.5	2.3
Total CCR volumes (millions)	5.9	5.3	4.7	3.9	3.5

Yes / No



- ii. agree to issue drafting instructions to the Parliamentary Counsel Office to draft amendment regulations to set the following unit limits and price controls based on 2027 auction volumes redistributed into later years (2027 auction volumes redistributed to later years) **(not recommended)**

	2027	2028	2029	2030	2031
Unit limits (millions)					
Base auction volumes	0	4.6	3.9	3.2	1.1
Total CCR volumes	0	5.3	4.7	3.9	3.5
NZUs available by auction	0	9.9	8.6	7.1	4.6
Industrial allocation (not subject to NZ ETS settings decision)	4.0	3.8	3.7	3.7	3.6
Approved overseas units	0	0	0	0	0
Overall limit on units	4.0	13.7	12.3	10.8	8.2
Price controls					
Auction price floor	\$75	\$78	\$84	\$89	\$93
CCR Tier 1	\$213	\$224	\$241	\$253	\$266
CCR Tier 2	\$267	\$280	\$301	\$316	\$332
CCR Tier 1 volume (millions)	0	1.9	1.7	1.4	1.2
CCR Tier 2 volume (millions)	0	3.4	3.0	2.5	2.3
Total CCR volumes (millions)	0	5.3	4.7	3.9	3.5

Yes / No

- c. agree that the changes to unit limits for the first two years of the settings period can be justified with reference to special circumstances outlined in section 30GC of the Climate Change Response Act 2002

Yes / No

- d. agree to adjust the EB2 ETS cap to 81.9Mt CO₂e

Yes / No

- e. agree to adjust the provisional EB3 ETS cap to 24.8Mt CO₂e

Yes / No

- f. agree EITHER option (i) below (progress with biennial ETS settings decisions) OR option (ii) below (revert to annual ETS settings decisions):

- i. agree to progress with biennial ETS settings decisions

Yes / No



ii. **agree** to revert to annual ETS settings decisions

Yes / No

g. **forward** this briefing to the Ministers of Finance, Transport, Agriculture and Forestry, the Ministers for Energy and the Environment, and the Associate Minister for Energy to note the final decisions, and provide feedback if they deem necessary, before they are publicly announced.

Yes / No

Kirsty Flannagan
General Manager, Markets
22 /07 /2026

Hon Simon Watts
Minister of Climate Change
..... / /

Comments



2026 ETS settings – final decisions

Background

1. On 2 June, Cabinet agreed to consult on three ETS settings options, including a preferred approach, which consisted of:
 - a. maintaining status quo auction volumes across 2027-2030 and offering 1.3 million units in 2031 (Government-recommended auction volumes)
 - b. extending existing price controls, with adjustments for inflation.
2. Cabinet granted authority for you to:

“issue drafting instructions following consultation, without returning to Cabinet regarding:

 - a. *2026 NZ ETS settings final policy decisions, in consultation with relevant Ministers, unless significantly different from the current preferred approach*
 - b. *the second emissions budget (EB2) NZ ETS cap and provisional EB3 NZ ETS cap, in consultation with relevant Ministers”* [ECO-26-MIN-0092 refers]

Consultation on ETS settings

3. Consultation on ETS settings ran from 12 June to 12 July. It sought feedback on:
 - a. options for unit limits
 - b. extending existing price control settings
 - c. the methodological approach for determining ETS settings
 - d. proposed adjustments to EB2 and provisional EB3 ETS caps
 - e. the shift to biennial settings decisions.
4. Officials received 27 unique submissions on ETS settings, from a variety of individuals and groups including subject matter experts, businesses, industry bodies, NGOs and iwi representative organisations.
5. A summary of submissions is attached as **annex 1** and feedback on specific issues is provided below to inform your final policy decisions.
6. Consultation on annual ETS regulatory updates ran alongside ETS settings consultation. A separate summary of submissions will be provided to you alongside separate advice to support your final decisions on ETS regulatory updates [26-BRF-01500 refers].

Key decisions for 2026 ETS settings

7. The two key decisions for 2026 NZ ETS settings are:
 - a. how many units to make available for auction (ie, unit limits or auction volumes) and



- b. the price control settings for 2027-2031.
8. Options must be considered as a combined package of unit limits and price control settings to assess their overall impacts and accordance with emissions reduction targets.
9. A draft Regulatory Analysis Summary (RAS) to support your final decisions has been attached as **annex 2**. The RAS panel has provided feedback, which has been incorporated into the attached draft, but the final panel statement is still in progress. The final version of the RAS will be attached with the next ETS settings briefing in late August, which will support you to seek Cabinet approval to the final amendment regulations.

Unit limits

10. Three unit limit options were included in consultation:
- Option 1: Commission-recommended auction volumes (14.7 million NZUs)
 - Option 2: Government-recommended auction volumes (13.0 million NZUs)
 - Option 3: Lower auction volumes (7.7 million NZUs)
11. Consultation feedback was evenly split between Options 2 and 3 – with seven respondents to this question supporting Option 2, one supporting Option 1 and nine supporting Option 3.
12. Supporters of Option 2 largely emphasized that consistent settings support market confidence and manages the risk of undersupply appropriately.
13. Supporters of Option 3 highlighted that the lower auction volumes would better support meeting our climate goals and address the surplus stockpile. Overall, submitters viewed the chances of undersupply later in the EB2 period to be unlikely.
14. The feedback through consultation has not materially shifted our advice on the most appropriate auction volumes [26-BRF-00746 refers]. We continue to recommend the Government-recommended auction volumes option. We view this as the option that best balances constraining auction volumes to support meeting domestic emissions reduction targets while maintaining the proper functioning of the ETS. It also uses the most appropriate provisional EB3 ETS cap, based on MCERT analysis. In our view, moving away from the status quo in current circumstances could signal the government is prepared to adjust ETS settings in response to short-term market developments, potentially reducing confidence in the stability and predictability of the scheme.

Redistributing 2027 auction volumes

15. In addition to the main options above, feedback was also sought on whether 2027 auction volumes should be redistributed across later years in the settings period. Consultation was again fairly evenly split on this question, with six respondents against the redistribution of 2027 auction volumes, and four supportive of redistribution.
16. Arguments for and against the redistribution of 2027 auction volumes largely echoed those highlighted in our earlier advice. Redistributing 2027 auction volumes could better manage the



risk of undersupply and respond to the market signaling it is well supplied in the short term, however, it could negatively impact investment certainty by significantly changing the first two years of ETS settings.

17. Consultation feedback also suggested that the risk of undersupply is overstated, with most submitters suggesting it is unlikely that undersupply would eventuate. This runs counter to a major rationale for redistributing 2027 auction volumes.
18. Overall, officials continue to recommend not redistributing 2027 auction volumes, as the likelihood of undersupply remains uncertain, it negatively impacts on the predictability of ETS settings, and the existing price controls restrict auction volumes if the market is oversupplied.

Updated industrial allocation projections and allowing for a small ongoing surplus reduction slightly reduce auction volumes

19. We have received updated information that slightly increases our projections for industrial allocation during the settings period and beyond. This results from:
 - a. receipt of actual industrial allocation figures for 2025
 - b. a delay in expected installation of the NZ Steel electric arc furnace.
20. The Commission included a small allowance for ongoing reduction in the surplus stockpile post 2030 in their recommended option. The consultation document asked whether this ongoing adjustment was appropriate to include. Consultation feedback recommended making this adjustment. After further analysis, officials concur with this feedback and recommend factoring in a small adjustment (0.3 million units per annum) from 2031 onwards to account for pre-1990 forestry units slowly becoming available to the market.
21. These two changes reduce the total estimated auction volumes available for the EB3 period compared to those proposed in consultation. The changes also require further volume phasing to smooth volumes over EB3, which results in auctions provisionally ceasing one year earlier than previously outlined in consultation (now 2032 for Options 1 and 2, 2031 for Option 3).
22. This has the following impact on options:

Option	Impact on 2027-2031 auction volumes
Option 1: Commission-recommended auction volumes	No impact, but now based on outdated IA figures. An updated version of the Commission's recommended option has not been provided given how closely it aligns with the Government-recommended option.
Option 2: Government-recommended auction volumes	Reduced from 13.0 million units to 12.8 million units.
Option 3: Lower auction volumes	Reduced from 7.7 million units to 7.5 million units

23. These adjustments do not meaningfully affect the impact analysis or expected emissions reductions for the options.



24. The feedback through consultation has not materially shifted our advice on the most appropriate auction volumes [26-BRF-00746 refers]. We continue to recommend the Government-recommended auction volumes option. We view this option best balances constraining auction volumes to support meeting domestic emissions reduction targets while maintaining the proper functioning of the ETS. It also uses the most appropriate provisional EB3 ETS cap, based on MCERT analysis.
25. The below table outlines the unit limits for the Government-recommended auction volumes option across the settings period.

Table 1: Unit limits for 2027-2031 – Government-recommended auction volumes

	2027	2028	2029	2030	2031
Unit limits (millions)					
Base auction volumes	4.3	3.3	2.4	1.7	1.1
Total CCR volumes	5.9	5.3	4.7	3.9	3.5
NZUs available by auction	10.2	8.6	7.1	5.6	4.6
Industrial allocation (not subject to NZ ETS settings decision)	4.0	3.8	3.7	3.7	3.6
Approved overseas units	0	0	0	0	0
Overall limit on units	14.2	12.4	10.8	9.3	8.2

26. We seek your direction on whether to proceed with the above unit limits, or a version of this option with 2027 auction volumes redistributed across the rest of the settings period. While we do not recommend this option, it was supported by four submissions. The below table outlines the unit limits for the 2027 auction volumes redistributed to later years option.

Table 2: Unit limits for 2027-2031 – 2027 auction volumes redistributed to later years

	2027	2028	2029	2030	2031
Unit limits (millions)					
Base auction volumes	0	4.6	3.9	3.2	1.1
Total CCR volumes	0	5.3	4.7	3.9	3.5
NZUs available by auction	0	9.9	8.6	7.1	4.6
Industrial allocation (not subject to NZ ETS settings decision)	4.0	3.8	3.7	3.7	3.6
Approved overseas units	0	0	0	0	0
Overall limit on units	4.0	13.7	12.3	10.8	8.2

27. If you prefer the 2027 auction volumes redistributed to later years option or another option, you would need to seek Cabinet agreement, as Cabinet's delegated approval was for the Government-recommended auction volumes. In this case we would provide you with further advice on the timeframes and next steps for that process.

Changing unit limits in the first two years of the settings period must be justified

28. The Climate Change Response Act 2002 (CCRA) requires that changes to unit limits within the first



two years of the settings period must be justified with reference to special circumstances, which includes a change that has significantly affected a matter that the Minister is required to consider under section 30GC.

29. Under all options the overall limit on units (distinct from auction volumes) for 2027 and 2028 need to be updated to reflect changes in projected industrial allocation units. This does not affect auction volumes in those years. You need to be satisfied that this amendment is justified, in this case because of a change to the anticipated volumes of greenhouse gases to which the ETS applies – specifically greenhouse gases volumes for firms eligible for industrial allocation.¹
30. If you choose to progress with the lower auction volumes option, or to redistribute 2027 auction volumes as part of your final unit limits decision, this would also require changing auction volumes and the overall limit on units for 2027 and 2028. We advise that these changes would be justified on the basis of recent price volatility impacting on the proper functioning of the ETS.²

Price controls

31. Consultation largely supported the proposal to extend current price control settings with inflation adjustments only. 11 respondents to this question were supportive of the price floor, while one thought the proposed floor was too high and one thought the proposed floor was too low. All respondents to the question supporting the proposed CCR trigger prices and volumes.
32. Based on consultation feedback, the Commission's advice and our own analysis, we continue to recommend extending current price control settings with inflation adjustments only.
33. The table below outlines the proposed price controls for the settings period.³

Table 3: Proposed price controls for 2027-2031

	2027	2028	2029	2030	2031
Auction price floor	\$75	\$78	\$84	\$89	\$93
CCR Tier 1	\$213	\$224	\$241	\$253	\$266
CCR Tier 2	\$267	\$280	\$301	\$316	\$332
CCR Tier 1 volume (millions)	2.1	1.9	1.7	1.4	1.2
CCR Tier 2 volume (millions)	3.8	3.4	3.0	2.5	2.3
Total CCR volumes (millions)	5.9	5.3	4.7	3.9	3.5

Accordance

34. 9(2)(h)

¹ CCRA ss 30GC(5)(a)(i)

² CCRA ss 30GC(5)(b)

³ If you choose to redistribute 2027 auction volumes to later years then CCR volumes for 2027 would be set to zero.



9(2)(h)

35. As noted above, when considering accordance, unit limits and price controls must be considered together as a package. All options have been considered alongside the proposal to extend existing price controls, adjusted for inflation.
36. All ETS settings options considered have been assessed as strictly according with EB2 and the 2050 target, and according with the EB3 target. The deviation from strict accordance is justified based on consideration of relevant matters under section 30GC of the CCRA, including the proper functioning of the ETS.⁴ As previously highlighted, accordance with EB3 under all options remains challenging and reliant on the identification and development of strategic options across major emitting sectors to support meeting EB3 [26-BRF-00746 refers].

37. 9(2)(h)

38. The accordance assessment provides further details and is attached as **annex 3**.

Consultation feedback highlighted challenges with accordance

39. Several submitters emphasised that they did not view that the proposed ETS settings meet the accordance requirements. In particular they focused on:
- a. accordance with EB3 given the gap between projected emissions and the EB3 target
 - b. accordance with the methane component of the 2050 target, given projected methane emissions are above the 2030 methane target.
40. More details can be found in the summary of submissions and this feedback has been considered in the accordance assessment.

Secondary policy decisions and underpinning methodology

41. In addition to auction volumes and price controls, consultation sought feedback on:
- a. proposed adjustments to EB2 and provisional EB3 ETS caps
 - b. the shift to biennial settings
 - c. the methodological approach for determining ETS settings

⁴ CCRA section 30GC(5)(b)
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Respondents supported proposed adjustments to EB2 and provisional EB3 ETS caps

42. Consultation was broadly supportive of the proposed tightening of the EB2 ETS cap to 81.9Mt CO₂e and the provisional EB3 ETS cap to 24.8Mt CO₂e, however, very few respondents answered this question. Five respondents supported the proposed EB2 cap and three supported the provisional EB3 ETS cap. Only one respondent disagreed with the proposed adjustments to the EB2 and provisional EB3 ETS caps.
43. As previously advised, tightening these caps supports meeting our emissions reduction targets, and is better aligned with the Government-recommended ETS settings. We recommend adjusting the caps as proposed, noting that the EB3 ETS cap remains provisional until confirmed through the development of the third emissions reduction plan.

Respondents were split on the move to biennial ETS settings decisions

44. Consultation sought feedback on the benefits and trade-offs of the previously agreed move to biennial settings, given that the Commission highlighted that the move to biennial ETS settings comes with a trade-off of reducing responsiveness to risks (particularly the risk of undersupply) that could appear between settings decisions.
45. Consultation was fairly evenly split on whether moving to biennial settings was beneficial overall. Seven respondents on the issue supported moving to biennial settings, while six were against the change. Opponents of the change generally highlighted the reduced responsiveness of biennial settings, with some also highlighting the possibility of misalignment with other climate decisions. Supporters highlighted that biennial settings could result in more stability and predictability to the ETS market, supporting investment confidence.
46. The feedback from consultation largely reflected the pros and cons highlighted in our advice to you in September and October 2025 [BRF-6685 and BRF-6903 refer]. This decision primarily depends on your weighting of predictability and stability against responsiveness. This is an on-balance judgement. As we have previously advised, we place greater weight on the responsiveness of an annual process.
47. We seek your direction on whether to progress with the move to biennial settings as part of the Climate Change Response Amendment Bill (CCRA Bill). If you choose to reverse the move to biennial settings, we will provide further advice on how to give effect to this policy change, as the CCRA Bill has now been introduced. Recommendations may be made to the relevant Select Committee via the Departmental Report, or alternatively an amendment paper could be lodged at Committee of the Whole House.

Next steps

48. As part of Cabinet's agreement to delegate final ETS settings decisions, you agreed to consider the feedback of relevant ministers before making final decisions. We recommend you forward this briefing to the Ministers of Finance, Transport, Agriculture and Forestry, the Ministers for Energy and the Environment, and the Associate Minister for Energy to note your decisions, and



provide feedback if they deem necessary, before they are publicly announced.

49. We will coordinate with your office on the announcement of final ETS settings decisions, which is expected in early August.
50. Following your direction, officials will work with the Parliamentary Counsel Office to draft the amendment regulations and provide you with a paper in late August to support you to seek Cabinet approval to the final amendment regulations. This timing will support gazettal of the relevant regulations by 30 September 2026.

Annual Updates to New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2026

Summary of Submissions

Ngā Whakahou Ā-tau ki ngā Tepe me ngā Tautuhinga Whakatau Utu mō ngā Wae mō te Kaupapa Hokohoko Tukunga o Aotearoa 2026

Whakarāpopoto Tāpaetanga



**Ministry for Cities, Environment,
Regions & Transport**

New Zealand Government
Te Kāwanatanga o Aotearoa

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Introduction

From 12 June 2026 to 12 July 2026, the Government consulted on proposals to update New Zealand Emissions Trading Scheme (ETS) unit settings for the period 2027 to 2031. This included three webinars held on 24 June, 1 July and 2 July 2026.

This report summarises the feedback expressed through these consultations. It does not analyse the feedback or provide recommendations in response to them. Input from submissions was incorporated into policy development and advice to the Minister of Climate Change.

Responses to the consultation

Annual updates to ETS limits and price control settings for units 2026

We received 27 unique submissions on annual updates to the limits and price control settings for units, through our consultation platform Citizen Space and email.

Table 1 sets out the number of submissions from individuals and groups. Note that some submitters self-reported as one or more submitter types and some did not respond. Because of this the figures in table 1 do not add to 27.

Table 1: Number of submissions by self-reported submitter group

Submitter type	Number
Individual	2
Academic or subject matter expert	4
Iwi/hapū	2
Local government	2
Business	10
Industry body	4
Non-governmental organisation	4
Other	1

Annual updates to ETS limits and price control settings for units 2026

This consultation sought feedback on:

- options for unit limits and price control settings
- undersupply risk
- the potential impact of the settings
- methodological approaches and other factors informing those options
- the shift to biennial ETS settings decisions.

Auction volume options

The consultation document presented three options for auction volumes.

Option 1: Climate Change Commission (Commission): recommended auction volumes – 14.7 million units across 2027–31.

Option 2: Government-recommended auction volumes: 13.0 million units across 2027–31.

Option 3: Lower auction volumes: 7.7 million units across 2027–31.

All options proposed status quo price control settings, other than adjustments for inflation.

We sought feedback on preferred options, the benefits or improvements that could result from each option, and the challenges or risks of each option.

Support was fairly evenly split between option two (seven submitters) and option three (nine submitters)

Key arguments in favour of option two included that it:

- provides investors with confidence to invest in emissions reduction
- continues to reduce the risk to meeting emissions budgets and targets by drawing down the surplus stockpile
- avoids unnecessary intervention in the ETS market
- supports market led decarbonisation by allowing businesses to respond efficiently
- is more consistent than option one with updated emissions projections.

Of the submitters who identified risks with option two, a risk of oversupply was cited. One submitter viewed the risk of oversupply as more difficult to resolve than undersupply.

Two submitters did not explicitly support a specific option but indicated support for a stable, predictable and durable market capable of supporting long-term investment by Māori landowners while continuing to align with our emissions budgets and targets.

Key arguments in favour of option three included that it:

- strengthens the likelihood of meeting the Second Emissions Budget (EB2) and puts New Zealand in a meaningful position of achieving the Third Emissions Budget (EB3)
- increases the incentive to reduce gross emissions
- is the strongest drawdown of the surplus stockpile
- supports trust and certainty in the ETS market from participants
- sends a signal that the market is on a credible path to recovery
- supports the proper functioning of the market by delivering a higher ETS price and incentivising emissions reductions.

Of the submitters who commented on the risks of option three, a heightened risk of undersupply and potential impacts on the proper functioning of the market were cited.

Only one submitter supported option one.

We also asked if submitters preferred another option not outlined.

Most did not provide an answer.

- One submitter suggested that option three should be combined with a firm commitment to sector-specific complementary policies to address the EB3 gap (noting this is not a new auction volume option).

Shifting 2027 volumes to later years

We also sought feedback on shifting 2027 volumes under options two or three into 2028–30. This is a response to the market appearing well supplied in the short term, as well as the potential for undersupply in the later 2020s.

Of submitters who responded to this question, six did not support shifting 2027 volumes and four did support it. Key arguments for shifting 2027 volumes included that it:

- better manages the risk of undersupply
- responds to the market signalling it is well supplied in the short term
- prevents auctions from continuing not to clear
- allows for the market to ‘reset’ after a period of weak sentiment
- further reduces the surplus stockpile.

Key arguments against shifting 2027 auction volumes included:

- there is time to respond if we start seeing signs of undersupply, implying an immediate response is not required
- it risks unnecessary price volatility and price increases, including flow-on economic impacts

- it negatively impacts investment certainty, particularly because of the longstanding principle of not changing the first two years of ETS settings (except under certain circumstances).

Price controls

The Government recommended that the auction price floor and cost containment reserve (CCR) trigger prices remain fit for purpose. It recommended that all price settings remain unchanged (apart from routine inflation adjustments to 2029 onwards) and to extend all price settings to 2031.

The Government also recommended to extend current CCR volumes.

We sought feedback on the proposed auction price floor and the proposed CCR trigger prices and volumes.

Price floor

Of those submitters who responded to the proposed price floor:

- almost all preferred to extend the current price floor. Key arguments included:
 - avoiding oversupply at times of low prices
 - staying aligned with emissions reduction targets
 - providing market confidence in a stable and credible carbon price
- one submitter preferred to increase the price floor
- one submitter preferred to lower the price floor.

CCR prices and volumes

Of those submitters who responded to the proposed cost containment reserve prices or volumes:

- all preferred to extend current CCR trigger prices and volumes, emphasising the importance of safeguarding against market shocks while balancing releasing units too readily, reducing the incentive to reduce emissions.

Undersupply risk

The Climate Change Commission's advice on 2026 ETS settings identified a potential risk of undersupply in the later 2020s, which could result in negative economic impacts. The Government views this as currently manageable under all options. Both the Commission and the Government agree on the inherent risk in the undersupply risk. As such, we sought feedback from submitters on this risk.

Of the submitters who responded, none thought the undersupply risk is 'likely'. Rather all submitters thought it is either 'unlikely' (six) or 'uncertain' (three). Key themes regarding the undersupply risk were:

- the non-surplus stockpile will continue to provide sufficient liquidity to the market, preventing undersupply
- while there may be a risk, the evidence does not justify an increase in auction volumes at this time
- while a theoretical possibility of undersupply exists in the medium term, this should not overrule current risks and issues in the market.

Some submitters commented on the Ministry's analysis of undersupply risk, including a suggestion to incorporate growing volumes of (non-forestry) carbon removal activities and a view that the Ministry's analysis underestimates the price and supply elasticity of New Zealand Units (NZUs) earned by forests under stock change.

We also sought feedback on the impacts of biennial ETS settings decisions

The Commission's advice noted that the planned shift to biennial ETS settings decisions may increase the risk of undersupply as there would be fewer opportunities to intervene. As such, we sought feedback on the risks and benefits of biennial ETS settings decisions.

Of the submitters who referenced biennial ETS settings decisions, six did not support it and seven did support it. Submitters identified the following risks:

- fewer opportunities to respond to emerging risks and conditions as they develop, such as updated projections, new surplus estimates, major policy changes, auction non-clearance and shifting market conditions
- the drawdown of the surplus stockpile will be more difficult to manage
- few opportunities for participants, environmental groups and the wider public to advocate for changes to the ETS
- undermines the adaptive management approach set out in the second emissions reduction plan
- ETS settings decisions will be out of step with the timing of emissions budgets decisions.

Submitters identified the following benefits:

- less disruption to the market as the ETS serves as a government signal about the ETS and climate change more broadly
- provides more stability and predictability to the market, supporting investment confidence.

Impacts on the economy and on households

In the consultation document, we outlined the expected impacts on different groups under different ETS settings options and scenarios, including how Māori interests are likely to be affected.

We sought feedback on our impact analysis estimates, including the potential impacts of each option on Māori communities.

We asked submitters if they agreed with our impact analysis, and if there were any other impacts we had not captured.

Of those submitters that responded:

- three agreed with our analysis
- eight disagreed with our analysis and suggested improvements, including placing more emphasis on the cost of policy instability and the economic benefits of NZU income to forest owners
- one submitter thought the analysis could differentiate more clearly between Māori interests and the impacts on those interests
- one submitter believed economic impacts should not form part of the Government's analysis and had concerns about the lack of transparency about the Market Advisory Group.

We sought feedback on the potential impacts on Māori communities. Of the four who responded:

- three noted the mixed and geographically uneven nature of ETS impacts on Māori communities
- two considered Māori interests would be served by maintaining a credible long-term incentive to invest in emissions reductions as this would support economic development, environmental restoration and intergenerational stewardship
- two commented on the impacts of uncertain policy ETS settings. They emphasised that many Māori entities maintain relatively conservative financial structures meaning that uncertainty can delay or prevent committing land to carbon removals and undermine confidence in long-term restoration and development plans
- one noted the importance of the ETS for encouraging and incentivising landowners to retire erosion prone land to permanent indigenous plantings.

EB2 cap

As part of 2025 ETS settings decisions, the Government agreed to an EB2 cap of 89.4 Mt CO₂e, based on ERP2 projections. Following that decision, we released the 2025 projections compared with ERP2 projections. These showed higher net emissions outside the ETS and lower net emissions within the ETS during the EB2 period. In line with the Government's efforts to strengthen its position for meeting EB2, we proposed to align the EB2 cap with the 2025 projections. This resulted in a tighter EB2 cap of 81.9 Mt CO₂e, aligned with the Commission's recommendation.

We asked submitters for feedback on the proposal to align the EB2 cap with 2025 projections.

Many did not provide feedback for this proposal. Of those that did provide feedback:

- five submitters supported the proposal, noting the need to compensate for higher non-ETS emissions, to avoid creating unnecessary headroom and that alignment with the Commission's advice supports confidence in the ETS settings process
- one submitter disagreed, arguing it provides headroom to allow non-ETS sectors to miss the 2030 methane target and this approach is inconsistent with strictly according with the 2050 target.

Provisional EB3 cap

As part of 2025 ETS settings decisions, the Government agreed to a provisional EB3 cap of 40.7 Mt CO₂e. As with EB2 emissions, 2025 projections showed higher net emissions outside the ETS and lower net emissions within the ETS during the EB3 period when compared with ERP2 projections. Reflecting updated projections, we proposed a provisional EB3 cap of 24.8 Mt CO₂e.

We sought feedback on the proposed provisional allocation of EB3 volume between ETS and non-ETS covered sectors.

Only four submitters provided feedback on this topic. Of those that did provide feedback:

- three supported the proposal. They argued there was necessity for the cap reduction due to the material gap to meeting EB3
- one opposed the proposed approach. They argued that because it assumes a track of non-ETS emissions exceeding the 2030 methane target, the settings are not in strict accordance with the 2050 target.

Approach to surplus estimates

Until last year, the central estimate of the surplus was a key factor in determining auction volumes. The decision in 2025 to retain the then status quo auction volumes implied a larger drawdown of the surplus than the central estimate. Also, because of the complexity of the ETS market, the relationship between the estimated surplus and observed market dynamics has not always been clear. As reflected in the updated analytical approach, this year we explicitly acknowledge that a range of plausible surplus estimates could be used, and thus a range of plausible auction volumes.

We asked for comments about the use of a surplus range to inform unit limits.

- Only four submitters provided feedback on this matter and all agreed with the approach noting the inherent uncertainty in the surplus along.
- Submitters also supported taking a conservative approach to estimating the surplus, given the uncertainty and risk to achieving emissions reduction targets.

Secondly, the Commission included some small surplus reduction amounts after 2030, to account for expected decreases in hedging volumes and pre-1990 forestry units over time. This decreases 2031 volumes by about 0.6 million units and decreases total EB3 volumes by about 2.2 million units, compared with not making the reduction.

We did not include this reduction in option 2 or option 3. We sought feedback on this approach.

- Of the five who responded, four disagreed, noting that hedging volumes and pre-1990 holdings are expected to decline over time, making the surplus larger. In their view, not accounting for this risks oversupplying the market.
- One agreed with the approach, noting this is best dealt with in future ETS settings consultations.

Feedback on the analytical model for calculating unit limits

We sought feedback on the calculations made for any of the steps in the analytical approach and if there was any evidence or information to support a different approach.

Four submitters provided feedback.

- Two were concerned that the approach moves away from a purely mechanical exercise which supports predictability and market confidence.
- One thought the analytical approach should be treated as a decision-support tool as opposed to providing a mechanical answer.
- One suggested the Government publish more regular information on stockpile composition.
- One suggested the approach could be improved by:
 - better understanding the behavioural factors, based on outcomes over the past 15 years, that influence decisions as opposed to relying on assumptions about stockpile liquidity
 - assessing whether different ownership and governance arrangements give rise to systematically different behavioural responses (eg, Māori forest owners may be less responsive to short-term price signals due to assessing long-term environmental, cultural and social objectives alongside commercial returns)
 - evaluating ETS settings within the wider climate policy framework
 - clarifying the driver of changes in settings, such as due to market fundamentals or government policy decisions
 - discussing the broader economic context within which NZU prices operate
 - giving greater weight to policy credibility and long-term investment incentives.

2027-2031 unit limits and price control settings accordance assessment

The Minister of Climate Change (the Minister) is responsible for making regulations to set the 2027-2031 New Zealand Emissions Trading Scheme unit limits and price control settings (ETS settings). Before recommending the regulations, the Minister needs to be satisfied of accordance with the statutory tests outlined in section 30GC of the Climate Change Response Act 2002 (the Act).

This document outlines the government officials' assessment of the 2027-2031 ETS settings' compliance with the statutory tests in 30GC of the Act, to inform the Minister's assessment of accordance with the statutory tests.

There are three parts to this document:

Part 1: Approach to this accordance assessment

This part provides a general description of the approach taken and key assumptions made.

Part 2: Assessment of accordance

This part assesses accordance for 2026 ETS unit limits and price control settings options, including justification for deviation from strict accordance, where relevant.

Part 3: Mandatory matters – in general terms

This part steps through each of the matters the Minister must consider under section 30GC of the Act before recommending unit settings.

Part 1: Approach to this accordance assessment

Assessing strict and general accordance

1. Before recommending ETS settings, the Minister must be satisfied that either:
 - the ETS settings accord with all extant emissions budgets, and the 2050 target (collectively ‘emissions goals’) (section 30GC(2)); or
 - if the ETS settings do not strictly accord with the emissions budgets, that the discrepancy is justified after considering prescribed statutory matters (section 30GC(3)).¹
2. Strict accordance will be demonstrated where the ETS settings can be shown – to a very high probability – to ensure the emissions generated by sectors covered by the ETS are constrained to the level necessary for those sectors to remain within their allocation of the budgets, and 2050 target.
3. In considering accordance, constraining emissions to achieve the 2050 target and emissions budgets should be considered not in absolute terms, but with a specific focus on the expected role of the ETS settings. ETS settings are limited in how much they can drive net emissions reductions on their own and are affected by other non-ETS policy settings and external trends. As the share of total emissions covered by the ETS scope reduces over time, the ability and role of ETS settings in reducing emissions and meeting emissions reduction targets decreases.
4. Therefore, determining the ETS share of emission targets in order to test accordance must also occur in combination with an assessment of the predicted emissions impacts of New Zealand’s other non-ETS climate policies and the uncertainties related to those projections. This includes emissions policies for sectors not covered by the ETS (for example agriculture) and the predicted effects of complementary ETS policies.
5. Predicting the future involves uncertainty, so some judgement is required, based on best available evidence. This means making reasonable assumptions and forecasts about New Zealand’s projected emissions trends and the effects of emissions policies. It also means accounting for how well-supplied with NZUs markets are.
6. In cases where the Minister can justify ETS settings that do not strictly accord, the Act still requires general accordance – settings must ensure a good probability of playing the role required in meeting the targets.
7. The calculation of accordance must consider the whole package of settings (unit limits and price controls) because their effects on unit supply (and ultimately emissions) are interdependent.
8. Determining strict accordance or general accordance requires assessing the likelihood of achieving the emissions budgets and the 2050 target, including assessing the risks and mitigations.
9. We have therefore approached the assessment by using a **combination** of modelling results and the analytical model (described in the mandatory matters section below). This includes analysis of relevant information such as projections of emissions in ETS and non-ETS sectors, estimates of ‘surplus’ units in the stockpile of privately held units and broader climate change policies as

¹ Section 30GC(3) requires strict accordance with the 2050 target.

outlined in the second emissions reduction plan (ERP2). The implications of recent secondary market and auction outcomes also inform judgements in this assessment.

Analytical model

10. The analytical model is an organising framework used by the government and the Climate Change Commission (the Commission) to determine possible packages of auction volumes and price controls that align with New Zealand's emissions budgets and 2050 target. It is a refinement of the seven steps approach used in previous years. This is relevant for *main matter 30GC(5)(a) - the projected trends for New Zealand's greenhouse gas emissions in the 5 years after the current year*, as it factors in estimates and caps for upcoming emissions reductions. This is explained more in the main matters section.
11. The starting point of the analytical model is determining the emissions cap or 'ETS cap' for the settings period. The 'ETS cap' is the total level of net emissions allowed under the ETS for the settings period, aligned with New Zealand's emissions budgets and taking into account emissions in non-ETS sectors. It is needed to inform both auction volumes and price controls. Caps can also be determined for emissions budget periods, for example, the second emissions budget (EB2) cap sets the total level of net emissions allowed under the ETS for the EB2 period.
12. Based on the ETS cap, we then determine appropriate auction volumes using five steps:
 - a. Make technical adjustments – converting and aligning emissions and units.
 - b. Account for industrial allocation volumes.
 - c. Estimate the New Zealand Unit (NZU or unit) surplus to drawdown.
 - d. Set the approved overseas unit limit.
 - e. Determine the range of possible auction volumes.
13. We also:
 - a. evaluate price controls through modelling and other analysis, to ensure they remain consistent with emissions budgets
 - b. assess the overall settings package of auction volumes and price controls, to ensure it accords with emissions budgets and the 2050 target.

ETS Market Model

14. The ETS market model estimates supply and demand for NZUs under different conditions and can generate price projections based on supply and demand.
15. The ETS market model determines demand for NZUs in terms of price-responsiveness and allows for more of a spectrum of liquidity across units in the stockpile compared with the analytical model. Under the market model, if the marginal price of reducing emissions is lower than the expected value of holding the most liquid unit in the stockpile, emitters will choose to reduce emissions rather than purchase a surplus unit for surrender. The practical consequence of this is that the model can show units remaining in the stockpile beyond 2030 without meaning that net emissions necessarily exceed emission budgets. It also means that in scenarios when the model projects non-surplus units come to market, emissions budgets can be exceeded even if the surplus stockpile is eliminated.

16. As with any model there are limitations in the modelling, and it is unlikely that things will play out precisely as the model suggests. The model was not designed to estimate total net emissions; its focus is on net emissions covered by the ETS. However, the projections from the model can be combined with other information to estimate total net emissions. This can help with assessing whether a given combination of unit and price control settings are in accordance with their share of emissions budgets.

Recent secondary market and auction outcomes

17. The signals provided by the secondary market are a further source of information to be reflected in the assessment of unit and price control settings. This has particular relevance to the assessment of the stockpile and the risk it poses to budgets.
18. Following Government announcements in November 2025 of changes to the CCRA, there was a material decline in the NZU price and an increase in volatility. Market commentators have attributed the market reaction to reduced market confidence, following several government climate decisions, particularly the change to the 2050 biogenic methane target, removal of plans to price agricultural emissions, and the removal of the requirement for ETS settings to accord with New Zealand's Nationally Determined Contributions (NDCs) under the Paris Agreement. Although there has been a recovery recently, the NZU price currently remains well below the auction price floor.
19. The current gap between the NZU price and the auction price floor, and the fact that no 2025 ETS auctions, or 2026 auctions to date, have cleared, suggests that the market remains well supplied in the short term. Market commentators have pointed to a disconnect between current prices and long-term supply and demand fundamentals. They have noted that recent dynamics could indicate the market is more sentiment driven and focused on short-term factors.
20. The gap and recent market dynamics continue to raise questions on the actual size of the surplus stockpile as well as the liquidity of the non-surplus stockpile, with possible implications for meeting emissions budgets. These are explained further below.

Assumptions and uncertainties

21. Latest projections suggests that New Zealand is expected to meet the EB2. We assume that policies outlined in ERP2 will be fully implemented and deliver the expected emissions reductions. However, there will always be risks to achieving emissions budgets (e.g. economic patterns or dry/wet weather years), and the government will actively manage these risks through an adaptive management approach, set out in ERP2. Adaptive management is also a key part of the annual ETS settings process. The Act allows the government to change settings if the market is responding differently to how we expected. However, there are limitations to this. If developments over the coming years suggest that emissions are likely to exceed emissions budgets it will be increasingly more difficult to correct for this because:
 - due to the declining ETS cap, there would be limited auction volume available to respond to any increase in emissions
 - the one-sided nature of auctioning means the government can only supply NZUs, it cannot remove them
 - there is only a small window of time available to develop and implement alternative policies

- the first two years of settings are unable to be changed, unless the special circumstances required under the Act have been met.
22. The proposed EB2 ETS cap is 81.9 Mt CO₂e over 2026-2030. This is derived from the Ministry for Cities, Environment, Regions and Transport's (MCERT's) official 2025 emissions projections (2025 emissions projections). This is tighter than the original EB2 ETS cap agreed by Cabinet (89.4Mt CO₂e), reflecting both an increase in ambition and the need to account for higher expected emissions outside the ETS compared with ERP2 projections.
 23. 2025 emissions projections show a 9-19 Mt CO₂e gap between projected emissions and EB3, which reflects the range between the 'with existing measures' (WEM) and 'with additional measures' (WAM) pathways. WEM projections reflect expected emissions based on government policies in place, while WAM projections incorporate government policies that are under development or proposed but not yet implemented. For agricultural projections, three different WAM scenarios were produced, which represent how different levels of efficacy and uptake of agricultural mitigation technology could impact methane emissions. All agricultural WAM scenarios include assumptions of incentives to uptake technology, which are not currently outlined in agreed policy nor are currently implemented.
 24. The Government has not yet made a final decision on the share of effort between ETS and non-ETS-covered sectors in addressing the EB3 gap. However, the Minister is expected to set a provisional EB3 ETS cap of 24.8Mt CO₂e. This provisional cap means ETS-covered sectors account for those additional reductions needed to meet EB3, reflecting the direction set in ERP2 that the ETS is the main tool to reduce net emissions. This figure comes from the analytical approach, which uses the WEM agricultural projections² and WAM projections for non-agricultural sectors, and reflects a 12.9Mt CO₂e gap between projected emissions and EB3. This is a conservative approach that only reflects currently agreed policies.³ This does not reflect a view that the WAM B scenario (or any WAM scenario) for agricultural emissions will not eventuate.
 25. The ETS remains a major tool for meeting emissions budgets, but it is not expected to meet EB3 on its own. Additional options to support and encourage emissions reduction and removals across major emitting sectors will be needed, alongside the ETS, to achieve EB3. Ultimately, the government is required through the development of the third emissions reduction plan (ERP3) to determine policies and a pathway that will ensure the achievement of EB3. However, there are lead times involved, both with developing and implementing policies and with emissions reductions being realised. For this reason, the Government will explore policy options in advance of the third emissions reduction plan development and will consider advice on this next year.
 26. The Government is confident that sufficient policy options to meet EB3 will be identified. The Commission's recent annual monitoring report highlights a range of opportunities for policies outside of the ETS to drive additional emissions reductions and help close the gap between projected emissions and the third emissions budget target.
 27. There are also other key assumptions:

² The agriculture WEM projections used in our modelling include estimated impacts from the ERP2 afforestation on Crown land policy.

³ This differs from the figures used in the amended ERP2, which had an 8.7Mt CO₂e gap based on the central estimate from 2025 emissions projections (a combination of WAM projections for non-agricultural sectors and the WAM B agricultural emissions scenario in 2025 emissions projections).

- Liquidity of the stockpile

We have made an assessment on the size of the liquid 'surplus' stockpile based on the expected use of NZUs. We continue to improve our methodology for measuring the surplus stockpile, and to test the methodology through consultation. However, there is a significant level of uncertainty in this estimate. Our projections assume that flat to falling price expectations will lead to some of the non-surplus stockpile becoming more liquid, which could allow excess emissions. Alternatively, the total stockpile may be less liquid than assumed which means a greater chance of meeting EB3 but could raise issues with regard to proper functioning of the ETS. Different options have made different assumptions on the size of the surplus stockpile and the related surplus drawdown.

- Responsiveness of emitters to price

There is limited evidence on how emitters respond to higher NZU prices. If emitters are less responsive than assumed in our modelling, it would make emissions budgets harder to achieve, and vice versa.

- Restrictions on converting productive farmland to forestry

Our modelling assumes that the Government's Climate Change Response (Emissions Trading Scheme – Forestry Conversion) Amendment Act that partially restricts whole farm conversions from registering in the ETS will act to cap afforestation at around 28,000 ha per annum. There is limited evidence on whether and to what extent this policy might act to constrain overall exotic afforestation. 2025 emissions projections and updated modelling to support 2026 ETS settings assume that afforestation rates will sit just below the estimated soft cap of this policy, at around 27,000 ha per annum. However, modelled prices are above levels needed to incentivise afforestation. Therefore, if this policy is less binding than we assume (through greater displacement of afforestation to unrestricted land use classes for example), then there could be more removals from exotic afforestation. Because there is a delay between planting trees and the actual removal of emissions, this is unlikely to impact on EB2 much but could close some of the gap in EB3. Conversely, if the uncertainty regarding the policy and especially the ballot process dampens forestry investment incentives, afforestation could be lower than we anticipate which would exacerbate the gap to meeting EB3.

Part 2: Assessment of accordance for 2026 ETS unit limits and price control settings options

28. There are three major ETS settings options presented for the Minister to consider. All three options extend status quo price controls to 2030, with minor adjustments for inflations, but differ in the unit limits.

a. Option 1 – Commission-recommended auction volumes

In Option 1, auction volumes for 2027-2030 are unchanged from 2025 settings. 2031 auction volume is based on the Commission's application of the analytical method. A provisional EB3 ETS cap of 28.9 Mt CO₂e was used to inform 2031 auction volume.

	2027	2028	2029	2030	2031
Unit limits (millions)					
Base auction volumes	4.3	3.3	2.4	1.7	3.0

Total CCR volumes	5.9	5.3	4.7	3.9	3.5
NZUs available by auction	10.2	8.6	7.1	5.6	6.5
Price controls					
Auction price floor	\$75	\$78	\$83	\$88	\$92
CCR Tier 1	\$213	\$224	\$239	\$251	\$264
CCR Tier 2	\$267	\$280	\$298	\$313	\$328
CCR Tier 1 volume (millions)	2.1	1.9	1.7	1.4	1.2
CCR Tier 2 volume (millions)	3.8	3.4	3.0	2.5	2.3
Total CCR volumes (millions)	5.9	5.3	4.7	3.9	3.5

b. Option 2 - Government-recommended auction volumes - Recommended

In Option 2, auction volumes for 2027-2030 are unchanged from 2025 settings. 2031 auction volume is based on the analytical model and using a conservative surplus stockpile estimate. A provisional EB3 ETS cap of 24.8 Mt CO₂e was used to inform 2031 auction volume.

	2027	2028	2029	2030	2031
Unit limits (millions)					
Base auction volumes	4.3	3.3	2.4	1.7	1.1
Total CCR volumes	5.9	5.3	4.7	3.9	3.5
NZUs available by auction	10.2	8.6	7.1	5.6	4.6
Price controls					
Auction price floor	\$75	\$78	\$84	\$89	\$93
CCR Tier 1	\$213	\$224	\$241	\$253	\$266
CCR Tier 2	\$267	\$280	\$301	\$316	\$332
CCR Tier 1 volume (millions)	2.1	1.9	1.7	1.4	1.2
CCR Tier 2 volume (millions)	3.8	3.4	3.0	2.5	2.3
Total CCR volumes (millions)	5.9	5.3	4.7	3.9	3.5

c. Option 3 – Lower auction volumes

Option 3 reduces auction volumes across the EB2 period, compared with the status quo. This option reflects a larger stockpile drawdown, compared with the status quo, based on the Ministry's high surplus stockpile estimate. 2031 volumes are similar to those in Option 2.

	2027	2028	2029	2030	2031
Unit limits (millions)					
Base auction volumes	2.2	1.8	1.5	1.3	0.8
Total CCR volumes	5.9	5.3	4.7	3.9	3.5
NZUs available by auction	8.1	7.1	6.2	5.2	4.3
Price controls					
Auction price floor	\$75	\$78	\$84	\$89	\$93
CCR Tier 1	\$213	\$224	\$241	\$253	\$266

CCR Tier 2	\$267	\$280	\$301	\$316	\$332
CCR Tier 1 volume (millions)	2.1	1.9	1.7	1.4	1.2
CCR Tier 2 volume (millions)	3.8	3.4	3.0	2.5	2.3
Total CCR volumes (millions)	5.9	5.3	4.7	3.9	3.5

29. In addition to the major options, there is also the option to redistribute 2027 auction volumes into 2028-2030 under Options 2 and 3. In this scenario 2027 CCR volumes would be reduced to zero. Given this is a redistribution within emissions budget periods, we consider the accordance assessment of this sub-option to be the same as for Options 2 or 3.
30. Table 1 below provide officials' assessment of accordance of these three options with the emissions budgets and 2050 target. This includes justification for deviation from strict accordance, where relevant. This assessment is to support the Minister by demonstrating the accordance of the different options available to him.

Table 1: Accordance assessment of ETS settings options with emissions reduction targets

Accordance assessment	ETS settings Option 2 – Government-recommended auction volumes	ETS settings Option 1 – Commission-recommended auction volumes	ETS settings Option 3 – Lower auction volumes
Emissions budget 2	Modelling shows the ETS settings under Option 2 are highly likely to deliver the ETS's share towards the achievement of EB2 and therefore strictly accord with EB2. ETS sector emissions are projected to remain within their assumed share of EB2 based on 2025 projections. Modelling based on the ETS settings under Option 2 project total emissions of 302Mt CO₂e, compared with 303 Mt CO₂e projected in ERP2 (both below the 305Mt CO₂e budget). The risk posed by the surplus to ETS emissions in EB2 is mitigated by reducing the surplus stockpile estimate to zero by 2030, based on conservative estimates for the size of the surplus. Other risks to achievement of EB2 (noting that these may also go in the other direction) include: • future methodological changes in the inventory may increase emissions relative to the fixed emissions budgets • economic or other factors lead to slower emissions reductions than anticipated. For example, favourable export prices might lead to higher livestock numbers and higher agricultural emissions • that proposed or existing government policies are not as effective as expected, or other government policies may result in increased ETS emissions. Aside from the small buffer shown in the 2025 emissions projections, the government would have options to meet a potential shortfall in EB2 as it could introduce additional emissions reduction policies to further ensure achievement of the budget and is actively managing progress through its adaptive management approach. However, there are limitations to this approach as additional policies take time to decide and implement. The price control settings support strict accordance with EB2. The auction price floor provides a safety valve against oversupply where there is a risk that more of the stockpile comes to market. This is because it prevents further units from being auctioned if the price is below the auction price floor. The auction price floor has been assessed by the Commission and officials as being aligned with the minimum prices needed to support achievement of EB2, specifically the costs of the additional gross emissions reductions needed to meet EB2. We consider the CCR trigger prices to be well above the price needed to support achievement of EB2 given the level of gross emissions reductions that are economic at prices below the \$200 trigger price. We also consider the CCR unlikely to be released given projected emissions prices.	The accordance assessment for EB2 under Option 1 is identical to Option 2 as Options 1 and 2 have identical auction volumes for the EB2 period. Price control settings are the same as Option 2. For that reason, we assess that ETS settings under Option 1 are highly likely to deliver the ETS's share towards the achievement of EB2 and therefore strictly accord with EB2.	The accordance assessment for EB2 under Option 3 is similar to Options 1 and 2. Compared to Option 2, it is expected that Option 3 will deliver similar levels of emissions reduction during the EB2 period (302Mt CO₂e). Price control settings are the same as Option 2. Overall, we assess that ETS settings under option 3 are highly likely to deliver the ETS's share towards the achievement of EB2 and therefore strictly accord with EB2.
Emissions budget 3	Based on modelling of the ETS settings under Option 2, total emissions are projected to exceed the level of the third emissions budget (EB3). As EB3 is further into the future than EB2, there is greater uncertainty around total emissions. Accordingly, we have used emissions ranges, along with the central emissions estimate, to assess EB3 accordance. Emissions over EB3 are projected to range from approximately 234 to 261 Mt CO₂e, with a central projection of 254Mt CO₂e.⁴ This compares with the 240Mt CO₂e budget. The lower range of projections would meet EB3 but based on central projections the gap is 14Mt CO₂e.⁵	The accordance assessment for EB3 under Option 1 is similar to Option 2. Compared to Option 2, it is expected that Option 1 will deliver similar emissions reductions during the EB3 period. However, there would be further opportunity to reduce auction volumes during the EB3 period if necessary.	The accordance assessment for EB3 under Option 3 is similar to Options 1 and 2. Compared to Options 1 and 2, Option 3 is expected to deliver marginally more emissions reductions during the EB3 period. However, there would be further opportunity to reduce auction volumes during the EB3 period if necessary.

⁴ Based on ETS sector emissions projections from the ETS market model and non-ETS sector emissions from 2025 emissions projections (a combination of WAM projections for non-agricultural sectors and WEM projections for agriculture). Non-ETS emissions include estimated impacts from the ERP2 afforestation on Crown land policy. This differs from the figures used in the amended ERP2, which had an 8.7Mt CO₂e gap based on the central estimate from 2025 emissions projections (a combination of WAM projections for non-agricultural sectors and the WAM B agricultural emissions scenario in 2025 emissions projections).

⁵ For additional robustness, Emissions in New Zealand (ENZ) model was also used to model total net emissions over EB2 and EB3. The results were broadly similar to those produced by the market model for the Government-recommended option, at about 302 Mt over EB2 and 252Mt CO₂e over EB3.

Accordance assessment	ETS settings Option 2 – Government-recommended auction volumes	ETS settings Option 1 – Commission-recommended auction volumes	ETS settings Option 3 – Lower auction volumes
	For this reason, we have assessed that ETS settings under Option 2 do not strictly accord with EB3. However, we have assessed that ETS settings under option 2 do have a good probability of delivering the ETS's share towards the achievement of EB3 and therefore accord – with a justified discrepancy from strict accordance. In considering accordance, it is not required for ETS settings decisions to completely account for the current EB3 gap. The responsibility for ETS settings decisions is to position the ETS such that there is a good probability of meeting EB3 through future ETS settings decisions and through ERP3 policies. Our reasoning is as follows: • A major part of positioning the ETS well for meeting EB3 is addressing the risk posed by the stockpile. Surplus stockpile units pose the largest risk towards the achievement of EB3 because emitters can use these stockpiled units to meet their ETS obligations instead of reducing their emissions in line with what's needed to achieve EB3. Other stockpile units might also be used in this way, particularly if price expectations are flat to falling. ETS settings under Option 2 are the most likely to ensure that the current surplus stockpile is eliminated by 2030 before the start of the EB3 period and make the largest contribution to managing the stockpile down more generally. The ETS settings also account for the small surplus that is expected to become available in subsequent years. • The Government has not yet made a final decision on the share of effort between ETS and non-ETS-covered sectors in addressing the EB3 gap. This is a plausible gap to close over the next 9 years and with several opportunities open to the Government. • The Government has acknowledged that ETS remains a major tool for meeting emissions budgets but is not expected to meet EB3 on its own. ETS settings are limited in how much they can drive emissions on their own and are affected by other policy settings and external trends. As the share of total emissions covered by the ETS reduces over time, the ability and role of ETS settings in reducing emissions and meeting emissions reduction targets decreases. ETS auction volumes for the 2027-2031 period could be reduced to zero without fully eliminating the estimated EB3 gap. • Additional options to support and encourage emissions reduction and removals across major emitting sectors will be needed, alongside the ETS, to achieve EB3. The government is required through its development of ERP3 to determine policies and a pathway that will ensure the achievement of EB3. The Government has also agreed to explore policy options in advance of ERP3 and will consider advice on this next year. • In addition, it should be acknowledged that at this time horizon (looking out to 2031 and beyond) the modelling projections are highly uncertain. The ability to meet EB3 could become easier or more challenging. This will be affected by government choices and changing circumstances and trends over the coming years (such as afforestation rates and stockpile liquidity – explained in part 1). It would be premature to set ETS settings that will have an overly disruptive impact, beyond what is needed for immediate emissions reduction targets, when it is not clear whether tighter settings will actually be needed. • Keeping price controls high ensures that auction volume will only be released at a price expected to be necessary to meet EB3. The Commission's analysis found that higher prices could potentially be needed to meet EB3, but that it would be premature to increase the price control settings now given it is uncertain that an increase will actually be needed. The Commission found that existing price controls were appropriate for the time being, and close monitoring of the situation will determine if changes could be needed in the future. We agree with the findings of the Commission. • The Commission's analysis was based on a slightly smaller EB3 gap than that implied by the Government's proposed provisional EB3 cap, which could require higher price controls. However,	Overall, we assess that ETS settings under Option 1 as according with EB3, but not strictly according Price control settings and justifications for departing from strict accordance are the same as Option 2, with the exception of main matter section 30GC(5)(e) - the recommendations made by the Climate Change Commission under section 5ZOA. Option 1 exactly matches the recommendation made by the Commission, whereas Option 2 includes lower auction volumes.	Overall, we assess that ETS settings under Option 3 as according with EB3, but not strictly according Price control settings and justifications for departing from strict accordance are the same as Option 2.

Accordance assessment	ETS settings Option 2 – Government-recommended auction volumes	ETS settings Option 1 – Commission-recommended auction volumes	ETS settings Option 3 – Lower auction volumes
	internal MCERT modelling gives us confidence that the existing price controls remain appropriate with the proposed provisional EB3 cap. Modelling using scenarios broadly aligned to the updated provisional cap suggested the auction price floor remains appropriate for EB3, and in fact could theoretically be lowered somewhat. Additionally, the possible EB3 gap remains highly uncertain, and is likely to reduce further with additional complementary policies. Justification for deviation from strict accordance by reference to matters in section 30GC CCRA The deviation from strict accordance is justified by: main matter section 30GC(5)(b) - the proper functioning of the emissions trading scheme. For ETS settings to strictly accord with EB3 at this stage, auction volumes would need to be reduced to zero with little to no signalling to participants. This is likely to significantly disrupt the market and could make it difficult for some compliance participants to source units in the short term. This could cause issues of short-term NZU price volatility. The risks are explained more in Part 3 below. main matter section 30GC(5)(d) - the forecast availability and cost of ways to reduce greenhouse gas emissions that may be needed for New Zealand to meet its targets for the reduction of emissions. There remains large uncertainty over the level of reductions that will be required by ETS-covered sectors to achieve EB3, as well as the costs of necessary reductions. ETS settings under Option 2 are maintaining tight supply of NZUs and options remain open to further tighten ETS settings in the future as the necessary level of reductions become clearer. main matter section 30GC(5)(e) - the recommendations made by the Climate Change Commission under section 5ZOA. The Commission assessed its recommended settings as according (though not strictly) with EB3, and the ETS settings under Option 2 involve the same price controls, and lower auction volumes than the Commission's recommended settings, supporting the case for accordance.		
2050 target	We assess that ETS settings under Option 2 are highly likely to deliver the ETS's share towards the achievement of the 2050 target and therefore strictly accord. Emission budgets are intended to be 'stepping stones' towards the 2050 target, and the agreed settings will contribute to the achievement of emission budgets over time. Additionally, 2025 emissions projections meet the 2050 target, and the ETS settings under Option 2 deliver emissions reductions in line with those projections, supporting the case for accordance. Although a gap between projections and EB3 remains, 2025 government emissions projections still meet the long-lived gas component of the 2050 target, which includes most ETS-covered emissions. We note it is challenging to estimate the impacts of the ETS settings under Option 2 over 2027-2031 20+ years in the future. Additionally, the ETS contribution to the long-lived gases 2050 target is complicated by several factors. This includes a significant amount of emissions outside the ETS, industrial allocation exceeding the ETS cap from the mid-2030s, the continuation of some industrial allocation past 2050 and the ongoing entitlements and surrenders for ETS forestry. These are challenges beyond the scope of the ETS settings process, and we do not see that these challenges prevent the ETS settings under Option 2 from strictly according with the 2050 target based on the expected ability and role of ETS settings. The 2050 target also includes 2030 and 2050 biogenic methane targets.	The accordance assessment for the 2050 target under Option 1 is identical to Option 2. Overall, we assess that ETS settings under Option 1 are highly likely to deliver the ETS's share towards the achievement of the 2050 target and therefore strictly accord.	The accordance assessment for the 2050 target under Option 3 is similar to Option 2. It is expected that Option 3 will deliver marginally more emissions reduction compared with Options 1 and 2. Overall, we assess that ETS settings under Option 3 are highly likely to deliver the ETS's share towards the achievement of the 2050 target and therefore strictly accord.

Accordance assessment	ETS settings Option 2 – Government-recommended auction volumes	ETS settings Option 1 – Commission-recommended auction volumes	ETS settings Option 3 – Lower auction volumes
	The ETS covers only a very small proportion of biogenic methane emissions. In addition, the ETS provides a price incentive that is neutral to how and where emissions reductions are achieved. By design, the ETS cannot target reductions in a particular sector or to a particular greenhouse gas. Together, these features mean the role of the ETS in meeting the biogenic methane targets is relatively limited. We therefore do not consider that progress towards these biogenic methane targets impacts the accordance of proposed ETS settings with the 2050 target.		

Part 3: Mandatory matters – in general terms

31. There are several matters listed in section 30GC of the Act that must be considered when assessing accordance with emissions goals. These matters are detailed in Part 3 below, which provides interpretations and detail for each matter. They also inform the overall assessment made in Part 2.
32. Section 30GC(2) and (3) of the Climate Change Response Act 2002 (the Act) states that:
- (2) *The Minister must be satisfied that the limits and price control settings are in accordance with—*
 - (a) *the emissions budget that applies to—*
 - (i) *the period for which the limits or price control settings are being prescribed; or*
 - (ii) *any period after that, if a budget or contribution exists for that period; and*
 - (b) *the 2050 target.*
 - (3) *However, they need not strictly accord with the budgets as long as the Minister is satisfied that the discrepancy is justified, after considering the other matters under this section.*
33. The “other matters” in section 30GC of the Act comprise the “main matters” and the “additional matters”. The “main matters” listed in section 30GC(5) are of general application and are used for assessing accordance against emissions goals in Part 2 and/or justifying deviation from strict accordance with the emissions budgets. The “additional matters” in section 30GC(6) are relevant only to the price control settings.⁶

30GC(5) – the main matters (relevant to unit limits and price control settings)

30GC(5)(a): *The projected trends for New Zealand’s greenhouse gas emissions in the 5 years after the current year, including:*

- (i) *the anticipated volumes of greenhouse gas emissions to which the emissions trading scheme applies (meaning emissions for which participants are required to submit returns or surrender units under this Act); and*
- (ii) *the anticipated volumes of greenhouse gas emissions to which the emissions trading scheme does not apply.*

34. The projected emissions trends for New Zealand’s greenhouse gas emissions for the next five years after the current year, as well as for 2026, are as follows:

	2026	2027	2028	2029	2030	2031
Total net emissions (Mt CO₂e)	65.7	63.4	60.1	57.2	54.9	50.5

⁶ Price control settings operate at the government’s emission unit auctions and prevent the sale of emission units below a specified minimum price and allow the sale of reserve amounts of emission units at other specified (trigger) prices. The price control settings are comprised of the reserve amount of NZUs for each trigger price, the trigger prices, and the minimum price below which units must not be sold by auction.

35. The total net emissions above are based on a combination of the WEM agricultural projections⁷ and WAM projections for non-agricultural sectors.
36. The government determines the intended share of the emissions budget between sectors in and outside the ETS. The share allocated to ETS covered sectors is also sometimes referred to as the ETS cap. The Government is proposing an EB2 cap of 81.9 Mt CO₂e, and a provisional EB3 cap of 24.8 Mt CO₂e. The allocated volume of emissions budgets to sectors in and outside the ETS scheme is as follows:

	2027	2028	2029	2030	2031	Total
Share of emissions budget allocated to non-ETS sectors (million NZUs)	44.1	44.1	43.8	43.7	43.5	219.1
Share of emissions budget allocated to ETS sectors (million NZUs)	19.3	16.0	13.4	11.2	7.0	67.0

37. The established analytical model (previously the seven steps methodology) is used to calculate how many New Zealand Units (NZU) could be made available for auction. The projections inform the calculations and underpin the modelling, which are both key components of the accordance assessment.
38. Over the last year, projected emissions over the settings period for firms eligible for industrial allocation have increased. Absent any changes to auction volumes, this increase in anticipated industrial allocation necessarily increases the overall limit on units. As a change that has significantly affected the projected trends for anticipated volumes of emissions to which the ETS applies, this special circumstance can justify a change to the 2027 and 2028 overall limits on units within the Climate Change Regulations 2020.

30GC(5)(b): The proper functioning of the emissions trading scheme

39. There are several aspects of 'proper functioning', which are considered below. Deviation from strict accordance can be justified by consideration of the proper functioning of the ETS. Strictly according with EB3 would require reducing auction volumes to zero with little to no signalling to participants. Significantly reducing auction volumes in this way is likely to significantly disrupt the market and could make it difficult for some compliance participants to source units in the short term. This could cause issues of short-term NZU price volatility and would undermine the proper functioning of the ETS.

Regulatory predictability and market confidence

40. The ETS provides a price signal by setting a cap on emissions and letting trading of NZUs occur. A stable emissions price, with regulatory certainty and well-signalled ETS policies, provides a signal to invest in abatement and removals and to change actions towards less emission intensive activities.
41. The ETS should therefore operate in a transparent and durable manner that allows participants to form expectations about future market conditions. This is assisted by the Act restricting the

⁷ The agriculture WEM projections used in our modelling includes estimated impacts from the ERP2 afforestation on Crown land policy.

ability of the Minister to amend settings for the next two years.⁸ This builds confidence in the ETS market and encourages investment in cost-effective opportunities for domestic emissions abatement. The first two years can be amended in specific circumstances, including if the CCR units are released.

Participants' ability to manage obligations

42. ETS unit settings should allow the ETS to function as intended. This includes auctions that operate as designed every year⁹, and ETS participants being able to attain and surrender NZUs to meet ETS obligations.
43. An important part of managing obligations and ETS costs for participants is their ability to bank NZUs (stockpile) in their accounts in the ETS Register. A large quantity of NZUs has accumulated in private accounts, with the current quantity of privately held NZUs at 124 million units.¹⁰ There is uncertainty in the size of the surplus stockpile. In their 2026 advice, the Commission estimated the surplus stockpile as between 17.1 – 41.7 million NZUs, while an updated MCERT estimate puts it at between 16.7 – 48.4 million NZUs.
44. The stockpile is reduced when NZUs are surrendered to match reported emissions by participants.¹¹ It is added to through auctions and receipt of allocations and entitlements. The stockpile represents future rights to emit.
45. The Government has previously prescribed unit limits that 'draw down' the surplus component of the stockpile through reduced auction volumes to 2030. A quicker or larger draw down of the surplus stockpile (earlier than 2030) would significantly reduce auction volumes in the near term, which could risk impacts to the functioning of the market. This could impact prices, volatility and the ability of participants to comply with surrender obligations.
46. The timing of forestry removal units becoming available to the market is a further source of uncertainty. Forestry units are a significant source of units used to cover compliance obligations. The fifth mandatory emissions reporting period (MERP5) spans EB2 and means that foresters are not required to file their emissions returns until 2031. This could mean that forestry units that are expected to come to market during EB2 are delayed. However, recently the majority of returns have been voluntarily filed on an annual basis and there is an economic incentive for foresters with net entitlements to continue to do this. This suggests at least some and likely the majority of MERP5 forestry units will become available during EB2.

ETS price volatility

47. A key element of the proper functioning of the ETS is to minimise price volatility. High levels of price volatility can have a range of negative impacts, including:
 - a. undermining confidence of participants in the ETS
 - b. discouraging investments in decarbonisation or removal activities
 - c. increasing the challenge or costs for participants to manage their obligations.

⁸ However, on 13 July 2023, the [High Court ordered the Minister](#) to remake the 2022 ETS settings decisions. This enabled (and required) reconsideration of settings for 2023, 2024 and 2025.

⁹ At least, until auctions are no longer required because of the reduced ETS cap.

¹⁰ Number of NZUs held as of 30 June 2026, [Privately held units | EPA](#).

¹¹ Or cancelled, but very little of this occurs. See the Environmental Protection Authority [webpage on unit cancellations](#).

48. Following Government announcements in November 2025 of changes to the CCRA, there was a material decline in the NZU price and an increase in volatility. Market commentators have attributed the market reaction to reduced market confidence. While market volatility has since reduced, this change has significantly affected proper functioning of the ETS and highlighted the need to improve market confidence.
49. This special circumstance can justify a change to the unit limits or price controls for 2027 and 2028 within the Climate Change Regulations 2020.

Role of price controls

50. The Cost Containment Reserve (CCR) functions both as a market 'shock absorber', reducing the risk of unacceptable emissions costs by increasing supply, and as a guide to maximum NZU prices for participants.
51. The CCR volume can be sold to auction participants if trigger prices are hit in auctions. Those prices are intended to be well outside the NZU prices necessary to achieve emission budgets.
52. Should the CCR volume be released, the risk to emission budgets is maintained for longer because that surplus remains available.
53. The other prescribed auction price control is the auction price floor. The auction price floor is the price below which the government will not sell units at auction. Its purpose is to act as a safety valve that helps guard against NZU prices dropping below what is needed for meeting emissions budgets.
54. As required by the Act, the Commission considered a range of matters when it first made its auction price floor recommendations and subsequently each year in reconsidering the settings.¹² The Commission wrote that the two most critical issues for auction price floor settings were the minimum emissions price levels consistent with meeting emissions budgets, and when it would be appropriate for the government to withhold units and reduce unit supply below the planned auction volume.
55. The Commission's 2022 recommendations on the value of the auction price floor were determined through economic modelling, which took into account:
 - The Government's decisions about setting emissions budgets. These were based on emissions pathways and judgements about acceptable costs for meeting budgets that reflected both reducing gross emissions and using forests to absorb carbon dioxide.
 - Consistency with the Government's first emissions reduction plan (ERP1), which recognised the need, and stated intention, to reduce gross emissions.
 - That gross emissions reductions are needed to meet the first and second emissions budgets. It is not possible to achieve these budgets solely by using forests to compensate for gross emissions, due to the time lag between planting and forests starting to sequester carbon.
56. In 2026, the Commission did not recommend any changes to the auction price floor (beyond inflation adjustments). It stated that to meet EB2, actions must now focus on reducing gross emissions. Therefore, the auction price floor levels for 2027–2030 need to reflect the cost of gross reductions, rather than of forestry offsets due to the four-year lag after planting before a new forest starts sequestering carbon. There is a range of evidence pointing to prices around or above the current auction price floor levels (\$75 this year) being needed to support gross

¹² Climate Change Commission's [advice on ETS settings for 2023-2027](#).

reductions. The Government's second emissions reduction plan modelling also supports the current auction price floor. This modelled meeting the second emissions budget with a price path above the auction price floor levels, with an NZU price in 2030 of around \$75 (in 2023-dollar terms).

57. The Commission's analysis in 2025 found that higher prices could potentially be needed to meet EB3, but that it would be premature to increase the price control settings now given it is uncertain that an increase will actually be needed. In its 2026 analysis, the Commission noted that the key uncertainties in the above advice have not been resolved, and it therefore still considers it too early to tell whether the CCR levels need to be increased. It once again advised maintaining and extending current CCR trigger prices (adjusted for inflation) until it is clearer whether current trigger prices are too low.
58. The Commission's analysis was based on a slightly smaller EB3 gap than that implied by the Government's proposed provisional EB3 cap, which could require higher price controls. However, internal MCERT modelling gives us confidence that the existing price controls remain appropriate with the proposed provisional EB3 cap. Modelling using scenarios broadly aligned to the proposed provisional EB3 cap suggested the auction price floor remains appropriate for EB3 and could theoretically be lowered somewhat. Additionally, the possible EB3 gap remains highly uncertain, and is likely to reduce further with additional complementary policies.
59. Other issues to consider in relation to the auction price floor would be the effect that changes to auction price floor levels could have on sentiment and market confidence.
60. The ETS settings have been assessed based on the descriptions above and support proper functioning of the scheme.

30GC(5)(c): International climate change obligations and instruments or contracts that New Zealand has with other jurisdictions to access emissions reductions in their carbon markets

61. New Zealand's NDCs outlines the contribution New Zealand will make towards delivering on the goals of the Paris Agreement. New Zealand's first NDC (NDC1) was updated on 31 October 2021. The new NDC1 sets a headline target of a 50 percent reduction of net emissions below gross 2005 level by 2030. New Zealand's second NDC (NDC2) was submitted in January 2025 and sets a target of a 51-55 percent reduction of net emissions below gross 2005 level by 2035.
62. NDCs are economy-wide, covering all sectors and all greenhouse gases. NDCs under the Paris Agreement are international targets that can be met through a combination of domestic action and additional international cooperation. The Government's priority is domestic climate action to help meet New Zealand's climate change targets. New Zealand's submission of its first NDC states, "*New Zealand intends to use international market mechanisms, cooperative approaches and carbon markets that enable trading and use of a wide variety of units/emission reductions/mitigation outcomes that meet reasonable standards and guidelines*". This was affirmed when the Government provided its updated NDC1 to the United Nations on 4 November 2021.¹³
63. Tightening ETS settings beyond what is required to accord with domestic emissions targets could assist somewhat in meeting New Zealand's NDCs, however even fully reducing auction volumes to zero is modelled to have a relatively limited impact on meeting NDCs. It would also come with significant negative impacts on the proper functioning of the ETS by requiring a sudden reduction in auction volumes with little to no signalling to participants (explained

¹³ The submission is found [here](#).

further under 30GC(5)(b) above). For this reason, officials advise prioritising accordance with emissions budgets and the 2050 target and maintaining proper functioning of the ETS overusing ETS settings to further support meeting New Zealand's NDCs.

64. New Zealand has no current instruments or binding agreements with other jurisdictions to access emissions reductions through carbon markets. The Government has been clear it does not intend to purchase offshore mitigation this term of government; however, efforts remain underway to explore all options for access to offshore mitigation in the future. This includes:
- agreeing to develop a climate change cooperation arrangement with the Philippines and recently signed arrangements with Vietnam and Indonesia.
 - investing in capacity building and market development, including through funding towards initiatives such as the Global Green Growth Institute's Readiness Fund and the Asia Development Bank's Climate Action Catalyst Fund.

30GC(5)(d): The forecast availability and cost of ways to reduce greenhouse gas emissions that may be needed for New Zealand to meet its targets for the reduction of emissions

Forecast ability and cost to meet emissions budgets

65. ERP2 contains more detailed information on current policies and actions for reducing emissions and meeting targets.
66. For ERP2, an economy wide model was used to test the sufficiency of proposed policies and actions. The modelling assumes a price path in which prices rise to \$75 (in 2023-dollar terms) in 2030 and then fall towards the long-run supply costs of NZUs from forestry, which may be no more than \$50 per tonne.¹⁴ NZU prices are around \$55 as of 17 July 2026.
67. 2025 emissions projections provide the latest assessment of New Zealand's progress on meeting upcoming emissions budgets.¹⁵ They show we are expected to meet EB2 with projected net emissions of 301 Mt CO₂e during the EB2 period (2026-2030), compared with the 305 Mt CO₂e EB2 limit. 2025 projections show net emissions ranging from 249-259 Mt CO₂e during the EB3 period, which is 9-19 Mt CO₂e above the 240 Mt CO₂e EB3 limit.
68. For evaluating accordance, we've taken a conservative approach that only reflects currently agreed policies, resulting in a 12.9Mt CO₂e gap between projected emissions and EB3. This figure informs the analytical approach and is based on the WEM agricultural projections¹⁶ and WAM projections for non-agricultural sectors.¹⁷ This does not reflect a view that the WAM B scenario (or any WAM scenario) for agricultural emissions will not eventuate.
69. Achieving EB3 is the task of the third emissions reduction plan (ERP3), due by 2030. However, the Government has also agreed to explore policy options to support EB3 achievement in advance of ERP3 and will consider advice on this next year.

¹⁴ This is the NZU price at which landowners are assumed to be willing to change from sheep and beef farming to forestry.

¹⁵ Progress towards EB1 is not considered here as the settings period is after the EB1 period.

¹⁶ The agriculture WEM projections used in our modelling include estimated impacts from the ERP2 afforestation on Crown land policy.

¹⁷ This differs from the amended ERP2, which had an 8.7Mt CO₂e gap based on the central estimate from 2025 emissions projections (a combination of WAM projections for non-agricultural sectors and the WAM B agricultural emissions scenario in 2025 emissions projections).

70. The assessment of ETS settings against emission targets includes the expected impacts of proposed ERP2 policies. The impacts from policies discontinued from ERP1 are also included; that is, if removing a policy will result in increased emissions, those numbers are used in the modelling.
71. Emissions projections and alignment with targets can be significantly impacted by New Zealand's Greenhouse Gas Inventory methodological changes. The Greenhouse Gas Inventory records historical emissions and removals from 1990 and provides the baseline for emissions projections going forward. Updates to methodological changes to the Inventory can increase or decrease projected emissions in particular sectors, creating uncertainty and potential risks for achieving emissions budgets.
72. In its 2022 advice on settings, the Commission modelled the range of NZU prices it considered would be necessary to achieve the abatement and removals for meeting emission budgets using different scenarios.¹⁸ Figure 5 on page 11 of the modelling report illustrates the output. The Commission identified that the range of NZU prices needed under those scenarios in 2030 is from \$70 to \$260 (in 2022 prices).
73. As part of the Commission's 2025 advice on the settings, Concept Consulting carried out modelling to generate shadow emissions prices needed to meet EB3. Under a range of scenarios, the Concept Consulting modelling suggests an NZU price range of around \$190 to \$350 in 2035 (in 2024 prices).¹⁹ A key insight from the Concept Consulting modelling was that high fossil gas prices were a key factor that could significantly reduce the emissions price needed to meet the EB3 as low-emissions alternatives would be relatively more affordable. In their 2026 advice, the Commission considered that this modelling remains relevant.
74. Additionally, MCERT recently commissioned the New Zealand Institute of Economic Research to update marginal abatement cost curves and undertake sector interviews to better understand abatement costs and the role of NZU prices in incentivising gross emissions reductions. The report, expected to be published in July 2026, found that realised abatement had materially fallen short of earlier estimates, particularly for energy and transport, suggesting that further abatement opportunities remain. Generally, the updated marginal abatement cost curves indicate that the cost of achieving abatement in the low-cost zone has fallen notably compared with the 2020 estimates, suggesting there may be value in focusing on opportunities within this part of the curve. It also identified low and uncertain NZU prices as a key non-cost barrier for incentivising investment in gross emissions reduction.
75. The Commission's annual monitoring report highlights a range of opportunities for policies outside of the ETS to drive additional emissions reductions and help close the gap between projected emissions and the third emissions budget target.

Forecast ability and cost to meet 2050 target

76. ETS settings must accord with emission budgets which are stepping stones towards achieving the 2050 target. There are three risks to achieving the target.
77. There is a risk that from the mid-2030s onwards, the ETS may not encourage enough reductions or removals to achieve and sustain net zero for subsequent years. This is because a significant amount (about 7.5Mt CO₂e per annum in 2035 or 20 percent) of long-lived emissions (e.g., agricultural nitrous oxide) will remain outside the ETS. Secondly, under current settings,

¹⁸ Technical Annex 2 to the Commission's [2022 advice](#).

¹⁹ [NZETS2025-Technical-annex-3-Assessment-of-accordance.pdf](#).

industrial allocation will exceed the ETS cap from the mid-2030s, and some industrial allocation recipients will continue receiving some NZUs for free beyond 2050.²⁰

78. The third risk relates to achievement of the 2030 and 2050 biogenic methane targets within the 2050 target. The ETS covers only a very small proportion of biogenic methane emissions. In addition, the ETS provides a price incentive that is neutral to how and where emissions reductions are achieved. By design, the ETS cannot target reductions in a particular sector or to a particular greenhouse gas. Together, these features mean the role of the ETS in meeting the biogenic methane targets is relatively limited. We therefore do not consider that progress towards these biogenic methane targets impacts the accordance of proposed ETS settings with the 2050 target.
79. The Commission noted in its assessment of accordance that the above risks “*cannot be addressed or corrected for by amending the NZ ETS unit limit and price control settings for the 2027–2031 period. Therefore, we do not consider that these future challenges or policy gaps undermine or are relevant to the recommended settings’ accordance with the 2050 target*”.²¹ The Government agrees with this view.
80. 2025 emissions projections included achieving the net zero component of the 2050 target. ETS settings under Option 2 deliver emissions reductions in line with those projections, supporting the case for accordance

30GC(5)(e): The recommendations made by the Climate Change Commission under section 5ZOA

81. The Commission’s *Advice on NZ ETS unit limits and price control settings for 2027-2031* was tabled in the House and made public on 25 April 2026.²²
82. Specific recommendations on ETS settings were:
 - maintain the current auction volumes through to 2030, and set 2031 auction volumes on the basis that the surplus of units in the market has been depleted by then
 - offer 14.7 million units over the 2027–31 settings period
 - prepare to address the risk of a unit shortfall in future years
 - maintain the current price control settings, adjusted for inflation and extended to 2031.
83. The Commission’s 2026 advice and underpinning analysis were considered in the development of the recommended ETS settings.

30GC(5)(f): Any other matters that the Minister considers relevant.

84. Under section 5X(4) of the Act, the Minister is required to ensure that emissions budgets are met. The Minister must take proportionate action to identify and address any risks of not achieving the budgets (including when making unit settings decisions).
85. The government is required through the development of ERP3 to determine policies and a pathway that will ensure the achievement of EB3. Although the ETS will play a key role, other policies and measures expected through development of ERP3 will be required to ensure the

²⁰ [New-Zealands-second-emissions-reduction-plan-Discussion-document.pdf](#).

²¹ See pages 14 of <https://www.climatecommission.govt.nz/assets/ETS-advice/2026/Technical-annex-3-Assessment-of-accordance.pdf>.

²² The Commission’s [2026 advice](#).

achievement of EB3. The Government has agreed to explore these options in advance of the third emissions reduction plan development, and will consider advice on this next year

30GC(6) – Additional matters (relevant to price control settings only)

30GC(6)(a): The impact of emissions prices on households and the economy

86. Price controls are not intended to be major drivers of NZU price movement on the ETS secondary market. The price of NZUs in the market is set through supply and demand expectations, so NZUs supplied by government influence the NZU price but do not solely determine it. ETS settings provide guidelines for NZU prices, while leaving room for the market to discover appropriate NZU prices for the target level of emissions reductions.
87. NZU prices currently have a modest impact on households and on inflation. At a price of about \$50-\$110 per NZU, costs resulting from the ETS are equivalent to about 0.3-0.7 percent of household gross income on average, about \$450 - \$890 per household. An increase of \$10 per NZU increases consumer inflation by 0.12 percent as measured by the Consumer Price Index, largely due to higher fuel and electricity prices.
88. In 2024, Treasury analysis found that 72–84 percent of low-income households receive some form of indexed payment, which compensates for 40–80 percent of increasing costs from emissions pricing.²³ The Commission recommends that the overall impacts on households and the economy are better managed through separate measures that directly target households than through ETS settings.²⁴
89. The impact of emissions prices on households and the economy informed the recommended price control settings.

30GC(6)(b): The level and trajectory of international emissions prices (including price controls in linked markets)

90. There is a wide variation in the level and trajectory of international emission prices. Appendix 2 of the Commission's 2022 advice provided an extensive summary of emission prices in other countries. The Commission noted in its 2026 advice that its recommended price settings are still within range of forecast international emissions prices and comparable to the efforts of developed country peers, rather than falling behind or overtaking them. We agree with the Commission's advice and have considered this when assessing the recommended price control settings.

30GC(6)(c): Inflation

91. The proposed price control settings have been adjusted for inflation. Inflationary impacts of emissions pricing are addressed in the impacts on households and the economy above.

²³ The Treasury.2024. *Household cost-of-living impacts from the Emissions Trading Scheme and using transfers to mitigate regressive outcomes (AN 24/02)*. The Treasury: Wellington.

²⁴ For example, see p30 of the Commission's [2023 advice](#).



Regulatory Analysis Summary: 2026 Emissions Trading Scheme limits and price control settings for units

Decision sought	<i>Minister of Climate Change approval for the 2026 annual update to Emissions Trading Scheme limits and price control settings for units</i>	
Agency responsible	<i>Ministry for Cities, Environment, Regions and Transport</i>	
Portfolio Minister(s)	<i>Hon. Simon Watts, Minister of Climate Change</i>	
Date finalised	<i>3 August 2026</i>	
Ministry for Regulation ID number	REG-2290	

Brief description of the Minister's regulatory proposal (preferred option)

The Minister of Climate Change (the Minister) proposes to amend the limits and price control settings for units in the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 as part of the annual review of New Zealand Emissions Trading Scheme (ETS) settings required under the Climate Change Response Act 2002 (the Act).

The preferred option is to maintain status quo auction volumes between 2027-30 and set new 2031 auction volumes, for a total of 12.8 million New Zealand units (NZUs or units) between 2027-31. The preferred option maintains status quo price controls, adjusted for inflation.

Summary of the problem definition

The Act requires the overall ETS unit limits, including the number of units auctioned by the Government, and the price controls at which those units will be sold, to be updated annually and for the next five-year rolling window. This is known as 'ETS settings'.

ETS settings need to be regularly reviewed to ensure they continue to assist New Zealand in meeting its emissions budgets and 2050 emissions reduction target. ETS settings are legally required under Section 30GC of the Act to accord (ie, align) with New Zealand's 2050 emissions reduction target and emissions budgets which are 'stepping stones' to meeting the 2050 target.

Summary of options considered for addressing the problem

When assessing ETS settings against the accordance requirements, options need be considered as packages composed of choices for unit limits and price control settings. All packages considered must meet the accordance requirements.

Consistent with the accordance requirements, we have considered three options for unit limits:

- Option one (14.7 million units) is the Climate Change Commission's (the Commission) recommended unit limits. This maintains status quo settings between 2027-30 and sets higher volumes (3 million units) for 2031, compared with Option 2.
- Option two (12.8 million units) which maintains status quo unit limits between 2027-30 and auctions 1.1 million units in 2031.

- Option three (7.5 million units) is a lower auction volumes option. It reduces auction volumes relative to the status quo across 2027-30 and auctions 0.7m units in 2031.

All options propose extending status quo price controls to 2031, with adjustments for inflation.

Key secondary policy decisions and judgements that inform the options above include:

- the estimate used for the 'surplus' stockpile
- the ETS 'cap' for the second and third emissions budgets.

All options are assessed as similarly incentivising emissions reductions to meet New Zealand's emissions budgets and targets. However, Option three increases the risk of undersupply, potentially impacting the proper functioning of the market, compared with Options one and two. We view Option two as best supporting budget and target accordance as it takes a more conservative approach to meeting the third emissions budget (EB3), compared with Option one.

The Minister's preferred option is Option two.

Is the Minister's preferred option the same as the preferred option in the RAS?

Yes

Summary of the main benefits of the Minister's preferred option

The Minister's preferred option maintains status quo ETS settings for the four years where volumes have been set previously and there is no baseline to compare the new 2031 settings to. As such, there are no additional quantifiable costs and benefits compared with the status quo.

Benefits over 2027-31 of the preferred option (Option two) relative to Options one and three (see above) include:

- Emissions: Similar emissions reductions outcomes under all options – the second emissions budget (EB2) is projected to be met; however, projections show that there remains a material gap to meeting EB3.
- Fiscal impacts: ~\$1 billion in cash receipts over 2027-31 under Option one, compared to ~1.2 billion under Option one and ~\$0.6 billion under Option three (if all auctions clear at the auction floor price).

Summary of the main costs of the Minister's preferred option

As above, there are no additional quantifiable costs compared with the status quo.

Relative to Option three and Option one, costs over 2027-31 include:

- Household costs:
 - Preferred option and Option one: ETS cost to an average household is estimated to increase from about \$450 annually in 2026 (0.3% of gross household income) to about \$650 in 2030 (0.5% of gross household income)¹.
 - Option three: ETS cost to an average household is estimated to increase from about \$450 annually in 2026 (0.3% of gross household income) to about \$890 in 2030 (0.7% of gross household income).
- Inflation: all options add ~0.1 percent per year to inflation.

Does the RAS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

The Minister's preferred option matches the status quo between 2027-30 and only sets new volumes and price controls for 2031 where there were previously no settings. As such, we have not assessed any additional quantifiable costs compared to the status quo.

¹ 2030 is chosen as the reference year as the modelled ETS price peaks under all options in this year, representing the highest household cost impacts across the ETS settings period.

There are benefits to maintaining status quo ETS settings in the first four years as it provides stability to the ETS market. This supports market confidence to invest in the emissions reductions required to meet our emissions budgets and targets.

Have any potential inconsistencies with the principles of responsible regulation in the Regulatory Standards Act been identified in relation to the Minister's preferred option?

No

Limitations and constraints on analysis

Condensed timeframes	No	Constrained option set	No
Legislative constraints	No	Data and evidence gaps	Yes
Ministerial direction	No	Other	No
Limited public consultation	No		

Summary of limitations and constraints on analysis

The analysis used to inform ETS settings decisions incorporate the most up-to-date information available to inform calculations and key assumptions. Forecasting and modelling are inherently uncertain, and the ETS settings analysis is considered alongside a broader range of evidence when informing final decisions. There are key uncertainties within the analysis, generally driven by limited empirical evidence and include the size of the surplus, the timing of forestry units entering the market, and stockpile liquidity. These uncertainties are typically addressed with sensitivity testing and the use of wider ranges to reflect the limitations of the modelling.

What are the implications of these limitations and constraints, and what has been done – or will be done – to mitigate and manage them?

There is a risk that the estimates and assumptions behind them are inaccurate. As with any modelling, this risk cannot be completely eliminated. ETS settings are reviewed regularly to ensure the most up to date information is used to mitigate this risk as much as possible.

I am satisfied that, given the available evidence, this RAS represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature:



James Coombes
Manager, ETS settings
 03/08/2026

Quality Assurance Statement

Reviewing agency: Ministry for Cities, Environment, Regions and Transport	QA rating: Meets
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Panel Comment:

A quality assurance panel with members from the Ministry of Cities, Environment, Regions and Transport has reviewed the RAS. The panel considers that it meets the Quality Assurance criteria for the purpose of informing Cabinet/Ministers decisions.

Section 1: Diagnosing the policy problem

1. The Emissions Trading Scheme (ETS) is the Government's primary tool for reducing emissions. Participants must surrender one New Zealand Unit (NZU) for every tonne of emissions they are liable for.
2. The Government mainly introduces NZUs into the market through quarterly auctions. Auction unit limits and price controls are set in regulations and must be reviewed annually to ensure they align with emissions budgets and targets. Each review updates the next four years of ETS settings and adds a fifth year (2031 in this review).
3. ETS settings affect the supply and price of NZUs, influencing carbon prices and wider economic outcomes, such as fuel costs. They also signal the Government's commitment to meeting emissions budgets and targets.

In 2025, the Government continued status quo settings for the first four years and set new 2030 volumes

4. Last year, the Government retained existing ETS price controls and unit volumes for 2026–29 and set new 2030 volumes, using updated data and assumptions. This reflected market signals indicating a well-supplied market, including prices below the auction price floor and auctions not clearing. The Government also chose lower volumes than those implied by a strict application of the analytical approach and central surplus estimate, highlighting the need to consider market conditions alongside modelling results.

The core objective of this annual process is to ensure ETS settings remain in accordance with emissions budgets and the 2050 target (target)

5. This year's ETS settings cover the Second Emissions Budget (EB2) and extend into the first year of the Third Emissions Budget (EB3). 2025 official projections indicate a material shortfall of 9–19 Mt CO₂e against EB3 (8.7Mt CO₂-e based on central assumptions). A key consideration in this RAS is ensuring the ETS contributes as much as possible to closing the gap, while recognising that additional policy measures will also be required. This issue is referenced throughout the RAS and examined in detail in a separate accordance assessment.
6. Within the review process are two key factors that have significant impacts on auction volumes and price controls. Decisions on these are considered 'secondary policy decisions', discussed further in this RAS, and include:
 - The surplus stockpile estimate: A large quantity of NZUs are banked in private accounts. Some of the banked NZUs are held to meet future surrender liabilities, or for other reasons, known as the non-surplus stockpile. Others are held as investments and may be sold when price expectations change. These surplus units pose a risk to meeting emissions reduction targets because emitters can surrender them instead of reducing emissions, limiting the Government's ability to achieve a particular emissions budget. In 2024 and 2025, auction volumes were set to reduce the surplus stockpile to zero by 2030. This approach continues in 2026. Uncertainty in the surplus estimate is explained later in this RAS.
 - The ETS 'cap': total level of net emissions allowed under the ETS for the settings period. This is determined based on emissions budgets and accounts for emissions outside the ETS (primarily agriculture).

The market appears to be signalling it is well supplied in the short-term

7. Following Government announcements in November 2025 of proposed changes to the Act, NZU prices fell significantly and became volatile. Market commentators linked this to reduced confidence in climate policy settings, particularly changes to the 2050 biogenic methane target, the decision not to price agricultural emissions, and the removal of the requirement for ETS settings to align with New Zealand's nationally determined contributions. Although prices have since recovered somewhat, they remain below the auction price floor.
8. The current gap between NZU price and the auction price floor, and the fact that no 2025 ETS auctions, or 2026 auctions to date, have cleared, suggests that the market remains well supplied in the short-term. That is, there are sufficient units available from the secondary market and stockpile to meet demand, without government auctioned units.

The Climate Change Commission (Commission) is legally required to give annual advice on ETS unit settings

9. The Minister of Climate Change (Minister) must consider the Commission's advice when recommending updates to settings. Its major recommendations this year are to:
 - extend current price control settings to 2031, with inflation adjustments from 2029
 - maintain the current auction volumes through to 2030, and set 2031 auction volumes on the basis that the surplus of units in the market has been depleted by then
10. The Commission advised that, while auction volumes could be increased to align with emissions budgets, doing so in a period of low market confidence could further weaken market sentiment. It also highlighted the risk of an NZU undersupply later in the 2020s, which could lead to sharp and volatile price increases. If this occurred, emissions reductions could be driven by plant closures and reduced production rather than investment in lower-emissions technologies. This risk is considered further in this RAS.

What is the policy problem?

11. The Climate Change Response Act 2002 (the Act) requires the overall New Zealand ETS unit limits, including the number of New Zealand units (NZUs or units) auctioned by the Government, and the price controls at which those units will be sold, to be updated annually and for the next five-year rolling window. This is known as 'ETS settings'.
12. ETS settings need to be regularly reviewed to ensure they continue to assist New Zealand in meeting its emissions budgets and 2050 emissions reduction target. The Government must set ETS settings that accord with emissions reduction targets, while balancing the impacts of emissions pricing on businesses and New Zealanders more generally. It must also support a transparent, durable and proper functioning ETS market.

What objectives are sought in relation to the policy problem?

There is a legal requirement for ETS settings to accord with emissions budgets and targets. The primary objective is to ensure this legal requirement is met. There are also secondary considerations which need to be balanced against this primary objective.

Objective one: Accordance with emissions reduction targets

13. The primary objective is prescribed by the Act, which requires that unit settings must accord with New Zealand's:
 - 2050 target, which is:

- net zero of all greenhouse gas emissions other than biogenic methane by 2050
 - 14 to 24 per cent reduction below 2017 biogenic methane emissions by 2050, and 10 per cent reduction below 2017 biogenic methane emissions by 2030.
 - emissions budgets, which are ‘stepping stones’ along the path to the 2050 target
14. ETS settings must strictly accord with New Zealand’s 2050 target, meaning there is a very high probability that settings constrain ETS-covered emissions to levels necessary to remain within their allocation of the target. ETS settings do not have to strictly accord with emissions budgets if the discrepancy is justified after considering matters prescribed in the Act. If deviating from strict accordance, the settings must still accord, meaning there is a good probability that ETS settings play their role in meeting emissions budgets. We refer to this as the ‘accordance test’.

Objective two: Proper functioning of the ETS

15. There are two major concepts that support the proper functioning of the ETS and are essential for the ETS to play its role in meeting emissions reduction targets:
- Transparent and durable decision making: Support investment confidence by taking a consistent approach to new information and clearly explaining decisions.
 - Ability for participants to meet ETS obligations: Participants can obtain and surrender the necessary NZUs, reducing price volatility and uncertainty.

Objective three: Price control settings that support NZU prices consistent with the level and trajectory of international emissions prices

16. International emissions prices provide a way of comparing New Zealand’s contribution with that of other countries in the global effort towards addressing climate change, notwithstanding fundamental differences between individual emissions pricing schemes. Price controls should support New Zealand to align with the level/trajectory of international prices to ensure New Zealand is appropriately contributing to the global effort towards addressing climate change.

Objective four: Price control settings that manage overall costs to the economy and households

17. The ETS impacts the economy and household costs. Price controls should manage these impacts.

What external consultation has been undertaken?

18. Consultation on ETS settings ran from 12 June to 12 July 2026. Consultation was in the form of a public consultation document and online webinars. In total, 27 unique submissions were received. Feedback from consultation is referred to throughout this RAS.
19. Feedback was primarily from businesses, such as foresters (10 submitters), as well as academics (4), industry bodies (4), non-government organisations (4). Representatives from local government, iwi/hapū and individuals also submitted

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options with the status quo?

20. The criteria used to assess the options align with each of the objectives described above. They also broadly align with the main matters the Minister must consider as part of ETS settings in section 30GC of the Act.

21. The first two criteria, ‘likelihood of incentivising net emissions reductions’ and the ‘proper functioning of the ETS’, apply to unit limit and price control settings. The third ‘support for NZU prices consistent with the level and trajectory of international emissions prices’ and fourth ‘management of overall costs to the economy and households’ criteria apply to price control settings only. We have put more weighting on the criterion ‘likelihood of incentivising net emissions reductions’ as it relates most closely with the primary objective.

Relationship between the criteria

22. A key judgement for ETS settings is ensuring the likelihood of incentivising net emissions is balanced with the proper functioning of the market. Constraining market supply may increase the likelihood of incentivising emissions reductions, but increases the risk of unit shortages. However, market confidence also depends on participants expecting unit supply to be sufficiently constrained to support emissions budgets and targets while remaining adequate for market needs.
23. Options that strengthen emissions reduction incentives are also more likely to increase NZU prices, with corresponding impacts on economic activity and household costs.

What scope will options be considered within?

Auction volume options scope

24. Auction volumes limit the number of units available at auction. The limits for units that are prescribed in regulations are:
- a limit on the units available by auction: base auction volumes + volume available within the cost containment reserve
 - a limit on approved overseas units
 - an overall limit on units: which consists of units available by auction and by other means, as well as approved overseas units.

Price control settings scope

25. Auction price controls are a tool for the Government to manage the supply of units at auction. Auction price controls include:
- auction price floor (price floor): The price below which the Government will not sell units at auction. Set annually in regulations, it reduces the risk of auction prices falling below levels consistent with emissions targets. While it forms the lower bound of the auction price corridor, it is not binding as secondary market prices can fall below it
 - cost containment reserve (CCR) trigger price(s): the price(s) at which additional units will be released if an auction’s interim clearing price reaches or exceeds this level
 - CCR volume(s): the number of units that will be released if the trigger price is reached.
26. The CCR limits the risk of excessively high ETS prices due to shocks or unforeseen events by releasing reserve units when trigger prices are reached. Its volume must be sufficient to mitigate high prices and trigger levels must be set high enough to avoid undermining emissions reduction goals.

Deregulation has been considered as out of scope of this proposal

27. Setting ETS unit limits and price controls forms part of a broader regulatory framework. Deregulation requires legislative change, as the Minister is required to review ETS settings for the next four years and set values for a fifth year. Such changes are outside the scope of

this proposal and would be inconsistent with the Government's Second Emissions Reduction Plan (ERP2) commitment to provide regulatory predictability through the ETS.

Only options that accord with emissions budgets and targets are considered in scope

28. Accordance with emissions budgets and targets is the key parameter of ETS settings options (more detail is provided in the objectives section above). When assessing ETS settings against the accordance requirements, options need be considered as packages, including unit limits and price control settings to understand the combined impact on emissions. All packages considered should meet the accordance requirements.

The scope is also driven by the analytical models used to develop the options

29. **The analytical approach:** estimates the maximum number of units that could be auctioned while meeting our emissions reduction targets. The approach includes a series of steps, consisting of assumptions about, or estimates of, current circumstances and other sources of units (see appendix 1 of the [2026 ETS settings consultation document](#) for more detail). The two factors that have the largest impact on auction volume options are the ETS 'cap' and surplus stockpile, detailed in the following section. Other factors that are estimated include forecast forestry emissions and removals and industrial allocation volumes.
30. **ETS market model:** estimates supply and demand for NZUs under different conditions and can generate price projections based on supply and demand. It determines demand for NZUs in response to the projected price and allows for a broader spectrum of liquidity across units in the stockpile (see the [Technical Annex of the 2026 ETS settings consultation document](#) for more detail). The market model explores potential implications of different unit and price control settings options, informing our judgements on undersupply risk and underpinning the impact analysis.
31. We use both the analytical approach and the market model to inform our settings options as they each provide different insights into the ETS.

The Minister of Climate Change must consider the recommendations from the Climate Change Commission

32. Section 30GC of the Act requires the Minister of Climate Change to consider the Commission's recommendations on ETS settings. The Commission's advice is a mandatory consideration, but the Minister is not required to adopt it and may depart from the advice where satisfied that the statutory requirements of the Act are met.

What options are being considered?

33. We consider options as packages of auction volumes and price control settings to assess overall impacts and accordance with emissions reduction targets. All options are assessed as strictly according with EB2 and the 2050 target and generally according with EB3. The deviation from strict accordance with EB3 is justified based on consideration of relevant matters under section 30GC of the Act, including the proper functioning of the ETS. The separate accordance assessment provides further details on this.

Price controls

One price controls settings option has been presented – status quo, adjusted for inflation

34. We are presenting one price controls option, which is to maintain the status quo (adjusted for inflation) for consideration alongside the auction volume options. We consider the status quo price floor, and CCR trigger price settings are fit-for-purpose.
35. The Commission advises that prices at or above the current auction price floor are needed to meet emissions budgets. It recommends extending the price floor by one year,

continuing the 3% annual increase and adjusting for inflation. As with last year, it has advised maintaining current CCR trigger prices (adjusted for inflation) and volumes until it is clearer whether current trigger prices are too low to allow the NZU prices needed to meet EB3. We agree with the Commission's findings.

Table 1: Proposed price control settings for the next five years, 2027-31

	2027	2028	2029	2030	2031 (new)
Auction price floor	\$75	\$78	\$84	\$89	\$93
CCR tier 1	\$213	\$224	\$241	\$253	\$266
CCR tier 2	\$267	\$280	\$301	\$316	\$332
Tier 1 volume (million NZUs)*	2.1	1.9	1.7	1.4	1.2
Tier 2 volume (million NZUs)*	3.8	3.4	3.0	2.5	2.3
Total CCR volume (million NZUs)*	5.9	5.3	4.7	3.9	3.5

*If, under option two or three, the Government chose to shift the 2027 volumes to later years, Tier 1, Tier 2 and total CCR volumes for 2027 would be 0.

Consultation feedback on price control settings

1. Of submitters who referenced price controls, the majority supported the proposed price controls and agreed with the Government's rationale.

Auction volumes

2. We considered three auction volumes options, alongside status quo price controls (as above). Table 2 below sets out annual auction volumes for each option.

Option one – Commission-recommended – status quo volumes 2027-30 and 3 million units in new 2031 year (14.7 million units)

3. Option one maintains status quo auction volumes for 2027-30 of 11.7 million units. This recommendation is based on the surplus stockpile being depleted by 2030 and balances managing the risk of undersupply with supporting market confidence.
4. 2031 auction volumes (3 million units) are based on a provisional ETS cap for EB3 of 28.9 Mt CO₂e.

Option two – Government preferred (Minister and agency) – status quo volumes 2027-30 and 1.1 million units in new 2031 year (12.8 million units)

5. Option two maintains status quo auction volumes for 2027-30 of 11.7 million units. This reflects a balance between continuing to strengthen our position to meet EB2 and managing the risk of undersupply later in the EB2 period (further discussed in paras. 46-49).
6. 2031 auction volumes (1.1 million units) are set based on a provisional ETS cap for EB3 of 24.8 Mt CO₂e. This is the key difference with Option one.
7. Note some minor and technical updates to volumes have been made since consultation. These are set out in detail in appendix 1.

Option three – Lower volumes (7.5 million units)

8. Option three auctions 7.5 million units over 2027-31 and includes new auction volumes for each year. This option uses the same ETS caps as Option 1, however, reflects a larger stockpile drawdown, based on our maximum surplus stockpile estimate of 48.4m NZUs.
9. This option is designed to strengthen the likelihood of achieving EB2 and EB3 – but by restricting auction volumes further could increase the risk of undersupply.

Table 2: Auction volume options

Option	Year					
	2027	2028	2029	2030	2031	2027–31
Option one: Commission-recommended auction volumes	4.3	3.3	2.4	1.7	3.0	14.7
Option two: Government-recommended auction volumes	4.3	3.3	2.4	1.7	1.1	12.8
Option three: Lower auction volumes	2.2	1.8	1.5	1.3	0.7	7.5

We considered but did not proceed with one further auction volume option

10. We considered a higher volumes option of 21.4 million units across 2027-31, based on drawing down the central estimate of the surplus stockpile. However, increasing auction volumes may signal weakened climate ambition, posing risks to the proper functioning of the market through price volatility and reduced confidence. This risk is heightened following the sharp NZU price decline and volatility after the November 2025 CCRA announcements. For these reasons, we did not proceed with this option.

Risk of undersupply in the later 2020s under the options

11. The Commission has advised of a potential undersupply of units in the later 2020s, which could lead to price volatility and emissions reductions through plant closures or reduced production. This is a key factor when considering the proper functioning of the market criterion. The Government accepts that this risk exists under some assumptions; in particular, the assumption of low liquidity in the stockpile.
12. At a high level, the Government views the undersupply risk as manageable under all the options in this RAS, primarily because we think there is some liquidity in the non-surplus stockpile. In addition, that there is sufficient time to respond if undersupply does eventuate. That is, in a scenario where signs of undersupply (such as rapid price increases) were present, some participants would choose to use or sell banked units held against future liabilities. This is on the assumption they can be bought back at a lower price later. Despite this, there are differences in the level of risk under each option.
13. Both the Government and Commission agree that this risk is conditional on future market developments and that the Government should continue to monitor this risk.
14. Submitters who referenced undersupply either thought it is unlikely (6) or uncertain (3).

Consultation feedback on auction volume options

15. Of the submitters who referenced auction volumes, 1 supported option one, 7 supported option two and 9 supported option three. Key rationale included:
- **Option one:** Supports regulatory continuity and value in following independent advice. Submitters cited similar reasons as option two for not supporting this option.
 - **Option two:** Supports market stability and investor confidence, continues to reduce the risk to meeting emissions budgets and targets by drawing down the surplus stockpile and is a balanced response to undersupply risk, given the uncertainties in modelling. Some submitters thought this option prioritises market stability too heavily compared to incentivising emissions reductions.
 - Support for this option tended to be from businesses, including foresters and financial services and industry bodies.

- **Option three:** Supports a stronger climate change response, including signalling to the economy that further emissions reductions are required compared to the status quo. There were mixed views about the risk of undersupply under this option, some believed it is manageable while others thought this option increased the risk.
 - Support for this option was more mixed and tended to be from non-government organisations, businesses and industry bodies.

There is a choice about the timing of auction volume for each option

16. The Government can choose, within some parameters, how it phases auction volume across the period.² Recent market signals suggest the market is well supplied and does not require auction volumes in the short term. At the same time, several market commentators and the Commission note potential undersupply in the late 2020s. To address both concerns, one option would be to shift proposed 2027 auction volumes into 2028–30 (the remaining years of EB2) when they are more likely to be needed.
17. Of submitters who commented on shifting 2027 volumes into the later 2020s, 4 supported the proposal and 6 opposed it. Supporters' key rationale was that it acknowledges that the market is well supplied in the short-term, there may be a need for volumes in the later 2020s and it sends a signal to the market of diminishing supply.
18. Opponents were concerned it could undermine market stability. We agree. In our view, the price floor provides a mechanism to withhold units when they are not needed. We also consider that this approach could be interpreted as increased appetite for Government market intervention, reducing market certainty and predictability.

Secondary policy decisions

19. Within the analytical approach are two key factors that have significant impacts on auction volumes and price controls which we consider 'secondary' policy decisions.

Estimating the surplus stockpile range and deciding on the drawdown

20. A large quantity of units – around 136 million as at December 2025 – is banked in private accounts. These provide liquidity to the market and help to reduce price volatility. Surplus units are considered to be held for investment purposes and can be readily sold when market price expectations change. Emitters could use surplus units to emit more greenhouse gases than would otherwise be permitted under the ETS cap. This could cause challenges in meeting emissions budgets. To manage this risk, the Government is aiming to reduce the surplus to zero by 2030.
21. The surplus estimate has a significant impact on auction volumes as it is part of overall market supply and a higher surplus estimate means fewer units able to be auctioned by the government. In addition, a higher surplus estimate also increases the likelihood of incentivising emissions reductions and meeting emissions budgets and targets.
22. The surplus is estimated by starting with the total stockpile as of 31 December 2025 and subtracting components of the stockpile that are considered 'non-surplus'. These include units held for hedging purposes, held against future surrender liabilities and units held for emissions that have already occurred (holding volume). There are uncertainties in each of these non-surplus components as estimates are based on modelled values and assumptions as opposed to known data. The estimates include assumptions about the

² Sections 30GB(5) and 30GC(5)(b) of the CCRA only allows years 1 and 2 to be changed in certain circumstances. We consider that changes to the years 1 and 2 could be justified based on the recent price volatility impacting on the proper functioning of the ETS.

behaviour of many different market participants which is inherently unobservable. This makes the surplus itself uncertain.

23. Until last year, the central estimate of the surplus (the estimate the Government thinks is most likely) was a key factor in determining auction volumes. The decision in 2025 to retain the then status quo auction volumes for 2026-29 implied a larger drawdown of the surplus than the central estimate. This year, we explicitly use a range of plausible surplus estimates, resulting in a range of plausible auction volumes (see Table 3). This reflects the uncertainty in the surplus stockpile.
24. Table 4 explainer: the surplus range is between 16.7 to 48.4 NZUs (see row 2). The surplus drawdown is how many units are expected to be surrendered from the surplus, which has also been presented as a percentage of the total range (see row 3). Auction volumes are then determined based on the surplus drawdown (see row 4).

Table 3: Range of surplus estimates and resulting auction volumes

Surplus estimate	Low (not considered)	Central (not considered)	Implied SQ (Option two)	High (Option three)
Surplus drawdown	16.7 NZUs	34.1 NZUs	42.1 NZUs	48.4 NZUs
% of total range	0%	55%	80%	100%
Auction volumes	n/a	21.4 NZUs	12.8 NZUs	7.5 NZUs

Note: Option one is excluded above as it is based on the Climate Change Commission's estimate of the surplus. More information on this can be found [here](#).

Setting the Second Emissions Budget ETS cap and provisional Third Emissions budget cap

25. As part of ETS settings decisions, the Government also sets an 'ETS cap' for each emissions budget period. The 'ETS cap' is the total level of net emissions allowed under the ETS for the settings period, aligned with our emissions budgets and accounting for emissions in non-ETS sectors. It informs both auction volumes and price controls.
26. As part of the 2025 ETS settings decisions, the Government agreed an EB2 cap of 89.4 Mt CO₂e based on ERP2 projections. Updated 2025 projections show higher net emissions outside the ETS and lower net emissions within the ETS over the EB2 period. To strengthen alignment with meeting EB2, we propose reducing the cap to 81.9 Mt CO₂e, consistent with the Commission's Option one approach.
27. As part of 2025 ETS settings decisions, the Government agreed a provisional EB3 cap of 40.7 Mt CO₂e. As with EB2 emissions, 2025 projections showed higher net emissions outside the ETS and lower net emissions within the ETS during the EB3 period when compared with ERP2 projections. Reflecting updated projections and to ensure budget alignment within the analytical approach, we propose a provisional EB3 cap of 24.8 Mt CO₂e, used in options two and three.
28. This figure is based on the 'with existing measures' (WEM) agricultural projections (including estimated impacts from the ERP2 afforestation on Crown land policy) and 'with additional measures' (WAM) projections for other non-ETS sectors. This differs from Option one, which uses the 'with added measures' agriculture scenario B (WAM B), based on its presentation as the central projection in the amended ERP2. This is a key reason for the difference in auction volumes in 2031 between Options one and two.

How do the options compare?

This table compares Options one and three with the preferred option. A status quo baseline is not available because the regulations do not currently specify settings for the fifth ETS settings year (2031). However, legislative requirements mean the regulations must be amended. Accordingly, options are assessed relative to the preferred option to facilitate comparison against the assessment criteria.

	Preferred - Option two – status quo volumes 2027-30 and 1.1 million units in 2031 and price controls extended to 2031 (12.8 million units)*	Option one – status quo volumes 2027-30 and 3 million units in 2031 and price controls extended to 2031 (14.7 million units)	Option three – lower auction volumes (7.5 million units) and price controls extended to 2031
Likelihood of incentivising (net) emissions reductions	0 This option maintains status quo incentives for reducing emissions and is assessed as aligning with emission budgets and the 2050 target Modelling indicates the surplus stockpile will be drawn down by 2030, managing the risk to meeting emissions budgets Compared with Option one, Option two has slightly lower auction volumes in 2031. However, this difference is not expected to materially impact prices or emissions	0 Compared with Option two, Option one has slightly higher auction volumes in the EB3 period. However, this difference is not expected to materially impact prices or emissions. Therefore, the likelihood of incentivising emissions reductions is similar to Option two	0 Compared with Option two, Option three has reduced auction volumes during the EB2 period. This increases the likelihood of the surplus being fully drawn down by 2030 and could increase prices. However, modelling suggests there will be limited impact on emissions, compared with Options one and two, due to the large stockpile of NZUs. This is why this option does not rate positively on this criterion compared with Option two
Proper functioning of the ETS	0 We assess the risk of undersupply in late 2020s under this option as manageable and within the bounds of the proper functioning of the market Maintaining status quo settings for the next four years supports market	0 Same as Option two	- Compared with Option two, Option three comes with a higher risk of undersupply during the EB2 period, which could risk the proper functioning of the ETS if it eventuates. However, we still expect this risk to be manageable

	predictability and provides consistent signals to support investment decisions. Responds to market signals of being well supplied in the short term The difference in EB3 volumes between Option two is not expected to materially impact the proper functioning of the ETS		Changing settings for the first two years of the period also reduces predictability.
Support for NZU prices consistent with the level and trajectory of international emissions prices*	0 It has been assessed that existing price control settings are within the range of international emissions prices and comparable to the efforts of developed country peers	0 It has been assessed that existing price control settings are within the range of international emissions prices and comparable to the efforts of developed country peers	0 It has been assessed that existing price control settings are within the range of international emissions prices and comparable to the efforts of developed country peers
Management of the overall costs to the economy and households**	0 Existing price control settings are expected to have a modest impact on households and inflation Under this option, ETS cost to an average household is estimated to increase from about \$450 annually in 2026 (0.3% of gross household income) to about \$650 in 2030 (0.5% of gross household income). Adds ~0.1% per year to inflation	0 Existing price control settings are expected to have a modest impact on households and inflation This option has the same household and inflation impacts as Option two	0 Existing price control settings are expected to have a modest impact on households and inflation Under this option, the ETS cost to an average household is estimated to increase from about \$450 annually in 2026 (0.3% of gross household income) to about \$890 in 2030 (0.7% of gross household income) Same inflation impacts as Option two
Overall assessment	0	0	-

**This assessment criterion only applies to price controls.*

*** This assessment criterion only applies to price controls. Note while there are differences in impacts across options, this is not driven by differences in price control settings.*

Section 3: Cost-benefit analysis

What are the additional costs and benefits of the Minister's preferred option?

We do not assess any additional quantifiable costs or benefits compared with the status quo

29. The Minister's preferred option maintains status quo ETS settings for the four years where volumes have been set previously. Therefore, across these years, there are no additional quantifiable costs and benefits compared with the status quo.
30. While all options, including the Minister's preferred, set new volumes and price controls for 2031, this does not necessarily drive changes in costs and benefits. This is because the ETS price pathway drives changes in economic and household costs, as well as environmental impacts (emissions reductions). ETS settings, through influencing supply, can impact the ETS price pathway. While our analysis notes some changes in the ETS price pathway since 2025 official emissions projections were completed, these are not driven by the preferred option.

Costs and benefits differ in some respects across the options considered

There is a higher estimated ETS price pathway under Option three, compared with Options one and two

31. Based on the central estimates, under Options one and two, prices are modelled at around \$80 in 2030, before gradually declining to around \$50 (around the long-term marginal cost of forestry). Option three follows a similar path but could reach around \$110 in 2030. More information on possible price pathways can be found in appendix 3 of the [2026 ETS settings consultation document](#).

Despite the differences in ETS price pathways, all options are estimated to meet EB2, however, there is a material gap to meeting EB3

32. The market model estimates net emissions covered by the ETS rather than total net emissions. However, when combined with other information, it can inform high-level projections of total net emissions. This analysis suggests all modelled auction volume options are likely to keep central projections of total net emissions within the EB2 target.
33. For EB3, 2025 official projections model emissions to exceed the target by 9-19 Mt CO₂e (8.7Mt CO₂e based on central assumptions). As EB3 is further into the future than EB2, there is greater uncertainty around total emissions. Accordingly, we have used emissions ranges, along with a central emissions estimate from the ETS market model. Emissions over EB3 are projected to range from approximately 234 to 261Mt CO₂e, with a central projection of 254Mt CO₂e. This compares with the 240Mt CO₂e budget. The lower range of projections would meet EB3, but based on central projections within our modelling, the gap is 14Mt CO₂e. For more information on this modelling, including limitations, see [2026 ETS settings consultation document](#) and [Technical Annex](#).
34. While the proposed unit volumes and price controls are mechanically aligned with emissions budgets within the analytical approach, there remains a risk of exceeding EB3 if participants draw on the existing unit stockpile instead of reducing emissions. Even if no units were auctioned and participants relied on the stockpile to meet obligations, the stockpile would remain at 2.5 times annual demand in 2030 (see the [Technical Annex](#)).
35. This means that while ETS settings can be aligned with meeting emissions budgets, they alone cannot eliminate this risk, and additional measures will be needed to achieve emissions budgets. The Government has agreed to explore complementary emissions reduction and removals policies and therefore considers the proposed settings consistent

with emissions budgets and targets. This RAS does not explore these policies, however, without tangible policies to support the ETS, the risk to EB3 remains.

The differences in ETS price pathways have impacts on household costs, as shown in Table 4.

Table 4: Estimated ETS cost to households (2026-dollars and as a percentage of gross income)

Actual / projected NZU price	Modelling scenario broadly consistent with:	Household by income			
		Lowest (Decile 1/2)	Average	Highest (Decile 9/10)	
Lower Price Pathway					
At current prices	~\$50	Prices constant at current secondary market price. Consistent with a 'no auction' scenario and is also consistent with the long run marginal cost of forestry.	230–280 (0.8%)	450 (0.3%)	640–780 (0.4%)
Mid-range Price Pathway					
In 2030 at modelled price	~\$80	Options 1-2 or option 3 with a higher surplus estimate. (The lower end of the range in Figure 5).	340–400 (1.2%)	650 (0.5%)	920–1,130 (0.6%)
Upper Price Pathway					
In 2030 at modelled price	~\$110	Option 3 with a central surplus estimate. (The upper end of the range in Figure 5).	460-540 (1.6%)	890 (0.7%)	1,260–1,540 (0.8%)

Note: The future estimated impacts on households have been scaled by the ratio of modelled gross ETS emissions in 2030 to 2023 levels (the base year for the household impacts modelling). This is to proxy the reduction in household emissions footprints that is expected to occur over time.

Source: Ministry for Cities, Environment, Regions and Transport modelling

Fiscal benefits to the Crown

36. Under the preferred option, if all auctions clear at the auction floor price, cash receipts are estimated at ~\$1 billion over 2027-31, compared to ~\$0.6 billion under Option three and ~\$1.2 billion under the Commission's recommendation. There is some uncertainty as to how quickly prices will recover to equal the floor price. If prices take longer to recover and no auctions clear in 2027, cash receipts are estimated at ~\$0.7m over 2028-31 under the preferred option, compared to ~\$0.4m under Option three and ~\$0.9m under the Commission's recommendation. While auctions generate a cash inflow for the Crown and reduce net debt, they are fiscally neutral from an OBEGAL perspective because the revenue is offset by an increase in NZU liabilities for the Crown.

Marginal impacts on inflation

37. The impacts on consumer inflation are expected to be modest under all unit volume options, adding about 0.1 percent per year to inflation.

Are the benefits of the Minister's preferred option expected to exceed the costs?

38. As the Minister's preferred option maintains status quo settings for the next four years and sets new settings for the fifth (for which there is no baseline), there are no additional quantifiable costs compared with the status quo. However, while we assess the preferred option continues to accord with emissions budgets and targets, there are further benefits to stable ETS settings. Stability and predictability promote market confidence to invest in the emissions reductions needed to meet our emissions budgets and targets. This aligns with a key pillar under the Government's ERP2 to maintain a credible ETS market.

What are the impacts on different groups of the preferred option?

39.

40. Table 5 assesses the estimated impacts of the preferred option on different groups by 2030 relative to today's NZU prices. As the preferred option maintains status quo settings for 2027-30 and only sets new volumes and price controls for 2031, it is expected to have minimal impact on NZU prices compared with the status quo. However, because NZU prices are projected to rise over time, impacts will change over time. Given limited quantitative evidence on ETS impacts on households and the wider economy, many of the assessments are qualitative.

41. We publicly consulted on our analysis of distributional impacts. Of those who referenced the analysis, 3 agreed, while 8 disagreed. One submitter thought it should place higher importance on the cost of policy instability while another believed that economic factors should not be considered.

Table 5: Distributional analysis

Affected groups	How they are affected	Description of level of impact(s)	Source of evidence
Landowners (eg, foresters and farmers), including Māori	NZU prices are projected to remain at levels that keep afforestation financially attractive relative to sheep and beef farming. For existing forests, prices are likely to support investment returns, while other landowners may benefit from increased land-use options. Returns for foresters may increase as the NZU price increases over the period. Similarly, the costs of deforestation may increase, including for pre-1990 forests. Incentives to replace exotics with native plantings are also reduced in the medium term. Higher returns on forestry land may incentivise afforestation. The long-term increase in availability of units through forestry will put downward pressure on future NZU prices in the longer term. May increase forestry incentives for other purposes, such as erosion control (more than 60% of whenua Māori is in high, steep and hilly country, making it susceptible to intense storm events and erosion.)	Low-to-medium, as ETS prices impact income, business viability and decisions about land use change.	For ETS price pathway projections: Ministry for the Environment. 2026. Annual Updates to New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2026: Technical Annex to the Consultation document. Accessed 29 June 2026. Manaaki Whenua – Landcare Research Group. 2026. <i>He Ngahere, He Korowai: Resilient land use strategies for whenua Māori</i>. Accessed 8 May 2026.
Emitting firms subject to ETS obligations	The cost for firms to meet surrender obligations may increase over the period. This may be mitigated by the extent to which: - firms invest in transitioning to lower-emissions alternatives - firms have hedged their forward obligations. These additional costs can be passed on to households (see 'Households' row below).	Low-to-medium, dependent on emissions intensity and ability to pass on costs	For ETS price pathway projections: See above.

Other ETS participants, including Māori businesses that rely on NZU earnings	Out to 2031, NZU prices are modelled to increase the financial value of stockpiled units, both those held for hedging and the liquid stockpile.	Low-to-medium, as ETS prices impact income and business viability.	For ETS price pathway projections: See above.
Households, including Māori households and whānau	Under Options one and two, annual costs for lower-income households are projected to increase from today's range of about \$230–280 to about \$340–400 by 2030. Rising prices disproportionately affect lower-income households, with single-adult households, including sole-parent families, experiencing the greatest relative impacts. Māori households are over-represented among lower-income households and are therefore likely to be more affected on average. Businesses may adjust the type or number of jobs they offer in response to cost changes. However, we expect these impacts to be negligible. Māori make up a large portion of the forestry workforce and also higher emitting sectors (eg, 10% of the Māori workforce are in the manufacturing sector). Higher prices can have impacts that are both positive (ie, increase forestry jobs or wages) or negative (ie, less jobs in higher emitting sectors).	Low – costs are marginal compared with wider economic factors	For ETS price pathway projections: See above. Hillmare S, Reid A, Dixon H, McIndoe C, Wiradika S. 2024. Te Ōhanga: The Māori Economy 2023. Wellington: BERL.
Wider economy	Increasing ETS prices in the settings period are likely to marginally increase inflationary pressures. However, we judge this highly unlikely to influence the trajectory of monetary policy. Forestry plays a large role in the wider Māori economy. The increase in value of NZUs now and in the future impacts on businesses' asset base and capacity as an employer.	Low – costs are marginal compared with wider economic factors	For ETS price pathway projections: See above.

Conclusion

Which option is the most effective, efficient, and proportionate response to the problem?

42. We assess Option two as the most effective, efficient and proportionate response to the problem.

43. All options are assessed as according with emissions budgets and targets, which is the core objective of ETS settings. While many submitters supported Option three to maximise emissions reductions, our modelling suggests little difference between the options in incentivising emissions reductions and achieving this objective. As noted in paragraphs 68–69, this is due to the large stockpile of units likely preventing further emissions reductions without complementary policies. Simply reducing government auctioned NZUs does not mitigate this risk.

44. The use of the highest surplus range in Option three also increases the risk of undersupply. This is a key consideration in the proper functioning of the market criterion. Options one and two, compared with Option three, however, strike the appropriate balance between achieving this objective and managing the risk of undersupply in the later 2020s.

45. Both Options one and two reflect signals that the market remains well supplied through the secondary market, supporting maintaining relatively tight auction volumes. Maintaining status quo settings between 2027-30 also supports a key Government objective in ERP2 - providing market predictability and stability to support market confidence and investment decisions.
46. We assess Option two as more effective than Option one because it takes a more conservative approach to estimating emissions over the third emissions budget as it uses a lower ETS cap. There is currently a material gap estimated over this period. As such, Option two reduces the risk of overshooting EB3 compared with Option one.
47. Options one and two are equally efficient. As explained, Option two does not drive changes to the ETS price pathway, compared with the status quo, and therefore no additional costs and benefits have been identified. Option three results in a higher ETS price pathway and larger impacts on the economy and households, with minimal additional abatement.
48. All options are equally proportionate as they deliver an update to regulations that is part of a regular process and expected by the ETS market. The options all accord with emissions budgets and targets but differ in weighting against the proper functioning of the market.

Section 4: Delivering an option

What are the next steps for implementing the legislation?

49. Updates to ETS unit settings will be made under the existing regulatory framework. Schedule 3 of the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 will be updated to reflect the new settings. The amendment regulations will be published in the New Zealand Gazette in September 2026, to take effect from 1 January 2027.

How will the proposal be monitored, evaluated, and reviewed?

50. Agencies will closely monitor the impacts of ETS unit settings. The Ministry of Cities, Environment, Regions and Transport routinely tracks and informs the Minister of the price of units as well as the flow of units within the secondary market. It also measures and reports domestic emissions annually which is used to assess the impact of the ETS.
51. Agencies will update emissions projections to inform future emissions budgets and unit limit and price control settings. Broader economic impacts will be monitored and assessed across government, public, and private organisations.
52. The Act's coordinated decision-making process provides for reviews of ETS settings in certain cases. The Government must review settings if price controls are used (eg, if the CCR is triggered).
53. The Commission will continue to monitor and review unit limits and price controls. Under section 5ZOA of the Act, it must regularly recommend updated limits, price control settings, and any appropriate emissions price path to the Minister.

Appendix 1: 2026 ETS Settings – Updates since consultation

[Consultation on ETS settings](#) proposed the below auction volumes and price controls for Option two and three, outlined in Table 7 and 8. Since consultation, four minor changes were further incorporated to the ETS settings and are outlined below.

- Industrial allocation: 2025 actual industrial allocation figures were incorporated into our analysis in addition to accounting for a delay in expected installation of the NZ Steel electric arc furnace. This results in increased industrial allocation of about 0.8m units over 2026-2031 and about 0.5m units over EB3, compared to consultation figures.
- Ongoing surplus reductions post 2030: consultation feedback recommended incorporating ongoing surplus amounts post 2030, which is also consistent with the Commission's approach. We have incorporated additional ongoing surplus reductions in our analysis to account for pre-1990 forestry units entering the market post 2030. This results in small ongoing surplus reductions at about 0.3m per annum from 2031.
- Phasing: due to the above changes further reducing volumes, additional phasing is required to smooth low and negative volumes over EB2 and EB3 for both options. This results in auctions ending one year sooner under Option two and two years sooner under Option three.
- Status quo implied drawdown: the implied surplus drawdown under the status quo reduced from about 82% to about 80%, due to higher industrial allocation estimates offsetting some of the surplus drawdown that would have otherwise occurred.
- Price controls: price controls were updated to incorporate inflation forecasts from the Budget Economic and Fiscal Update May 2026. This resulted in marginally higher auction floor prices and CCR trigger prices from 2029.

The below tables outline the consulted auction volumes compared to the final auction volumes across Options 2 and 3.

Table 6: Option 2 consulted and final auction volumes

Option 2	2027	2028	2029	2030	2031	2032	2033	2034	2035	2027-2031 Totals
Consulted auction volumes	4.3	3.3	2.4	1.7	1.3	1.8	1.0	0.0	0.0	13.0
Final auction volumes	4.3	3.3	2.4	1.7	1.1	1.0	0.0	0.0	0.0	12.8

Table 7: Option 3 consulted and final auction volumes

Option 3	2027	2028	2029	2030	2031	2032	2033	2034	2035	2027-2031 Totals
Consulted auction volumes	2.1	1.8	1.5	1.2	1.1	1.4	1.2	0.0	0.0	7.7
Final auction volumes	2.2	1.8	1.5	1.3	0.7	0.0	0.0	0.0	0.0	7.5

Overview of the ETS and market outlook

Developed for the Market Advisory Group

March 2026



Ministry for the
Environment
Manatū Mo Te Taiao



The ETS assists New Zealand to meet its climate change targets

The purpose of the ETS is to assist New Zealand to meet its domestic and international obligations:

- The 1992 United Nations Framework **Convention** on Climate Change
- The 1997 **Kyoto Protocol** to the United Nations Framework Convention on Climate Change
- The 2015 **Paris Agreement**
- New Zealand's **2050 target** is net zero for all greenhouse gases (except biogenic methane) and a reduction of 14–24% in biogenic methane levels from 2017 levels by 2050.
- New Zealand's **emissions budgets** which set a total quantity of emissions allowed during an emissions budget period (2022–2025, 2026–2030, 2031–2035). They act as interim targets towards reaching our 2050 targets.

How climate change targets inform ETS auction settings

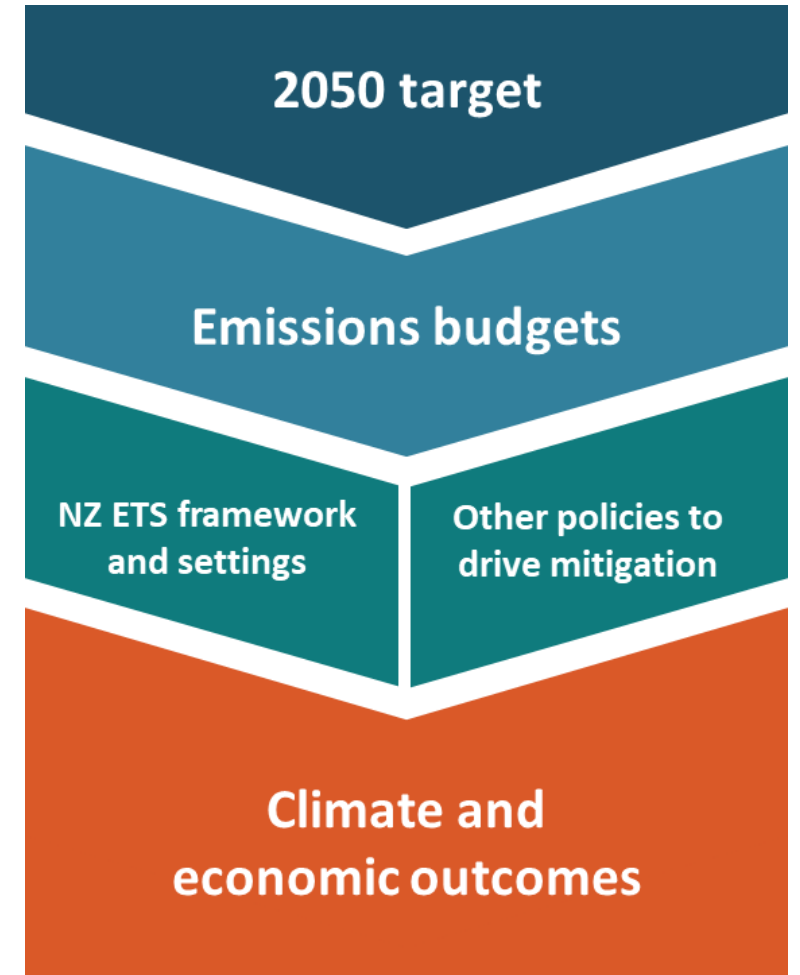
The Government sets a 'cap' on net emissions in the ETS by putting a limit on NZUs supplied by the government. This does not limit the amount of NZUs provided for removal activities, such as forestry. It does not cap emissions outside the ETS.

This ETS limit must align with the 2050 target and emissions budgets and is updated annually via the ETS settings process.

ETS settings include:

- **unit limits** which restrict the overall supply of units into the ETS and determine how many NZUs will be available via auction in each of the next 5 years
- **price control settings** which limit the auctioning of NZUs at unacceptably low or high prices

The ETS settings must be updated annually for the upcoming five years. This is changing to every two years under the CCRA amendment bill changes. Updates for the first two years after the current year can only be made in special circumstances.



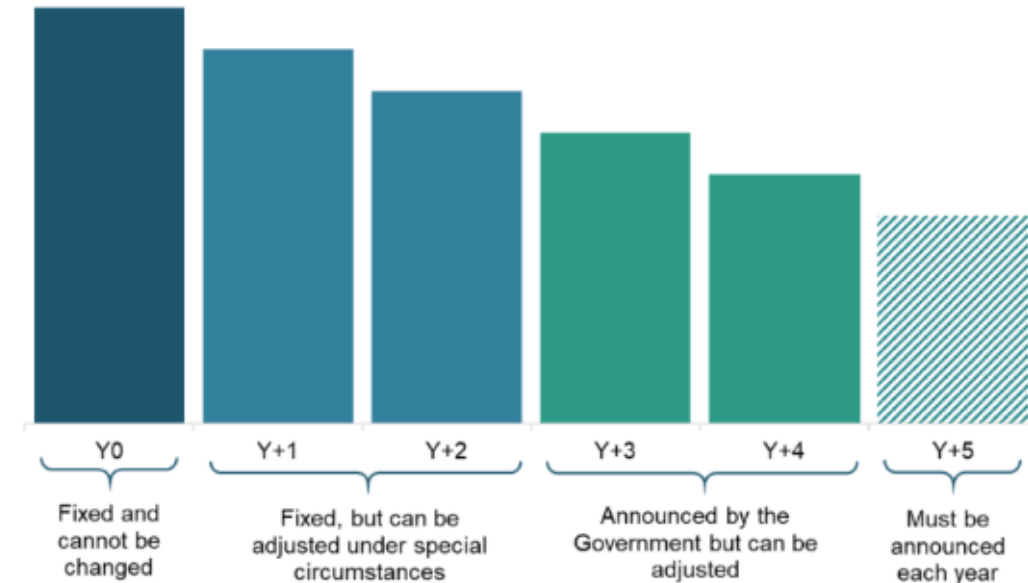
ETS unit limits and price controls process and timeline

- ETS settings are an annual process (soon to be biennial) that follow a relatively uniform timeline throughout the year

Milestone	Date
Climate Change Commission (the Commission) provides independent advice and recommendations to the Minister of Climate Change	Late April
The Minister undertakes public consultation of options, including the Commission's option	May-June
The Minister considers public feedback on the options and makes recommendations to Cabinet	Q3
Regulations are gazetted	By 30 September

2025 ETS unit limits and price controls decisions and upcoming 2026 decisions

- 2025 decisions set unit limits and price controls for 2026-30.
- As indicated on the right hand graph, 2026 settings will include new decisions for 2031 and may include changes to years 2027-30.



	2026	2027	2028	2029	2030	2031
Base auction volumes (millions)	5.2	4.3	3.3	2.4	1.7	To be decided in 2026
Auction price floor	\$71	\$75	\$78	\$82	\$87	As above

About ETS auctions and historic results

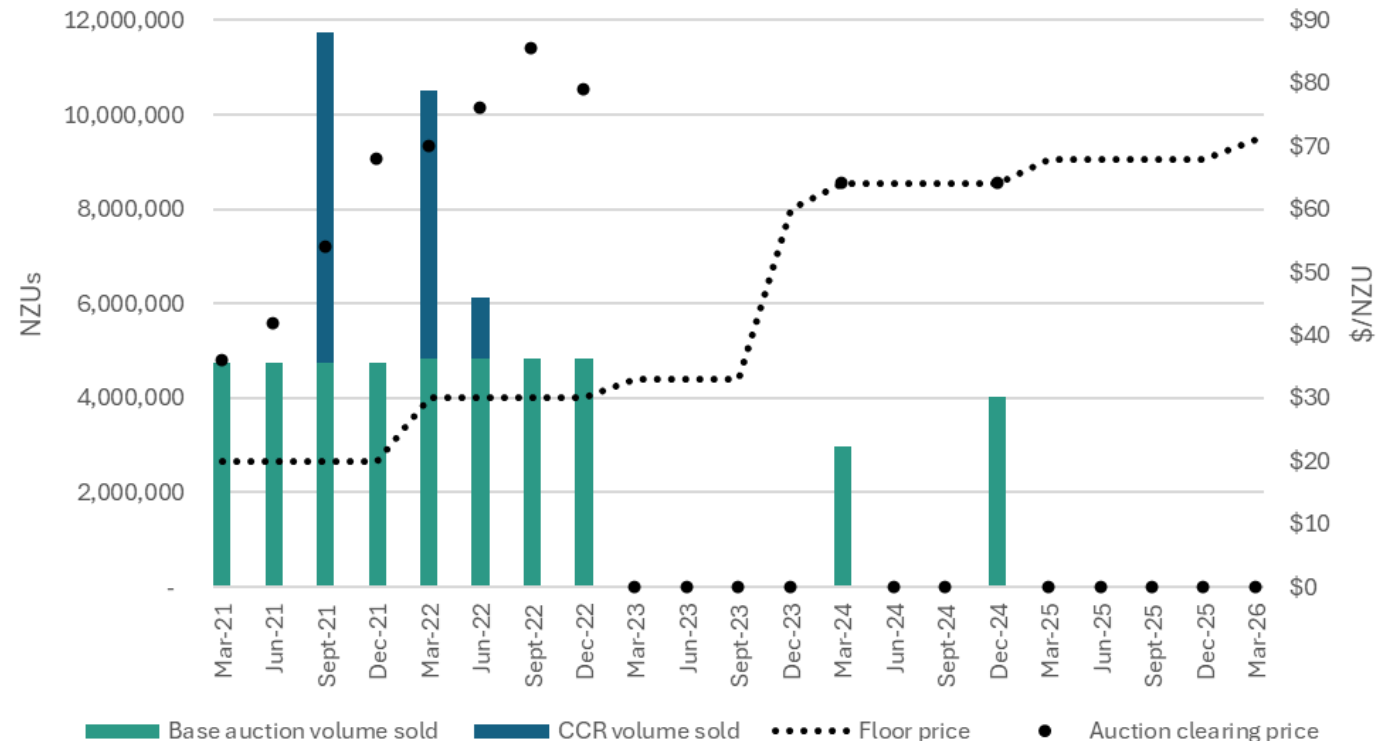
Auctions were introduced to the ETS in March 2021, as part of substantial reforms to the ETS enacted in 2020. Auctions are held quarterly.

The graph shows the volume of NZUs sold at each auction to date, the corresponding clearing price, and the auction floor price. Auctions to date have cleared 55.27 million units and \$3.51 billion associated cash proceeds.*

The Cost Containment Reserve (CCR) mechanism provides for additional volume of NZUs to be added to the auction volume if the auction clearing price reaches the CCR trigger price or prices.

The floor price sets the minimum price the Government is prepared to auction units at.

If auctions don't clear or partially clear (meaning no or only some units are sold) the unsold units carry over to the next auction until the last auction of the calendar year. The following calendar year auction volumes refresh as per the forecast unit supply for that year.



* Includes release of cost containment reserve volumes

How is forestry included in the ETS

Some forest owners can register certain types of forests to receive NZUs. They can then sell these NZUs on the secondary market. New Zealand's baseline date for net emissions is 1 January 1990 (agreed in the Kyoto Protocol). This means that net emissions in any given year are compared to the level in 1990. This creates two forest types that are treated differently in the ETS.



Pre-1990 forest land

- The ETS applies to certain forests established before 1 January 1990 and that remained forest on 31 December 2007
- **These forests are counted as part of New Zealand's baseline carbon stock**
- These forests can't earn any units from the ETS
- These forests can be harvested and replanted without ETS obligations
- If deforested, participants must surrender NZUs
- 55 million NZUs were offered to forest landowners recognising the impact of the ETS on land-use flexibility



Post-1989 forest land

- Is forest established after 31 December 1989
- **Is considered additional carbon storage above New Zealand's baseline**
- Participants can earn units for forest growth by registering with the EPA via Ministry of Primary Industry (MPI) under the EPA's delegation to MPI
- If registered forest is deforested or deregistered, participants must pay back all units earned
- Participants using stock-change accounting will have obligations if harvested, while participants using averaging accounting do not have obligations if it is replanted
- Registered land remains in the ETS (e.g. following land sale) until deregistered

What is the stockpile and why is it important?

We divide the stockpile into five components, including:

- **Surplus units:** NZUs held mainly for speculative purposes as opposed to held against future surrender obligations
- **Forestry hedged units:** held against future liabilities
- **Non-forestry hedged units:** units held for future non-forestry liabilities
- **Holding volumes:** units held for emissions that have already occurred (i.e. held for current year compliance)
- **P90 units:** Units to offset deforestation liabilities of pre-1990 forest that are not expected to come to market

These components vary in liquidity, meaning how easily and quickly units can be sold. Generally, surplus units are the most liquid and units held for near term compliance are the most illiquid. They impact settings in different ways:

- **Surplus units** pose a risk to meeting emissions budgets. The Government has committed to drawing down the surplus by 2030 to manage this risk. The uncertainty in the size and drawdown of the surplus has significant impacts on auction volumes.
- **Non-surplus stockpile** may have a role in dampening price increases during times of supply shortage (such as that being floated by commentators in the late 2020s) depending on the liquidity of the non-surplus stockpile.

Liquidity in the non surplus stockpile remains significantly uncertain due to lack of information about hedging behaviour and liquidity estimates that depend on complex behaviour – e.g., whether participants may sell units in the near term with the expectation they can be bought back later at a lower price.

Short term sentiment vs medium-long term fundamentals

- The 4 November announcement on amendments to the Climate Change Response Act 2002 (CCRA) triggered a significant sell off, with NZU prices down materially (mid-low \$30s).
 - Prices have been volatile since, but have shown some signs of recovery, with the average prices trading in the mid-low \$40s over March 2026.
 - According to several commentators, prices reflect short term sentiment of uncertainty as opposed to medium or long term fundamentals, which suggest fundamental tightening towards the later 2020s.

Short term drivers	Medium to long term drivers
Increased forestry supply in mid 2026 post MERP* (partially offset by related surrenders from foresters)	Uncertainty in timing of forestry returns for the fifth MERP and likely declines in new forestry registrations
Policy and political uncertainty	Reducing stockpile in the 2020s
Marginal sellers in need of cash flow (which could be exacerbated by the fuel shock)	Auction dynamics – 2026 auctions may not clear, later auctions are likely needed
Buyer caution – some buyers already hedged for the next few years, hedging carbon exposure unlikely to be a top priority in the near term	From late 2020s/early 2030s onwards, forestry is expected to be main driver of the market and we expect prices to trend towards the levels needed to incentivise exotic afforestation

*MERP = Mandatory Emissions Return Period

How has the NZU price changed between 2024 and 2026?

The graph shows New Zealand's historic carbon price taken from the Carbon News website. The Carbon News NZU Index tracks daily movements in the NZU market across multiple trading platforms.

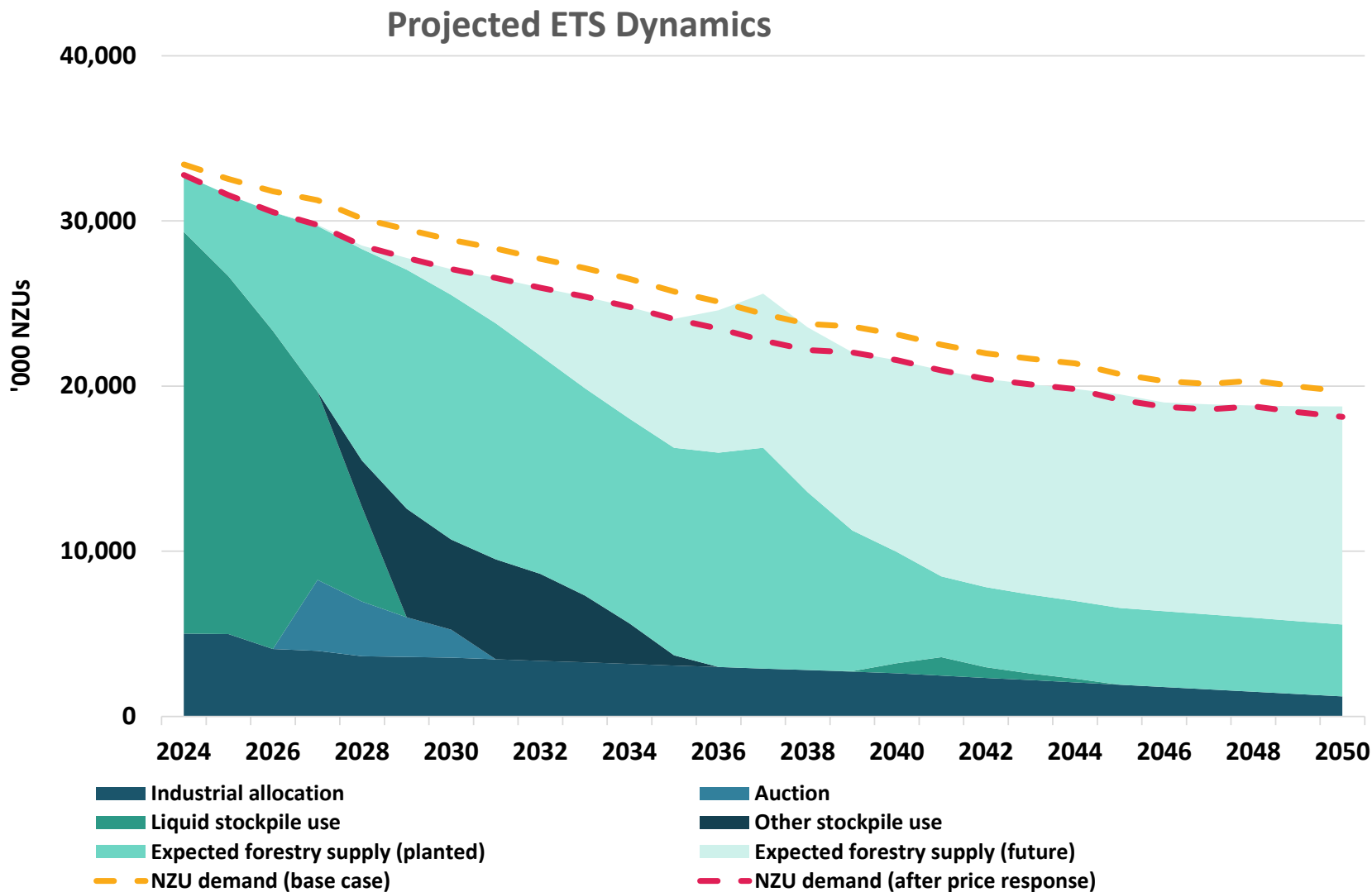


Current/forward looking supply and demand dynamics

Factor	Commentary
Compliance demand: projected at ~32Mt in 2026, reducing to ~29Mt in 2030	Demand is projected to steadily decline regardless of NZU price dynamics, due to factors such as steady improvements in energy efficiency, increasing renewable electricity generation and battery electric/hybrid vehicle take-up. Demand might reduce faster if the NZU price is high enough for long enough to incentivise further investments in emissions reducing technologies and activities.
Auction volumes: 5.2Mt in 2026 reducing to 1.7Mt in 2030	Volume currently in regulation (excluding cost containment reserve volumes).
Industrial allocation: ~4.5Mt in 2026/27 reducing to ~4.0Mt from 2028	Forecast to steadily decline according to legislated phase out. Step change in 2028 is from the anticipated closure of Methanex.
Forestry removals: ~10m NZUs in 2026, increasing to ~18-21m NZUs per annum from 2030 onwards	From the late 2020s, will be most of the new units coming into the scheme. Given complexity of forestry market dynamics and voluntary vs mandatory emissions returns, timing of when units come to market is uncertain.
Stockpile: a total of ~136m NZUs (as of 31 December 2025). Estimate up to ~50m NZUs might be drawn out by 2030, mostly surplus units	A large source of supply over the settings period, however, significant uncertainties exist due to complex forestry behaviour and the timing of surplus drawdown. In the medium to long term, we anticipate further non-surplus stockpile drawdown could occur if flat/falling prices are expected.

Current/forward looking supply and demand dynamics

cont.

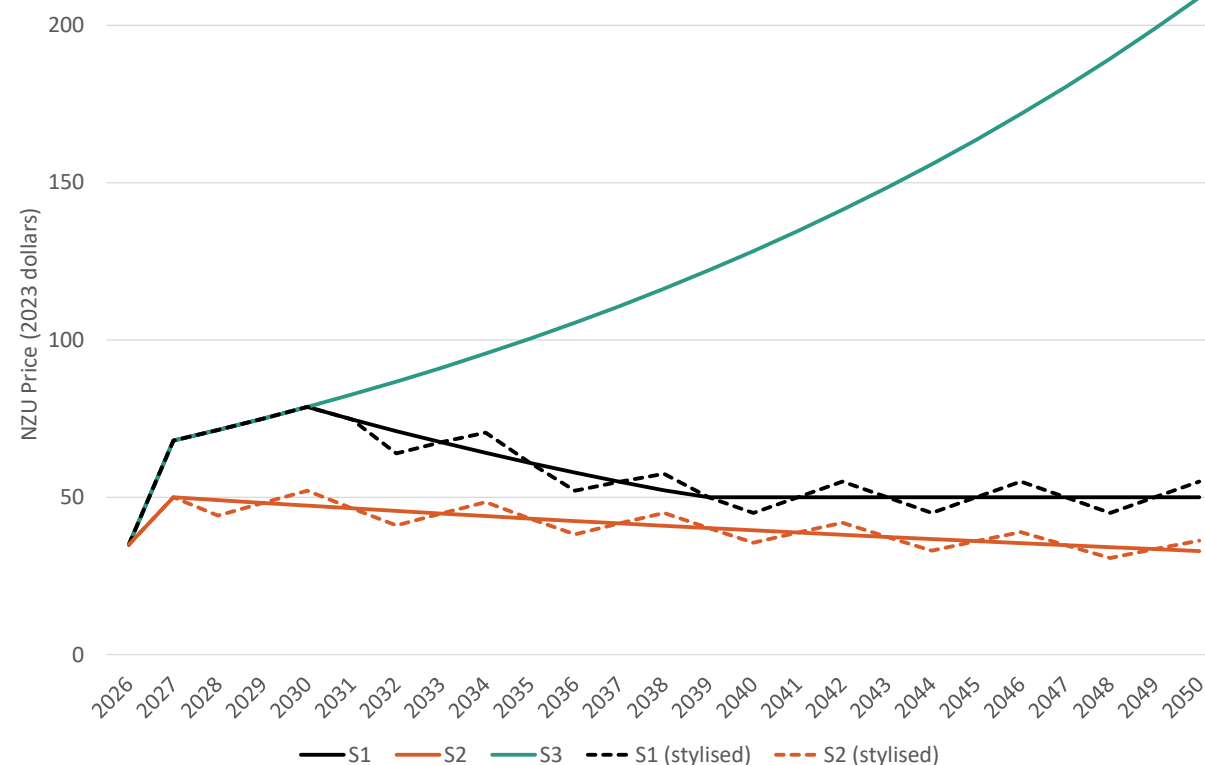


Note: based on early projections from the ETS market model. As with all models, there is a high degree of uncertainty and results are sensitive to a range of key assumptions, notably on forestry and stockpile behaviour.

Broad outlook for ETS prices

- **Short term** - prices will likely remain low this year (and therefore auctions will likely not clear). Beyond that, prices will need to lift to at least the auction floor price if the auction volumes are needed through the remainder of the 2020s.
- **Longer term** - ETS could drive quite different price outcomes depending on where market pricing power rests and how responsive firms and foresters are to price signals.
 - **Most likely outcome** - prices are low over the medium to long term – sufficient to incentivise exotic afforestation but unlikely to drive much additional decarbonisation. While prices will fluctuate from year to year (dotted lines), a competitive forestry sector is expected to drive relatively low prices on average over time (solid lines).
 - **Less likely but still plausible outcome** - foresters and other parties with an interest in rising prices are able to exert sufficient market pricing power to lead to steadily rising NZU prices. The restrictions on converting farmland to forestry could help enable this, by curbing the afforestation / supply response to higher prices, but are unlikely to be a sufficient driver on their own.

Projected NZU prices (2023 dollar terms)
under different scenarios





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2026 Emissions Trading Scheme unit limits and price controls scenarios

Market Advisory Group consultation

This material supports engagement with the Market Advisory Group to provide feedback on a set of scenarios for 2026 ETS unit limits and price control settings.

Disclaimer: this document is not government policy and is provided to members of the Market Advisory Group in confidence, as per the conditions set out in the signed confidentiality agreement from each member and the terms of reference.

Introduction

This pack contains four topics for consideration by the Market Advisory Group (MAG):

- Topic 1: Balancing achieving emissions budgets with medium term stability
- Topic 2: Distribution of auction volume in early vs later years
- Topic 3: Approach to meeting the third emissions budget (EB3)
- Topic 4: Aligning price controls to emissions budgets, targets and market dynamics

Within each topic are scenarios which vary in how trade-offs are weighed up based on key assumptions. We are seeking views from the MAG members about how they and/or broader ETS market participants might respond to various options within the scenarios. Views will be sought through workshops with each of the MAG members. Written feedback is also welcome.

Please note that, under each topic, a full range of scenarios has been provided to ensure we receive feedback on the full range of conceivable options, as opposed to limiting the options to those officials view as suitable for consultation.

General background on the ETS, the unit limits and price controls settings process, ETS market supply and demand and price movements has been provided as a separate information pack. That pack consists of publicly available information.

To support the scenarios in this document, further information has been provided as an appendix, including on:

- Seven-steps methodology and key variables
 - Stockpile: estimations, uncertainties and impact on auction volume
 - Forestry: estimations, uncertainties and impact on auction volume
- Proper functioning of the ETS
- Undersupply risk: key factors and uncertainties
- The ETS market model
- New Zealand's marginal abatement cost curves

Definitions

Term	Description
Auction volumes	The quantity of New Zealand Units (NZUs) that the Government makes available for sale through scheduled NZ ETS auctions in a given year
2050 target	New Zealand's legally binding domestic emissions reduction target to achieve net zero emissions of all greenhouse gas (GHG) emissions other than biogenic methane by 2050.
Cost containment reserve (CCR)	A reserve of additional New Zealand Units (NZUs) that can be released into NZ ETS auctions if prices reach a specified trigger level, to limit excessively high carbon prices. There are two tiers of CCR, with different trigger prices.
Emissions budget (EB2, EB3)	The maximum total amount of greenhouse gas emissions allowed in a defined period (e.g. Emissions Budget 2: 2026–2030, Emissions Budget 3: 2031–2035), set under the Climate Change Response Act.
Emissions reduction plan (ERP2, ERP3)	Government plans that set out the policies, measures, and sector actions to meet each emissions budget (e.g. ERP2 supports EB2).
ETS settings	ETS unit limits and price controls for the next 5 years, set by government through an annual ETS settings process. Government has proposed to shift ETS settings to a biennial process.
Hedging	The practice of purchasing or selling NZUs in advance to manage exposure to future carbon price risk.
Liquidity	The ease with which NZUs can be bought and sold in the market without causing significant changes in price.
Long run marginal cost	The cost per tonne of reducing an additional unit of emissions in the long term, once technologies, infrastructure, and behaviour have fully adjusted.
Marginal abatement cost curve (MACC)	A representation of emissions-reduction options ranked by cost.
Market equilibrium prices	The carbon price at which the supply of NZUs equals demand, balancing emissions reductions, removals, and unit availability in the ETS.
New Zealand Units (NZUs)	The tradable emissions units used in the NZ ETS, each representing one tonne of carbon-dioxide-equivalent emissions.
Price controls	Minimum and maximum bounds (price floor and cost containment reserve) on auction prices to manage the risk of carbon prices becoming too low or too high while maintaining alignment with emissions budgets.
Price floor	As published in the ETS settings exercise, the minimum price at which NZUs can be sold at auction, designed to prevent prices falling below levels considered necessary to drive emissions reductions.
Proper functioning	The ETS market is operating in a transparent and durable manner, so that participants can form expectations about supply and demand, to support investment in reducing emissions. NZ ETS participants are able to attain and surrender NZUs to meet NZ ETS obligations. The ETS is effectively playing its role in meeting emissions reduction targets.
Stockpile	The total number of NZUs held in private registry accounts at a point in time, including units held for compliance, hedging, forestry liabilities, or investment.
Surplus stockpile	The portion of the stockpile that is not required for expected future surrender or forestry liabilities and therefore weakens scarcity and price signals.
Undersupply	A situation where the availability of NZUs is insufficient to meet surrender obligations, creating strong scarcity pressure and potentially driving rapid price increases.

Topic 1: balancing achieving emissions budgets with medium term stability

Questions

How would different auction volume choices impact on market/participant confidence in the ETS market?

How would you respond, or expect the market to respond, to signs of undersupply in the later 2020s?

How might the market respond to signals from the Government that undersupply may eventuate in the late 2020s?

Description

The intent of ETS settings is to ensure that we remain on track to meet our emissions budgets and 2050 target. A major risk to EB2 is the surplus stockpile, which could enable emissions above our EB2 limit. To manage this risk, the Government has committed to drawing down the surplus by 2030. There is significant uncertainty in the size of the surplus and assumptions about the surplus stockpile can significantly impact auction volumes. This is further explained in the appendix. The degree of conservatism in surplus assumptions hinges on how strongly budget achievement is prioritised

Despite current secondary ETS market prices being materially lower than the auction price floor, suggesting a well-supplied market, some commentators are flagging the possibility of future “undersupply” risk in the late 2020s. Scarcity is an intentional function of a cap-and-trade scheme like the ETS but undersupply could pose a risk to the proper functioning of the ETS market and market stability. More information on undersupply and proper functioning is available in the appendix.

Our analysis using the ETS market model suggests that under current auction volumes over 2026-30, there will be steady tightening in the late 2020s, but not to the extent that it will impede on the proper functioning of the market. However, this is predicated on a large but orderly drawdown of the stockpile and most forestry units coming to market as they are earned, rather than waiting till the end of the mandatory emissions reporting period (2026-30). If the stockpile is less liquid than assumed and/or fewer forestry units come to market than anticipated, then the market could tighten faster than we expect.

Depending on how the objective of managing risk to achieving emissions budgets is weighed up against the risk of undersupply and therefore, medium term stability, determines differing auction volumes. The below scenarios present a range of auction volume options and their balance of priorities relative to each other.

Scenario	Rationale
S1.A: Lower auction volume	<i>Most favours achieving emissions budgets over responding to undersupply risk (relative to other scenarios)</i> Key assumptions: - High confidence in adequate level of liquidity in the stockpile - Foresters will sell units as price rises, rather than waiting to end of MERP5 - Most conservative approach to reducing the surplus (upper end of the estimated surplus range).
S1.C: Status quo	<i>Favours market stability and predictability, but also implicitly favours achieving emissions budgets over responding to undersupply risk compared with S1.D-E</i> Key assumptions: - Adequate level of liquidity in the non-surplus stockpile - Foresters will sell units as price rises, rather than waiting to end of MERP5

Topic 1: balancing achieving emissions budgets with medium term stability

	- Continues conservative approach to the surplus
S1.E: Higher auction volume	<i>Most favours responding to undersupply risk over achieving emissions budgets (relative to other scenarios)</i> Key assumptions: - Assumes the non-surplus stockpile is largely illiquid, meaning foresters are unlikely to sell units in response to higher prices. For example, because there is a risk NZUs cannot be brought back at a lower price later - Less conservative than central surplus assumption

Topic 2: distribution of auction volume in the early vs later years

Questions

Would participants benefit from knowing there would be zero auctions in 2027 or 2027 and 2028 under some scenarios? Is this better than relying on the auction price floor to prevent auctions from clearing if volume is not needed?

Would cancelling or redistributing 2027/28 auction volume materially reduce market predictability and impact market confidence? Why?

Do you prefer cancelling or redistributing 2027/28 volume? Explain.

Description

Some commentators question the need for auctions in 2026 given, in their view, they are unlikely to clear. It is not possible to alter auction volume for 2026. However, the Climate Change Response Act 2002 (CCRA) does allow changes to the first two years of the next regulated period (2027 and 2028) under certain circumstances.¹

Either redistributing auction volume for 2027/28 or cancelling the volume completely would acknowledge the market appears well supplied in the short term and provide certainty to the market on short-term auction supply. Current auction volumes may also be considered somewhat disconnected with broader market supply – i.e. auction volumes are higher when the market is already well-supplied and lower when there is increased scarcity. Redistributing the 2027/2028 volumes to later in the period could potentially balance overall supply across the period. Auctions not clearing may also increase the risk of undersupply in the future by reducing the stockpile more quickly than anticipated.

However, it is important to note that the auction price floor is explicitly designed to prevent the Government from adding volume to a well-supplied market. Auctions not clearing when prices are low is the system working as intended. Furthermore, either redistributing or cancelling volume may be seen as a significant departure from usual practice, reducing market predictability.

Preliminary modelling in the ETS market model indicates that auctions are likely to be needed from 2027 onwards. Based on our best estimates of other sources of NZU supply, the auction volume is needed over the late 2020s to meet overall compliance demand. We acknowledge that requires a significant increase in prices over the next year or so to occur.²

Scenario	Rationale
S2.A: Cancel auction volume for 2027 and 2028	<i>Favours tightening the market over EB2</i> Key assumptions: - The market is sufficiently supplied in the short term (2026-28) without auctions due to the size of and liquidity in the stockpile (uses most conservative assumptions) - This is reinforced by auctions not clearing and the low secondary market price. - Overall auction volumes can be revisited in 2027 and 2029 to manage undersupply risks.
S2.B: Cancel auction volume for 2027	<i>Favours tightening the market over EB2, but assumes the market requires auction volume from 2028</i>

¹ Refer to [Section 30GB\(5\)](#) of the Climate Change Response Act 2002 for the grounds for which the Minister may amend years 1 and 2 (2027 and 2028).

² For context, the market has previously experienced similar sized gains, albeit driven by very different market conditions. In 2021, spot prices rose from the mid-30s in May to the mid-60s by September. In 2023, spot prices rallied from the July low of \$37 to around \$70 by end of the year. That is, a rally of this magnitude is plausible.

Topic 2: distribution of auction volume in the early vs later years

	Key assumptions: - The market is sufficiently supplied in the short term (2026-27) without auctions due to the size of and liquidity in the stockpile. - Uses a slightly less conservative than S2.A of the size and liquidity in the stockpile - However, some fundamental tightening is expected in later EB2 years, suggesting a need for 2028 volume. - Overall auction volumes can be revisited in 2027 and 2029 to manage undersupply risks.
S2.C: Keep 2027/28 volume	<i>Favours predictability, using other methods to achieve tightening the market and managing undersupply risk</i> Key assumptions: - The market is currently fragile (indicated by low secondary market price and selling/buying behaviour), the Government's interventions should be predictable to avoid worsening confidence. - The auction floor price will remove the auction volume if prices are too low. - Redistribution is not required and market is better placed than Government to determine whether it needs the 2027/2028 auction volumes.
S2.D: Redistribute auction volume for 2027 to later years	<i>Favours temporarily tightening the market in 2027 but avoids undersupply risk in later EB2 years posed by S1.A-B.</i> Key assumptions: - The market is well-supplied in the short term (2026-27) - Overall volume is appropriate, but redistribution can better balance supply over the period - Less conservative than S2.A and S2.B about the size and liquidity of the stockpile
S2.E: Redistribute auction volume for 2027/28 to later years	<i>Favours temporarily tightening the market through 2027 and 2028 but avoids undersupply risk in later EB2 years posed by S1.A-B.</i> Key assumptions: - The market is well-supplied in the short term (2026-28) - Overall volume is appropriate, but redistribution can better balance supply over the period - Less conservative than S2.A and S2.B about the size and liquidity of the stockpile

Topic 3: Approach to meeting the third emissions budget (EB3)

Topic 3 questions

How does the market view the current gap between emissions projections and the EB3 target?

How would the market respond to the different signals in scenarios 3.A, 3.B, and 3.C and the zero auction volumes scenarios 3.D and 3.E?

Do you agree with our assumption that the liquidity of the stockpile is impacted by price expectations over the medium to long term?

Do you agree that the market expects the cost of forestry will drive the ETS price in the long term?

Description

There is currently a gap between projected emissions and our EB3 target. The gap ranges from around 9-14Mt, depending on various assumptions largely relating to emissions in non-ETS sectors, especially agriculture.

Our current modelling suggests that the ETS will not be able to close the gap on its own – moreover, that even permanently reducing auction volumes to zero from 2027 would not fully close the gap. The main driver of this is our expectation that flat to falling price expectations over the long run will make the stockpile more liquid, with firms incentivised to draw down relatively low-cost stockpiled units that are depreciating in value rather than invest in decarbonisation.

The Government is not required to produce the third emissions reduction plan (ERP3) which outlines how it will meet EB3 until 2029. However, the Government could choose to provide further detail on possible approaches for closing the gap in advance of ERP3. There are choices available to the Government about the extent to which 2026 ETS settings respond to the EB3 gap. Each option has differing impacts on market stability and sends different signals to the market about Government commitment to meeting emissions budgets and climate targets more broadly.

Scenario	Rationale
S3.A: Commitment to meeting EB3 through ERP3 without any advance detail.	<i>Favours avoiding pre-empting ERP3 process over signalling approach to meeting EB3</i> Key assumptions: - There is ample time to design policies to address the EB3 gap (ERP3 is due in 2029) - Market is confident in enduring Government commitment to achieving EB3
S3.B: Identify 'plausible sector shifts' that could be achieved through ERP3 policies to demonstrate the potential of ERP3 (e.g. plausible ag tech uptake, solar panel or EV uptake)	<i>Slightly favours sending a signal about meeting EB3 over preference to avoid pre-empting ERP3 process</i> Key assumptions: - There is ample time to design policies, based on evidenced plausible sector shifts, to address the EB3 gap (ERP3 is due in 2029) - A signal about plausible shifts would increase ETS market certainty and support investment decisions
S3.C: Start policy work on complementary policies for ERP3.	<i>Favours sending a tangible signal about meeting EB3 over preference to avoid pre-empting ERP3 process</i> Key assumptions: - Complementary policies are likely to require lead in time before EB3 so development of these is required now

Topic 3: Approach to meeting the third emissions budget (EB3)

	- Starting work on complementary policies would increase ETS market certainty and support investment decisions
S3.D: Set auction volumes at zero from 2031 representing the ETS doing 'all it can' to meet EB3 during the EB3 period. (not mutually exclusive with scenarios 3A-C)	<i>Favours sending a tangible signal about meeting EB3</i> Key assumptions: - Government auctions are not critical to meeting NZU demand during the EB3 period– they are comparatively small compared to other sources of supply, such as forestry and there is ample supply in the stockpile - Setting EB2 auctions to zero is not necessary to meet EB3 and would run counter to the proper functioning of the ETS - This would be a signal to market of government commitment to EB3
S3.E: Set auction volumes at zero from 2027 representing the ETS doing 'all it can' to meet EB3. (not mutually exclusive with scenarios 3A-C)	<i>Strongly favours sending a tangible signal about meeting EB3 over market stability</i> Key assumptions: - Government auctions are not critical to meeting NZU demand – they are comparatively small compared to other sources of supply, such as forestry and there is ample supply in the stockpile - This would be a strong signal to market of government commitment to EB3

Topic 4: Aligning the price floor with emissions budgets, targets and market dynamics

Topic 4 questions

What do you consider to be the driver of lower secondary market prices?

What would be the likely market response to each option?

How could changes to price controls be consulted on without triggering a market reaction?

Description

Price controls, including the price floor and cost containment reserve, are safety valves to manage risks of price extremes in either direction and they signal the bounds of the NZU prices likely needed to meet New Zealand's emissions reduction targets.

The price control settings do not set the NZU price, but can influence that price by withholding units from, or adding units to, the market. At the time of writing, the secondary market price is in the low \$40s, around \$30 below the current price floor of \$71.

Lower market equilibrium prices compared with the auction price floor can signal different things about the ETS market. For one, it may signal a re-pricing of the cost of net emissions reductions in a well-functioning market (e.g. through improved technology or economic conditions, additional forestry supply, lower demand etc). In technical terms, New Zealand's marginal abatement cost curve (MACC) may have reduced. Another perspective is the lower market equilibrium prices may be driven by regulatory uncertainty and external factors, such as short-term focus from the market or market evaluation about the Government's level of climate ambition.

Depending on which view is taken, different conclusions can be drawn about what the price floor should be. Like decisions about auction volumes, decisions about the price floor have potential to signal government commitment to emissions budgets and climate targets.

Ministry for the Environment scenario modelling using the Emissions in New Zealand (ENZ) model suggests that the auction floor price could be slightly reduced, by around \$15. However, separate analysis we commissioned from NZIER to update New Zealand's MACCs for ETS covered sectors (excluding forestry) indicates that there has not been a material reduction in the cost of reducing net emissions (see appendix).

The range of possible price floors is available in the appendix.

Scenario	Rationale
S4.A: Lower, but gradually rising price floor	<i>Favours cost effective emissions reductions and prioritises cost of living</i> Key assumptions: - Market is signalling a re-pricing, demonstrated by ~\$30 difference between secondary market price and auction price floor, likely due to combination of lower abatement costs and additional forestry supply - Aligns with the Government's net-based strategy and more aligned with the long-run marginal cost of forestry
S4.B: Flattening price floor ³	<i>Favours cost effective emissions reductions but conscious of impacts on market and investor confidence</i> Key assumptions:

³ Allowing the auction floor price to continue rising for the "fixed" years of the settings period (2027 and 2028) and then hold it constant in real terms, thereafter, adjusting only for inflation

Topic 4: Aligning the price floor with emissions budgets, targets and market dynamics

	- Market may not be signalling re-pricing, however, the window to find the most efficient price to meet targets could be slightly widened - Aligns with the Government's net-based strategy and more aligned with the long-run marginal cost of forestry
S4.C: Status quo price floor	<i>Favours market stability</i> Key assumptions: - Lower market equilibrium prices more likely due to regulatory uncertainty and external factors - MACC analysis suggests the cost of emissions reductions has not materially decreased - Adjusting price floor would have a negative impact on market confidence
S4.D: Higher price floor	<i>Favours decreasing the likelihood that auctioned units will enter the market, instead relying on stockpile drawdown</i> Key assumptions: - Lower market equilibrium prices more likely due to regulatory uncertainty and external factors - MACC analysis suggests the cost of emissions reductions has not materially decreased

Appendix

This appendix includes contextual and supporting information and analysis to support understanding the scenarios and options within them.

The 7-steps methodology and key variables

Developed in 2020, the seven steps methodology is an approach for calculating maximum annual auction volumes. The Government and the Climate Change Commission have used it every year since then.

The appropriate auction volumes are determined using seven calculations.

1. Align with emissions reduction targets (emissions budgets and the 2050 targets).
2. Allocate the emissions budgets to NZ ETS and non-NZ ETS sectors.
3. Make technical adjustments.
4. Account for industrial allocation volumes.
5. Set the reduction volume to address the New Zealand Unit (NZU or unit) surplus.
6. Set the approved overseas unit limit.
7. Calculate the base auction volumes.

Working through these seven steps provides an estimate of the maximum number of units that could be auctioned while meeting our emissions reduction targets, given current circumstances and our best assumptions for other sources of units.

Steps 1 and 2 combined provide us with the 'NZ ETS cap'. This is the total level of net emissions allowed under the NZ ETS for the settings period. Caps can also be determined for emissions budget periods – for example, the EB2 NZ ETS cap sets the total level of net emissions allowed under the NZ ETS for the EB2 period.

Different assumptions about key variables within the 7-steps methodology drive outcomes for auction volume options.

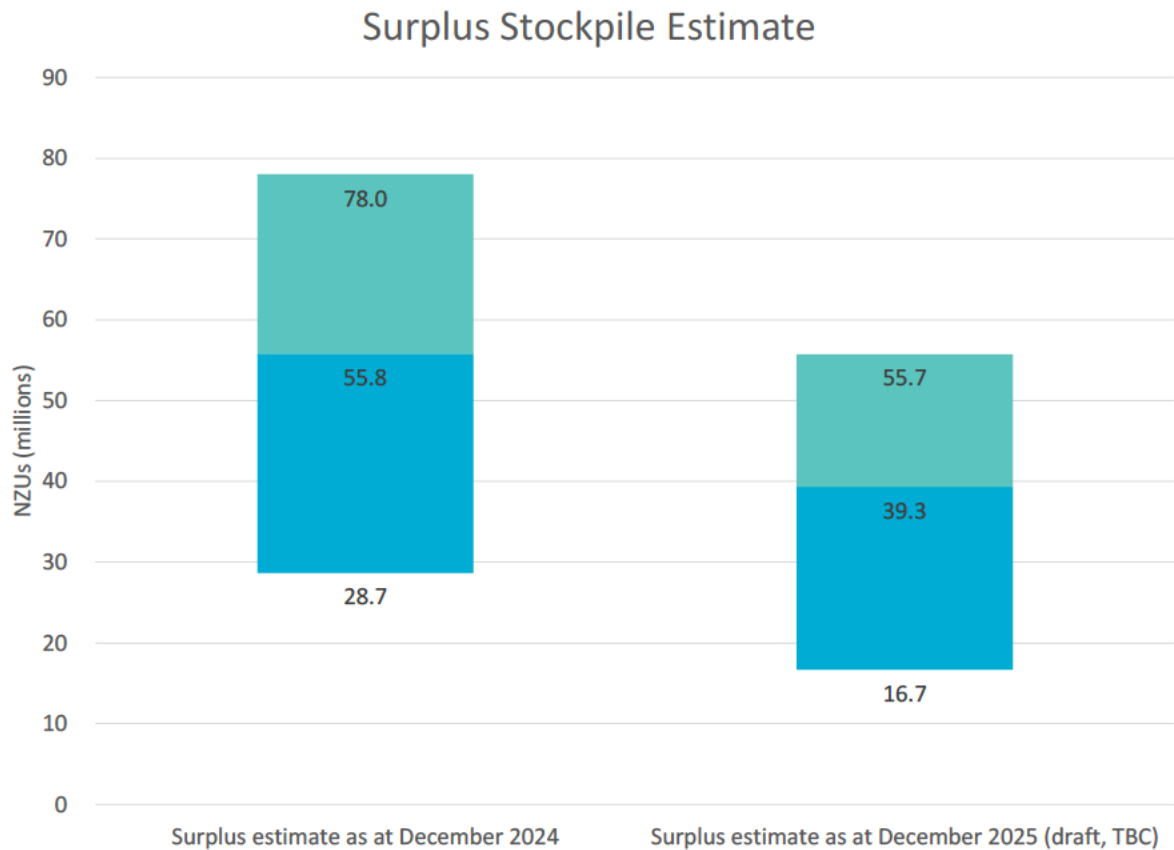
Stockpile: estimations, uncertainties and impact on auction volume

The stockpile is a significant source of supply, made up of different components such as surplus units (NZUs held mainly for speculative purposes as opposed to held against surrender obligations), forestry units held against future harvest liabilities, NZUs held for future surrender obligations i.e., hedging, NZU held against current compliance obligations ('holding'), and pre-1990 (P90) forestry units not expected to come to market.

These stockpile components also vary in **liquidity**, meaning how easily and quickly units can be sold. Generally, the surplus is the most liquid component of the stockpile and units held for near term compliance obligations are the most illiquid. Complex forestry behaviour, such as harvesting decisions and afforestation decisions, is a large driver of the forecast stockpile uncertainty.

Because of the size of the surplus and the significant uncertainty surrounding its size and rate at which it is being drawn down, assumptions about the surplus have a significant impact on auction volume outcomes.

The figure below illustrates the uncertainty range of the surplus stockpile estimate. The numbers for December 2025 are preliminary and subject to change, however, show an uncertainty range of 16.7-55.7m NZUs, with a central estimate of 39.3m NZUs.



The Government has committed to drawing down the surplus by 2030, as its existence poses a risk to meeting emissions budgets and targets. Given the uncertainty around the surplus, Government may choose to take a more conservative approach to the surplus, however, this risks undersupplying the market.

Hedged units held for future liabilities are also an area of uncertainty. Foresters and other participants may sell units hedged for future liabilities when prices are high in the near term and repurchase those units for a lower price in later years. This behaviour requires some risk appetite in addition to a medium-term outlook of the market, including that the market equilibrium price will be flat to lower in future. Assumptions about this behaviour impact on estimations of stockpile liquidity which may serve an important role in managing any supply shortages in the late 2020s and in the 2030s. More information on this can be found in the ‘Overview of the ETS and market outlook’ slide deck.

Forestry: estimations, uncertainties and impact on auction volume

Forestry units, predominately from exotic pine, are already the largest single source of new supply into the NZ ETS and from the late 2020s, will be almost all the new units coming into the scheme.

Forestry market dynamics are complex, resulting from a very diverse range of players operating over relatively long investment horizons and with different business models and levels of sophistication. In general terms, exotic afforestation for production/harvest provides a greater return on investment than some sheep and beef farms, which is the main alternate land use of less productive land, at comparatively low NZU prices (~\$25–\$75). At moderate NZU prices (from around \$75), permanent exotic forestry starts to become more profitable than both production forestry and sheep and beef farming.

The Ministry of Primary Industries (MPI) undertakes analysis of future afforestation rates and forestry unit flows. MPI central afforestation projections sit at 27,300 hectares per annum, with low and high projections of 21,150 and 33,450 hectares per annum respectively. This is considerably slower than the average of 72,000 hectares per annum over 2022-25. Almost all the projected afforestation is exotic pine. Trees planted today do not materially contribute to removals within the settings horizon but will be the main source of future supply into the ETS.

Projections of forestry unit flows within the settings horizon largely relate to removals generated by existing forests. For the settings period, MPI projects that 83M NZUs of low-risk units (i.e. units without a harvest liability from averaging or permanent forests) will be generated, within a range of 80 to 89M. However, as noted elsewhere, the timing of when these units enter the market is uncertain under the MERP.

Proper functioning of the Emissions Trading Scheme

At a high-level, the proper functioning of the ETS includes:

- Operating in a transparent and durable manner, so that participants can form expectations about supply and demand, to support investment in reducing emissions.
- NZ ETS participants being able to attain and surrender NZUs to meet NZ ETS obligations.
- Effectively playing its role in meeting emissions reduction targets.

There is no exact definition or threshold about when the ETS market is no longer functioning 'properly'. However, there are some practical signals that may indicate whether the market has moved toward not functioning properly:

- Volatility: sudden and significant price drops/rises, especially where these are sustained for long periods of time
- Cost containment reserve trigger: this indicates the price has reached a point where there are significant impacts on the economy/households. Triggering the CCR is a clear sign that the market is not functioning as intended, requiring intervention.
- Participants faltering on their surrender obligations: instances where participants are failing to secure NZUs to meet their short-term obligations.
- Misalignment with feasible emissions reductions within the economy: where the supply scarcity outpaces feasible emissions reductions.

Undersupply risk: key factors and uncertainties

Some market participants have flagged potential for the ETS market to tighten materially in the later years of the 2020s. In part this is by design – ETS settings decisions have consistently retained the objective of removing the “surplus” stockpile by 2030, by intentionally auctioning fewer units.

The table below shows how demand for NZUs and their sources of supply are currently projected to materialise. (Note this is work in progress analysis and subject to change).

Table 1: Projected NZU Supply and Demand under the provisional status quo option

NZUs (000s)	2026	2027	2028	2029	2030	2031	Total 2026-31
Compliance demand (gross emissions)	32,066	31,532	30,445	29,794	29,068	25,378	178,282
<i>Projected supply sources</i>							
Forestry	10,069	12,138	14,367	16,380	17,803	18,757	89,515
Industrial allocation	4,579	4,428	4,098	4,043	3,988	3,877	25,012
Auctions (current regulations plus 2031)	0	4,300	3,300	2,400	1,700	1,400	13,100
Surplus drawdown	17,417	10,667	8,679	6,971	5,577		49,312
Shortfall						1,343	1,343
<i>Cumulative surplus drawdown</i>	<i>17,417</i>	<i>28,084</i>	<i>36,763</i>	<i>43,735</i>	<i>49,312</i>		

Note: this is a modified version of the seven steps calculation for the provisional status quo option. For this analysis, 2026 auctions are assumed to not clear.

There are two key sources of risk:

- Stockpile drawdown
 - Assuming this year's auctions do not clear, the surplus will be drawn down faster than expected. By about 2028, the central estimate of the surplus will have been drawn down. Total surplus drawdown over the period is at the upper end of our estimated surplus range.
 - The surplus estimate itself is highly uncertain and if it is smaller than we anticipate then we could run the surplus portion of the stockpile out before 2030.
- Timing of forestry supply
 - Foresters must report their allocations and surrenders in the Mandatory Emissions Reporting Period (MERP5) that spans 2026-30 and may choose to do annual voluntary return. Recently about 70% have made voluntary returns.
 - Settings analysis assumes that the units are available to the market as they are earned, rather than when they are reported. However, some of the forestry units forecast below may not enter the market until 2031 when MERP5 is complete and processed.

Mitigating factors:

- While the ETS settings process focuses on the surplus stockpile that poses most risk to budget accordance, the remaining stockpile remains large (more than 80M NZUs) and could be drawn down further under certain conditions (notably flat to falling price expectations). Within the stockpile, we estimate that emitters are hedging around 2-3 years of their forward demand - this is precisely the volume they should be looking to use to smooth the impact of price volatility on their books.

Ultimately, the ETS is a market-based tool designed to cap emissions – there should be tension in the system between supply and demand. Should the market begin to tighten, the price will shift higher to signal scarcity and draw units into the market, likely from the stockpile and foresters. Higher prices will also incentivise faster gross reductions emissions, although likely only marginally so in the short term.

Any undersupply is expected to be short term. In the long run there will be sufficient forestry supply to meet expected demand for NZUs. This limits the impacts of the risk by supporting the use of hedging volumes and encouraging foresters with harvest liabilities to make their held units available with the expectation they will be able to source the units they need in the future.

Undersupply could impact on the proper functioning of the market in the short to medium term if it leads to short term price spikes that are misaligned with market expectations about long term marginal abatement costs. This may occur if the stockpile is less liquid than expected.

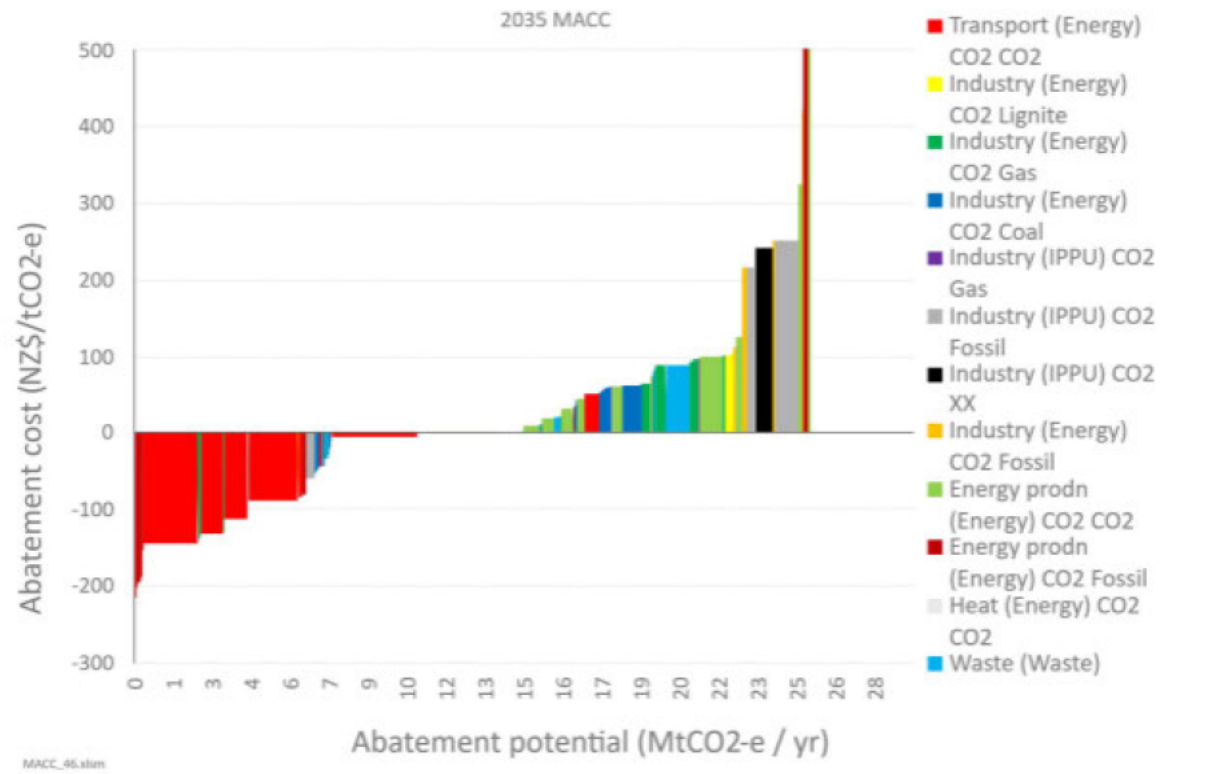
The ETS Market Model

We use the ETS market model as a complementary tool to the 7 steps analytical framework. The market model serves a useful role in cross checking the seven-step methodology and teasing out potential implications of different unit settings, including informing impact analysis.

The NZ ETS Market Model estimates supply and demand for NZUs in the ETS under different conditions and can generate price projections based on supply and demand.^{4,5} The model operates in two broad ways. One involves external or exogenous assumptions for price, emission reductions and forestry removals. The other way estimates emission reductions and removals, and the flow of units in and out of the stockpile, internally (endogenously) in the model using equations that relate these changes to different prices. It sets an objective for the market (minimising the stockpile by 2050 while meeting demand every year) and uses price to optimise relative to that objective.

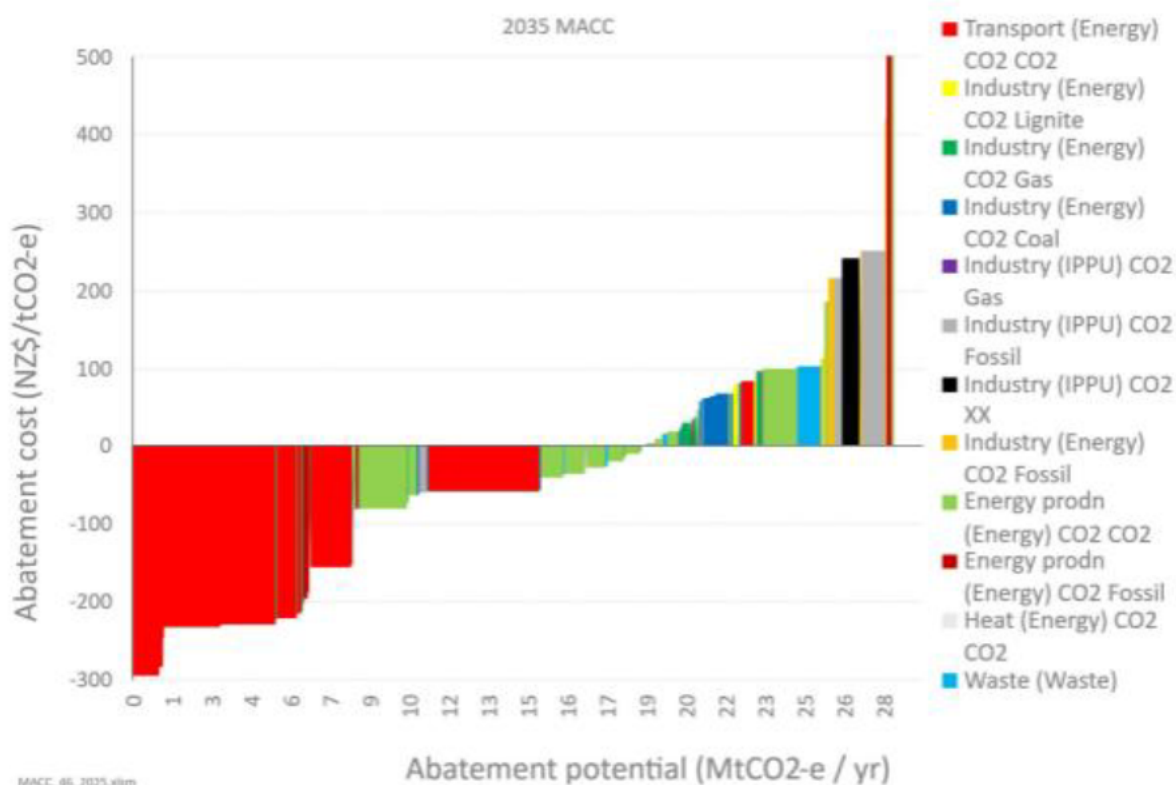
New Zealand’s Marginal Abatement Cost Curves in 2020 and 2025

Figure 11 Aggregated MACCs, 2020 and 2025, excluding land sector (truncated)
a) 2020 version



⁴ Review of the New Zealand Emissions Trading Scheme: Summary of modelling | Ministry for the Environment
⁵ Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2025: Technical annex to the consultation document | Ministry for the Environment

b) 2025 version



Source: NZIER Research on emissions and the NZ Emissions Trading Scheme, Report to the Ministry for the Environment (2026, not published)



Ministry for the
Environment
Manatū Mō Te Taiao

2026 ETS unit and price control settings

Market Advisory Group consultation

[CLASSIFICATION] AND NOT GOVERNMENT POLICY]

Consultation topics

- **Topic 1:** Balancing achieving emissions budgets with medium term stability
- **Topic 2:** Distribution of auction volume in the early vs later years
- **Topic 3:** Approach to meeting the third emissions budgets (EB3)
- **Topic 4:** Aligning price controls to emissions budgets, targets and market dynamics

Topic 1: balancing achieving emissions budgets with medium term stability

- Achieving emissions budgets and targets is the core purpose of the ETS. The existence of the surplus puts that at risk.
- Addressing the surplus needs balancing with the risk of undersupply, which is being flagged by some commentators over EB2. This undersupply may impact medium term stability.
- Our analysis suggests low undersupply risk under the status quo, due to stockpile drawdown and assuming that forestry units come to market as they are earned.
- Each scenario prioritises the trade offs differently.

Topic 1 scenarios:

Scenario A: Lower auction volumes (relative to SQ)

Scenario B: Status quo auction volumes

Scenario C: Higher auction volumes (relative to SQ)

Topic 1 questions

1. How would different auction volume choices impact on market/participant confidence in the ETS market?
2. How would you respond, or expect the market to respond, to signs of undersupply in the later 2020s?
3. How might the market respond to signals from the Government that undersupply may eventuate in the late 2020s?

Topic 2: Distribution of auction volume in the early vs later years (EB2 period)

- Some commentators are questioning the need for auctions in the short term if they continue not to clear
- Current auction volumes may also be considered somewhat disconnected with broader market supply.
- When auctions do not clear, the market is signalling the volume is unneeded by itself. However, it is possible to either cancel or redistribute volume to manage this.

Topic 2 questions

1. Would participants benefit from knowing there would be zero auctions in 2027 or 2027 and 2028 under some scenarios? Is this better than relying on the auction price floor to prevent auctions from clearing if volume is not needed?
2. Would cancelling or redistributing 2027/28 auction volume materially reduce market predictability and negatively impact market confidence? Why?
3. Do you prefer cancelling or redistributing 2027/28 volume? Explain.

Topic 2 scenarios:

Scenario A: Cancel auction volume for 2027 and 2028

Scenario B: Cancel auction volume for 2027

Scenario C: Status quo (keep volumes)

Scenario D: Redistribute 2027 volume to later years

Scenario E: Redistribute 2027 and 2028 volume to later years

Topic 3: Approach to meeting the third emissions budget (EB3)

- There is an estimated 9-14Mt gap to meeting the third emissions budget, depending on assumptions
- Currently, our analysis suggests the ETS cannot close this gap on its own – even if there were no auctions from 2027 due to high stockpile drawdown implying low price expectations and in
- The Government will need to address this issue through the third emissions plan, due in 2029. However, the Government could choose to signal starting work now.

Topic 3 scenarios:

Scenario A: Commitment to meeting EB3 through ERP3 without any advance detail

Scenario B: Identify ‘plausible sector shifts’ that could be achieved through ERP3 policies

Scenario C: Start policy work on complementary policies

Scenario D: Set auction volumes to zero from 2031

Scenario E: Set auction volumes to zero from 2027

Topic 3 questions

1. How does the market view the current gap between projections and the EB3 target?
2. How would the market respond to the different signals in scenarios 3.A, 3.B, and 3.C and the zero auction volumes scenarios 3.D and 3.E?
3. Do you agree with our assumption that the liquidity of the stockpile is impacted by price expectations over the medium to long term?
4. Do you agree that the market expects the cost of forestry will drive the ETS price in the long term?

Topic 4: Aligning the price floor with emissions budgets, targets and market dynamics

- Currently, there is ~\$30 difference between the price floor and the secondary market.
- It is possible to derive different signals from this price difference. Either, the market may be signalling repricing or there may be other drivers, such as low market sentiment and regulatory uncertainty.
- How the price difference is rationalised determines the scenarios below.
- Our analysis suggests a lower price floor is analytically possible, however, that emissions reductions are unlikely to have gotten cheaper.

Topic 4 scenarios

Scenario A: Lower, but gradually rising price floor

Scenario B: Flattening price floor

Scenario C: Status quo price floor

Scenario D: Higher price floor

Topic 4 questions

1. What do you consider to be the driver of lower secondary market prices?
2. What would be the likely market response to each option?
3. How could changes to price controls be consulted on without triggering a market reaction?



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