

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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Contents

Introduction	4
Responses to the consultation	4
Annual updates to ETS limits and price control settings for units 2026	5
Auction volume options	5
Price controls	7
Undersupply risk	7
Impacts on the economy and on households	8
EB2 cap	9
Provisional EB3 cap	10
Approach to surplus estimates	10
Feedback on the analytical model for calculating unit limits	11

Tables

Table 1: Number of submissions by self-reported submitter group	4
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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.