Ministry for Cities, Environment, Regions & Transport

Climate Change Response Amendment Bill

Information for New Zealand Emissions Trading Scheme Compliance and Market Participants

Supporting the function of the New Zealand Emissions Trading Scheme

The Government is introducing a bill to amend Aotearoa New Zealand's key climate change law, the Climate Change Response Act 2002 (CCRA).

The Climate Change Response Amendment Bill (the Bill) includes changes to the New Zealand Emissions Trading Scheme (ETS), which is New Zealand's key tool to reduce emissions.

These include:

- establishing market governance provisions for the ETS secondary market, to improve transparency and integrity
- making changes to enable new activities and new emissions sources to be recognised in the ETS in the future
- extending deadlines after significant disruptions to help all ETS participants quickly return to compliance
- introducing flexibility for ETS forestry participants to re-establish forests after a significant disruption and when trees are cleared due to events beyond their control
- making changes to industrial allocation to:
  - remove allocative baseline reviews and eligibility reviews
  - clarify the Minister's use of their powers relating to reviewing electricity contracts
  - provide guidance for these reviews to improve certainty for firms
- moving the ETS settings from an annual process to one that occurs every two years
- other technical changes to improve the functioning of the ETS.

See the full list of changes in the Bill.

At a glance: The Climate Change Response Amendment Bill

This Bill amends the CCRA. The CCRA is the legislation that sets out a range of legal requirements to help New Zealand transition to a low-emissions economy and prepare for the impacts of climate change. The Government announced the changes to the CCRA covered by this Bill in 2025.

The Bill makes changes to several different aspects of the CCRA. This includes:

- supporting the **effective functioning of the NZ ETS,** including **making changes needed to strengthen secondary market governance and enable the introduction of new ETS activities**
- **amending complex or duplicative requirements** in the CCRA
- introducing a **new requirement for local councils to undertake adaptation planning.**

The Government is not changing the fundamental mechanisms of the CCRA. The core elements of the Zero Carbon Framework established under the CCRA remain in place. The Government is still required to meet New Zealand's 2050 target, with appropriate checks and balances for climate policy including the independent advice of He Pou a Rangi Climate Change Commission (the Commission).

This publication is one of a series of factsheets on the Bill. For more information, please see our other factsheets:

- Climate Change Adaptation Planning
- Supporting the Efficiency of Aotearoa New Zealand's Climate Change Law.

What does the Bill change?

Establishing market governance provisions for the ETS secondary market

The secondary market for the ETS is where market participants trade New Zealand Units (NZUs) via NZU trading platforms, or by directly buying from and selling to each other. The Bill introduces new provisions to the CCRA to strengthen the governance of the NZU market. The provisions are intended to support market transparency, provide conduct standards, enable market monitoring and establish a penalty regime for breaches of requirements, with minimal additional compliance burden. The following elements are being introduced.

- Platform reporting: Platforms must report daily price and volume information to the Government and keep a history of trading information.
- Register reporting: Secondary market participants will be required to record specified trading information into the Emissions Trading Register, administered by the Environmental Protection Authority (EPA).
- Information sharing and market monitoring: Information sharing provisions will exist between relevant government agencies, and the Ministry for Cities, Environment, Regions and Transport (MCERT) will be able to request information from market participants for monitoring purposes. MCERT may delegate some or all of its market monitoring functions to the EPA in the future, once Register reporting is implemented.
- Market conduct obligations: New rules will prohibit price manipulation and false, unsubstantiated, or misleading conduct in relation to buying, holding, or selling NZUs or NZU derivative products. The Financial Markets Authority will enforce these rules.

For more detail, see the Market governance webpage.

Taking steps towards allowing the ETS to include more activities

This Bill makes it easier for the full range of carbon removal activities that are currently being explored, and that may become available, to be covered by the CCRA in the future. The Bill amends the CCRA to add 'carbon removal activities' as an activity that can be recognised under the ETS.

The Bill also provides a way for new emissions sources (excluding agriculture), to be added to the ETS in the future by enabling the Minister of Climate Change to amend Schedule 3 of the CCRA by Order in Council.

These changes don't mean new carbon removal activities or emissions sources will immediately be included in the ETS. They will, however, set up the CCRA to enable this in the future by simplifying the process and making it faster.

Introducing flexibility in the case of extreme weather events

Extreme weather can have significant impacts on the ability of people with ETS responsibilities to meet their compliance requirements. The Bill introduces two main changes to help participants to remain compliant with their obligations when they are unable to do so due to circumstances beyond their control:

- extending filing deadlines after significant disruptions
- allowing flexibility to reestablish forests after significant disruptions.

The Bill also introduces several technical changes to ETS forestry. For more information, see News and changes to the ETS on the Ministry for Primary Industries' website.

Extending filing deadlines after significant disruptions

ETS participants have obligations to file emissions returns to report on their emissions or removals and to file notices in certain circumstances. When participants are affected by a significant disruption, the Bill introduces extensions for emissions returns and unique emissions factor applications, if certain criteria set out in the Bill are met.

Allowing flexibility to re-establish forests after significant disruptions

Severe weather events can delay the re-establishment of forest land. This can lead to land being treated as deforested under the CCRA, meaning that foresters need to surrender units. The Bill introduces:

- extensions to any of the re-establishment timeframes of up to three years when foresters experience disruptions that significantly delay forest land re-establishment. The provisions capture all forests damaged by an event, not just those in the immediate impact area.
- a reset of existing deforestation test timings when standing trees were cleared, or are required to be cleared, due to an event outside the forester's control.

Changes to industrial allocation

Baseline phase-out rate and eligibility reviews

As part of the ETS, the Government provides allocations of NZUs to industry for activities that are both emissions-intensive and trade-exposed through industrial allocation. This is because ETS costs can sometimes affect the competitiveness of some businesses.

ETS costs may also lead to emissions leakage, which is when the high cost of emissions in one country leads to high-emitting companies moving their activity (and associated emissions) overseas.

Industrial allocation is currently being phased out at one percentage point per year. The phase-out rate for any eligible industry can be modified through a review process.

Currently, the CCRA allows for reviews of a firm's emissions intensity and eligibility for industrial allocation. If a firm invests to substantially reduce its emissions intensity, these reviews mean that its industrial allocation entitlement will decrease.

The Bill proposes to remove allocative baseline reviews and eligibility reviews, apart from some limited exceptions.

This follows feedback from stakeholders that these reviews risk disincentivising firms from investing in decarbonisation technology.

Minister's power to call for electricity contracts

The ETS has increased the cost of using electricity. Industrial allocation reduces the cost impact of the ETS, including for electricity use, on eligible firms. A standard rate of allocation is used, called the electricity allocation factor. But that rate could overestimate the impact of the ETS on firms that have electricity contracts, resulting in overallocation and unnecessary fiscal costs. To reduce that risk, the CCRA allows the Minister to issue a Gazette notice that requires an eligible firm to provide a copy of their electricity contract ('call in') and for an adjustment to be made to that firm's allocation accordingly.

The Bill requires the Minister to publish guidance setting out when the power to call for electricity contracts would be used. Publishing guidance on the use of the call for contracts power gives firms more certainty about how electricity contracts may affect industrial allocations. This reduces a disincentive to invest and makes the industrial allocation regime easier to understand.

In some cases, a firm has approached the Minister before entering into a contract to seek an indication of how a proposed electricity contract might be treated and how this could affect allocation. This has involved an informal assessment before the contract enters into force. At present, this process is discretionary and does not result in a binding decision.

The Bill proposes to formalise this process so all eligible firms can choose to use a contract pre-clearance process.

Frequency of ETS unit limits and price controls settings

The CCRA requires the Climate Change Commission to provide annual advice to the Government on unit limits and price control settings (ETS settings) for the ETS. The Minister is required to consider this advice before making an annual decision on the ETS settings for the next five years.

The Bill proposes moving from an annual cycle to one that takes place every two years, referred to as biennial settings. This would apply to both the Commission's advice and the Minister's decision. 2027 would be the final standard year of the annual NZ ETS settings cycle and would take place as scheduled.

Under biennial settings, the Minister will still be required to publicly consult on ETS settings. The change is intended to provide greater market stability by reducing the frequency of updates to auction unit limit volumes and price control settings, while also improving administrative efficiency.

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