

About this advice

- **Annual review** – designed to help the Government make regular updates as needed.
- **Narrow scope** – focused on making the NZ ETS auction settings work as well as they can within the scheme’s existing architecture.

Key changes affecting our recommendations

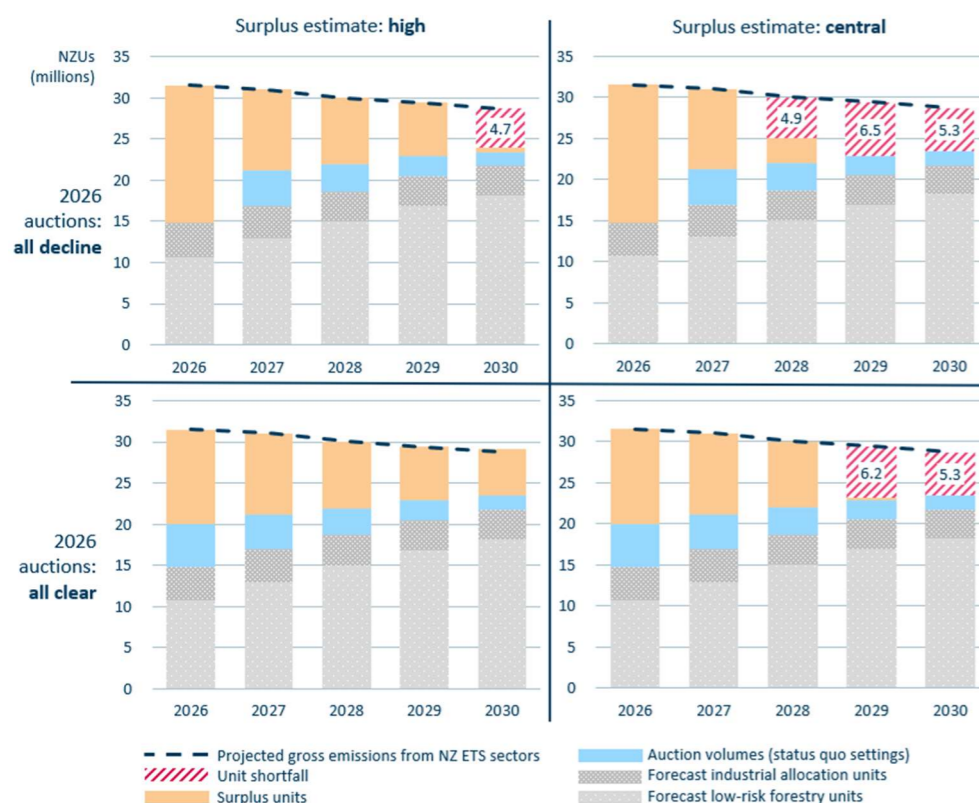
- **Lower NZ ETS emissions caps** – updated emissions projections mean the Government’s August 2025 emissions caps no longer accord with emissions budgets. We use lower emissions caps in our advice:
 - 81.9 MtCO₂e for the second emissions budget (2026–2030)
 - 28.9 MtCO₂e for the third emissions budget (2031–2035)

We looked at even lower emissions caps but considered these were not enabled by the Government’s second emissions reduction plan.

- **Unit surplus is reducing fast** – it was expected to reduce by 12.5 million units by Dec 2025, but we assess it declined by a further 8 million units, mainly due to 6 million units not selling at 2025 auctions.
- **NZ ETS market is in a fragile state** – NZU prices have been low and volatile. Uncertainty about the NZ ETS and wider climate policy appears to have undermined confidence.

Risk of a unit shortfall

If status quo auction volumes are retained, there is a risk of a unit shortfall as early as 2028, with increasing risk over 2029–2030.



Recommendations

The Commission recommends retaining current settings with only minor changes for now but advises the Government to prepare for the risk of a unit shortfall over 2028–2030.

- **Maintain the current NZ ETS 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.**
- **Retain and extend to 2031 the current price control settings, with inflation adjustments from 2029.**

Our report provides the full recommendations, but key elements are:

	Unchanged from regulations				New
	2027	2028	2029	2030	2031
AUCTION VOLUMES (million units)					
	4.3	3.3	2.4	1.7	3.0
	Unchanged		Updated for inflation*		New
	2027	2028	2029	2030	2031
COST CONTAINMENT RESERVE (CCR) trigger prices					
Tier 1	\$213	\$224	\$239 (\$236)	\$251 (\$248)	\$264
Tier 2	\$267	\$280	\$298 (\$295)	\$313 (\$309)	\$328
AUCTION RESERVE PRICE (ARP)					
ARP	\$75	\$78	\$83 (\$82)	\$88 (\$87)	\$92

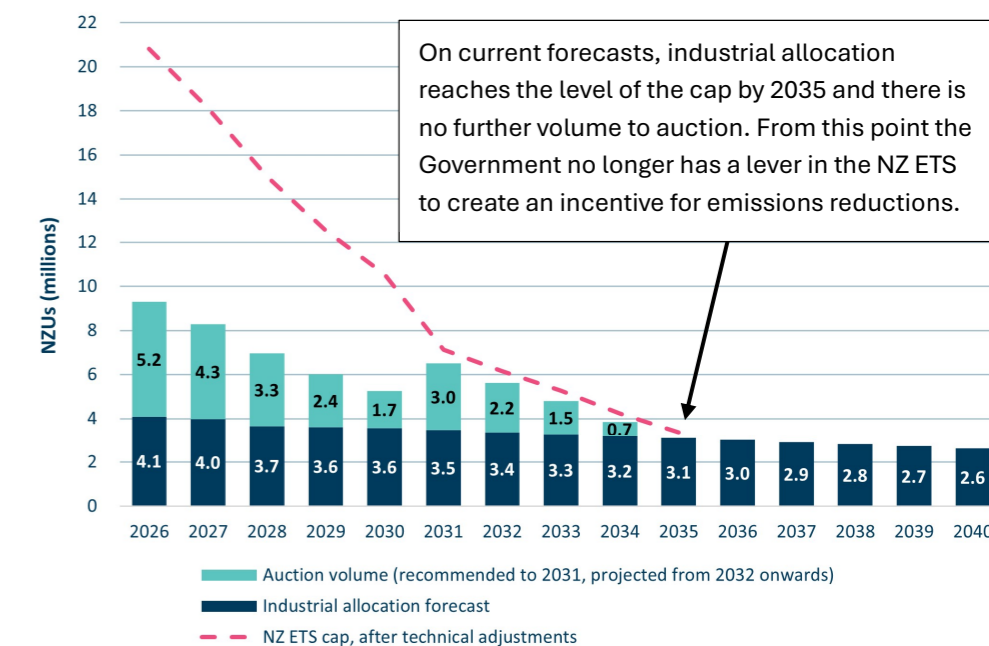
* Where there is a difference from regulations, the current settings are provided in brackets below our recommended settings

- These recommendations aim to limit the risk of further price instability and loss of confidence in the NZ ETS.
- The unit shortfall risk is uncertain but could cause rapid NZU price increases and volatility, with negative impacts on the economy and NZ ETS effectiveness. This would likely create pressure on the Government to intervene.
- The Government should use the coming months to plan and test with the market options for addressing shortfall risk that may need to be implemented over 2028–2030.
- The settings work together as a package – change to one component could mean that other elements have to be revisited.
- CCR and ARP are guardrails, not a forecast or price predictor – the unit price can (and frequently has) traded outside the CCR and ARP range.

Future outlook for the NZ ETS

- To meet emissions targets, our 2025 emissions reduction monitoring report (ERM 2025) recommended strengthening the NZ ETS as well as targeted policies in other sectors such as transport, energy and agriculture.
- Our analysis for this 2026 NZ ETS settings advice shows the point when the NZ ETS in its current form will no longer be able to incentivise further net emissions reductions is drawing closer – as early as the mid-2030s.

Forecast industrial allocation and auction volumes to 2040



Why does this matter?

- Investors need credible, well-signalled policies on the NZ ETS, and on climate change generally, to give them confidence that their investments in emissions reduction will generate returns.
- This outlook shows that from the mid-2030s, the NZ ETS will no longer be an effective tool to drive the emissions reductions still needed to meet the net zero component of the 2050 target.
- The Government needs to start considering what effective policy to reduce emissions looks like in the 2030s.

Read the advice

climatecommission.govt.nz/nz-ets-2027-2031