He Pou a Rangi
Climate Change Commission

Advice on
NZ ETS unit limits and price control settings for 2027–2031

April 2026

Haere mai – Welcome

This advice is required under section 5ZOA of the Climate Change Response Act 2002 .

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Disclosure statement: As anticipated by the appointment criteria, the Climate Change Commissioners come from varying fields such as adaptation, agriculture, economics, te ao Māori and the Māori–Crown relationship. While a number of board members continue to hold roles within these fields, our advice is independent and evidence based. The Commission operates under its Interests Policy, which is derived from the Crown Entities Act 2004. You can read more about our board members on the Climate Change Commission website. The Commission regularly updates and publishes on its website a register of relevant board interests.

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About He Pou a Rangi Climate Change Commission

He Pou a Rangi Climate Change Commission (the Commission) is an independent Crown entity established by the Climate Change Response Act 2002 (the Act) to:

a. provide independent, evidence-based advice to successive governments on mitigating climate change (including through reducing emissions of greenhouse gases) and adapting to the effects of climate change

b. monitor and review progress towards emissions reduction and adaptation.

In carrying out these roles, the Act requires the Commission to draw from the best available evidence and analysis, and to consider the impacts of climate change and the implications for Aotearoa New Zealand over time. The Act also directs us to consider the Crown–Māori relationship, te ao Māori, and specific effects on iwi/Māori in our work.

The Commission's impartial advice focuses on the outcomes that can result from government action and policy, and the choices that decision-makers have. The aim is to support the Government to fulfil its role under the Act, including achieving emissions budgets and the 2050 target, and allowing the people of Aotearoa New Zealand to prepare for, and adapt to, the effects of climate change.

The scope and timeframes for the Commission's advice and monitoring reports are set out in the Act. More information about the Commission's work programme can be found on our website, www.climatecommission.govt.nz.

Te whakarākei matua

Ko tō mātou kupu tēnei ki te Kāwanatanga mō te herenga hokohoko me te ritenga taura-utu ki te Kaupapa Hokohoko Tukunga o Aotearoa.

He taputapu kaupapahere matua te Kaupapa Hokohoko Tukunga o Aotearoa (NZ ETS) mō te whakaheke tukunga haurehu kati mahana rāroto. He auau tā He Pou a Rangi whakarato tohutohu ki te Kāwanatanga mō te herenga hokohoko o te kaupapa me ngā ritenga taura-utu (ngā tautuhinga NZ ETS). Koinei te tau tuarima e whakarato tohutohu ana a He Pou a Rangi ki te ritenga NZ ETS. Kua kapi i ēnei tohutohu te ritenga mō ngā tau 2027–2031.

I muri i te whakaotinga o ā mātou tūtohu, ka tīmata te pakanga moroki i te Rāwhiti Waenga. Kei te whanake haere ngā rara ki te whakaratonga me te utu o ngā koranehe. Kua whai wāhi kē ki ā mātou tohutohu te kumukumu e pā ana ki ngā utu koranehe me ngā tukuwaro a Aotearoa. Nā taua pakanga kua piki te taumata kumukumu, ā, he nui ake pea ngā pānga ki te ōhanga ā muri ake, me te aha ka pāngia anō ngā tukuwaro. E tuku ana ngā whakahōu auau ki te ritenga NZ ETS kia whakaritea te whakahāngaitanga tonu o te ritenga NZ ETS ki ngā ūnga tukuwaro, me te urupare ki te kumukumu me ngā āhuatanga he uaua te panoni. Me āta aromatawai anō i aua raru hei te arotake whai ake o te ritenga NZ ETS, tērā ka whakaritea i raro i ngā ture o te wā nei, mō te tau 2027.[i]

Ko te papa mō tēnei tohutohu ko te Climate Change Response Act 2002 i runga anō i tōna mana o nāianei. Kei te kōrero anō hoki mātou, ina hāngai, mō ngā takune he mea pānui e te Kāwanatanga ki te menemana i taua Ture, ka mutu, e nekehia ai tērā whakahou ritenga ki te tau 2028. Kei te whakaata tēnei i ngā mōhiohio e wātea mai ana ki a mātou mō aua mahere i te wā i oti ēnei tohutohu.

Ā mātou tūtohu

E marohi nei mātou kia mau te Kāwanatanga ki ngā rahinga mākete NZ ETS o nāianei taea noatia te tau 2030, me te whakatau i ngā rahinga mākete o te tau 2031 i runga anō i te whakaaro kua pau kē ngā tauhoko hemihemi i te mākete hei taua wā. E marohi ana anō hoki mātou kia mau te Kāwanatanga ki te ritenga taura-utu o nāianei tae noa ki te 2031, me ngā whakaritenga pikiutu tukipū atu i te 2029.

Ko tā ā mātou tūtohunga he whakataurite i ētahi mōrearea whakataetae e rua. Tētahi, ka taea mā te ritenga o nāianei (mā tētahi hekenga rahinga rānei) te whakaputa i te whakaitinga iho o ngā tauhoko i te mākete i ngā tau tōmuri o te ngahurutau nei. Ko te hua o

[i] E herea ana mātou e te Climate Change Response Act 2002 (te Ture) ki te whakarato i ngā tohutohu whai ake mō te ritenga NZ ETS i te pane o te 2027. Kua marohi te Kāwanatanga ki te menemana i te Ture kia whakaratohia ai te whakahou ritenga i ia rua tau. Ka kitea he mōhohio mō ngā huringa kua marohitia ki te Ture ki konei: https://environment.govt.nz/news/government-announces-a-series-of-changes-to-nzs-climate-law

taua whakaitinga iho o ngā tauhoko ko te pikinga tere me te tākohukohu o ngā utu Tauhoko o Aotearoa (NZU). Mā tēnei ka whakaheke pokerehūtia pea ngā tukuwaro mā ngā katinga wheketere me te iti iho o ngā mahi whakanao, engari rawa mā te whakapoapoa haumitanga kē ki ngā hangarau tukuwaro-iti.

Manohi anō, i hua ake he hekenga hira ki ngā utu NZU i muri i ngā pānuitanga kaupapahere Kāwanatanga i te 4 o Nōema 2025. Kua pūrongo ētahi kaiuru mākete nā ngā whakaaro kei te whakangoikoretia te mārō o ngā kaupapahere āhuarangi ko te whakaaro whānui ehara te mākete i te pai te hua. Mā tētahi whakapikinga o ngā rahinga mākete i tēnei wā ki te whakatutuki i te mōrearea o te tūpono whakaiti iho o ngā tauhoko ka whakamemeha kia nui atu pea i te māia ki tētahi mākete aumate kē.

Ko tā mātou e tohutohu ana, kia mau ki te ritenga rahinga mākete o nāianei, me te takatū haere i taua wā anō ki te whakatutuki i te tūraru kei pā he takarepa ā ngā tau ki tua.

Te whakatutuki i te tūraru ka pā he takarepa

Kua whakatauria ā mātou tūtohu ki te mōkī tautuhinga NZ ETS i runga anō i te pūtake ka puta tērā whakahou ki ngā waeture ā te 2027 e ai ki ngā ture o nāianei. Nā reira, e tohutohu ana mātou kia āta tohu, kia whakamātau hoki te Kāwanatanga i te tau e tū mai nei, i ngā kōwhiringa mākete mō te whakatutuki i te whakaratonga iti iho hei ngā tau 2028–2030.

Ki te menemanatia te Climate Change Response Act 2002, pērā i tā te Kāwanatanga i pānui ai, ā, ki te neke tērā whakahou tautuhinga atu i te 2027 ki te 2028, e tohutohu ana mātou ki te whakamahi i tētahi tānga iti iho, he mea taupua, o te utu here tauraro (CCR)[ii] ki te whakatutuki i te tūraru whakaratonga iti iho atu i te 2028–2030.

Kua whakatakotoria ā mātou tūtohu i te Tūtohi ES.1. E whakamārama ana mātou i raro nei i ngā whakawā matua, ngā kitenga me ngā wāhi e rangirua ana mātou, ko te putanga o tēnei mōkī tūtohu te hua.

[ii] Ka whakawātea te utu here tauraro (CCR) i te rahinga tāpiri o ngā tauhoko hei hoko atu mēnā ka hipa i ngā mākete hoko kāwanatanga tētahi tūtohu utu kua whakaritea, ki te mahi hei tumu whakatū i ētahi anō pikinga utu.

Ngā take hira mā te hunga whakatau

He aha tā mātou e tūtohu ana?

- E tūtohu ana mātou kia puritia ngā tautuhinga o nāianei mō tēnei wā, me te tohutohu anō i te Kāwanatanga kia takatū mō te tūpono ka iti iho te whakaratonga ā ngā tau 2028–2030.
    - Kia mau ki ngā rahinga mākete NZ ETS o nāianei taea noatia te tau 2030, me te whakatau i ngā rahinga mākete o te tau 2031 i runga anō i te whakaaro kua pau kē ngā tauhoko hemihemi i te mākete hei taua wā.
    - Kia puritia ngā ritenga taura-utu o nāianei tae noa ki te 2031, me ngā whakaritenga pikiutu tukipū atu i te 2029.

He aha mātou i mahi ai i aua tūtohu?

- E whai ana ēnei tūtohu ki te whakaiti i te tūraru kei pāngia āno te mākete e ngā utu pāhekeheke, te memeha haere o te māia ki te NZ ETS.
- I ēnei marama tata nei kua heke, kua tākohukohu te utu tukuwaro NZ ETS. Ko te āhua nei kua whakararu te rangiruatanga ki te NZ ETS me ngā kaupapahere āhuarangi whānui atu i te māia o te mākete.
- He hemihemitanga tauhoko e wātea ana i te mākete, i tēnei wā, engari taihoa ake ka huri. I raro i ngā tautuhinga o nāianei, ka ruarua rawa pea ngā tauhoko kia ea ai te popono.
- Ka āhei te Kāwanatanga te urupare mā te whakawātea i ētahi anō tauhoko mā ngā mākete hoko atu, engari rawa ka nui ake pea te whakararunga o te mākete e ngā huringa ohorere i tēnei wā.

He aha te kino o te takarepa?

- E tōtika ai he ETS, kia rōnaki te piki haere o te utu tukuwaro i roto i te wā hei whakatītina i te nekenga ki ngā kōwhiringa tukuwaro-iti. Engari ki te tere rawa te pikinga o ngā utu tukuwaro, ka hipa pea te āhei o te tangata me te pakihi ki te urupare.
- Ka hua ake pea i te takarepa ngā pikinga tere me te tākohukohu o ngā utu NZU:
    - ko ngā pāpānga ohaoha whakatōhenehene, pēnei i te whakanaonga iti iho, ngā katinga wheketere me te ngaromanga mahi te mutunga atu
    - te pēhi i te Kāwanatanga ki te whakakaupapa wawaotanga kāore i whakaritea i mua ki roto i te mākete, ā,
    - te whakarite kia whakatōmuri ngā kaihaumi pūtea i ngā hōtaka whakaiti tukuwaro.

He aha te whānuitanga o tēnei tohutohu?

- Mō ngā tepe tauhoko NZ ETS me te ritenga taura-utu tēnei mō ngā tau 2027–2031. Ka aro atu pea ērā atu o ā mātou tohutohu ki ngā āheinga whānui kē atu mō te whakaiti tukuwaro mā te NZ ETS me ētahi atu taputapu.

- Ko te taputapu NZ ETS te taputapu matua a te Kāwanatanga mō te whakaiti tukuwaro, engari ka kapi i tenei wā te iti iho o te 40% o ngā tukuwaro rāroto, me te heke haere tonu o taua tiringa.
- He wāhi iti noa ngā NZU mākete, e arotahitia ai e tēnei tohutohu, o ngā tauhoko tapeke i roto i te pūnaha.

He aha ērā atu mea me tutuki i te NZ ETS?

- E hiahiatia ana e te hunga haumi ngā kaupapahere NZ ETS pono, kua āta tohua anō hoki, ā, i tua atu, ngā kaupapahere panoni āhuarangi whānui tonu e piki ai tō rātou māia ka puta he hua ki a rātou i tā rātou haumi pūtea ki te whakaiti tukuwaro.
- Kua tohutuhu kē mātou i mua tērā pea ka hiahiatia he NZ ETS pakari ake e tutuki ai ngā ūnga tukuwaro, me ngā kaupapahere kua āta tāreia i ētahi atu rāngai, pērā i te tūnuku, te pūngao me te ahuwhenua.
- Kei te kātata te wā kua kore e taea e te NZ ETS i tōna āhua o nāianei te whakapoapoa i ngā whakaitinga tukuwaro anō. E whakaatu ana tā mātou tātaritanga whakahou mō ēnei tohutohu ritenga NZ ETS ka puta wawe tērā, hei waenga pea i te ngahurutau 2030.

I pēhea tā mātou whakatau i ā mātou tūtohunga?

He whakaritenga tō te Climate Change Response Act 2002 (te Ture) kia hāngai tonu ngā herenga hokohoko NZ ETS me te ritenga taura-utu ki ngā tahua tukuwaro me te ūnga mo te 2050. E whai ana mātou ki te whakarite i te hāngaitanga mā tētahi tikanga ko tēnei whakaritenga tōna pū, ā, ka whakatutuki anō hoki i ētahi atu take me āta aro atu i raro i te Ture.

Tuatahi ake, ka aromatawai mātou me pēhea te tiritiri i ngā whāinga whakaiti tukuwaro o te whenua puta noa i ngā rāngai i roto, i waho hoki i te NZ ETS, e hua ake ai te taupoki tukuwaro mō te kaupapa.[iii] Kātahi ka whai whakaaro ki te rahinga o taua taupoki tukuwaro ka pau i ngā tauhoko mai i te tūpānga ahumahi,[iv] ngā tauhoko i tāwāhi, me ngā tauhoko tuhene kei roto kē i te mākete. Ka whakawāteatia pea i te mākete tērā rahinga e toe ana i raro i te taupoki tukuwaro. Ko tā mātou anō hoki he aromatawai i ngā utu tukuwaro ka hiahiatia pea ki te whakaheke tukuwaro ki te taumata o te taupoki tukuwaro, kia whai mōhio ai ā mātou whakatau mō te ritenga taura-utu.

Ki ō mātou whakaaro hakune, e āta hāngai ana tā mātou mōkī herenga hokohoko ka tūtohua me te ritenga taura-utu ki te tahua tukuwaro tuarua me te ūnga mō te tau 2050. E

[iii] Ka tutuki pea ngā tahua tukuwaro mā te whakaiti tukuwaro a ngā rāngai i roto, i waho hoki i te NZ ETS. Ko te taupoki tukuwaro te tiringa o te rahinga tahua tukuwaro kua tohaina ki ngā rāngai i te NZ ETS. Kei te heke haere te taupoki tukuwaro i roto i te wā hei whakaata i ngā ūnga whakaiti tukuwaro.

[iv] Ko te 'tūpānga tauhoko' (te 'tūpānga taukoko utu kore' rānei) te whakaratonga o ngā NZU utu kore ki ngā kamupene e whai ana i ngā mahi tukuwaro nunui ā-tauhokohoko (EITE). Mā tēnei e whakaiti i te utu o te NZ ETS mā ērā kamupene, ā, ko te koronga, me heke te mōrearea o te turuturu tukuwaro.

whakaaroarohia ana anō hoki e hāngai ana te mōkī ki te tahua tukuwaro tuatoru, me tētahi rerekētanga ka taea te parahau i muri i te whai whakaaro ki ngā take hāngai i roto i te Ture. He āmiki atu te kōrero mō tēnei i te Wāhanga 5: Te ritenga taura-utu kei tēnei pūrongo, i roto anō hoki i te Āpitihanga Hangarau 3: Te aromatawai hāngatanga, ka whakaputa motuhaketia i tā mātou paetukutuku.

Ngā taupoki tukuwaro NZ ETS

E ai ki ā mātou aromatawai he 81.9 $MtCO_2e$ te taupoki tukuwaro mō te wā tahua tuarua (2026–30), he 28.9 $MtCO_2e$ mō te wā tahua tuatoru.

E hāngai ana aua taupoki ki ngā tahua tukuwaro mō aua roanga wā, ā, e ōrite ana ki tā te Kāwanatanga mahere whakaiti tukuwaro o nāianei. Ko te pūtake mō te taupoki tukuwaro o te tahua tukuwaro tuatoru ko te pūmāramarama ka noho haepapa ngā rāngai NZ ETS ki te whakakopi katoa i te āputa i waenga i ngā tukuwaro e matapaetia ana mō tēnei wā me te tahua tukuwaro tuatoru.

Kei raro iho ngā taupoki tukuwaro i tā te Kāwnatanga i kī ai i tana whakatau i tērā ritenga NZ ETS tōmua i Akuhata 2025.[v] E whakaatu ana ngā matapae hou ake i te nui ake o ngā tukuwaro ahuwhenua, me te nui atu o te tangohanga CO_2 e ngā ngahere. Nā reira, kua kore aua taupoki o Akuhata e hāngai ana ki ngā tahua tukuwaro.

Tā mātou aromatawai o te herenga hokohoko

Ka unu rahinga mātou i te taupoki tukuwaro hei whakarite i te hāngai ki te Rārangi Haurehu Kati Mahana o Aotearoa

Ko tā mātou aromatawai, me tango te 4.3 $MtCO_2e$ i te taupoko tukuwaro mō te wā 2027–31 e arohia ai ngā rerekētanga i waenga i ngā tukuwaro i pūrongohia i raro i te NZ ETS me ērā i matapaehia i te Rārangi Haurehu Kati Mahana o Aotearoa (Whakarārangi GHG),[vi] ā, i roto i ngā mahi kaute mō te ūnga.[vii]

O aua rerekētanga 'whaitake', e hāngai ana te 3.2 $MtCO_2e$ ki te ahurākau. Ka hiahiatia pea he rerekētanga nui ake whai muri i ā nga Kawanatanga whakatau mō te whakahou i ngā tūtohi hua waro taunoa NZ ETS. E tūmanakohia ana aua whakatau i te tau 2026. Mēnā ka whakahoutia aua tūtohi hua, e tohutohu ana mātou kia tātai anō te Kāwanatanga i te rerekētanga whaitake ā-ahurākau, me te hoatu i te uara whakahou.

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[v] Nā te Kāwanatanga tētahi taupoko tukuwaro o te 89.4 $MtCO_2e$ i pānui mō te tahua tukuwaro tuarua (2026–30) me tētahi taupoki 'takitaro' o te 40.7 $MtCO_2e$ mō te tahua tukuwaro tuatoru (2031–35).

[vi] Ko te Rārangi Haurehu Kati Mahana o Aotearoa (GHG) te pūrongo ā-tau whaimana o ngā tukuwaro katoa nā te mahi a te tangata, o ngā tangohanga hoki o ngā haurehu kati mahana i Aotearoa.

[vii] Ko te mahi kaute ūnga te pūnaha kaute ka whakamahia ki te ine i te koke whakamua ki te whakatutuki i ngā whāinga whakaiti tukuwaro o Aotearoa. Kei roto ko ngā tukunga peke i pūrongotia ai i te Rārangi GHG, engari ko te huinga iti anake o ngā tukuwaro me ngā tangohanga mai i te whakamahinga whenua me te ahurākau.

Kei te haere tonu te hekenga o te hemihemitanga tauhoko i te mākete

E whakapaetia ana e mātou he awhe tuwhene mai i te 17.1 ki te 41.7 miriona tauhoko, me te whakatau tata wēanga o te 29.7 miriona tauhoko.

He tere atu te pau haere o te hemihemitanga i tā mātou i tūmanako ai, ko te take whānui e pērā ana ko te korenga e rawaka o ngā hokonga i ngā mākete. I raro i te ritenga herenga tauhoko, ko te tūmanako, me heke te hemihemitanga mā ngā tauhoko 12.5 miriona i te mutunga o te 2025. Kua heke haere anō tā mātou whakatau tata hemihemitanga wēanga mā te 6 miriona tauhoko anō nā te hekenga o ngā mākete 2025, ā, mā tētahi tauhoko 1.9 miriona anō ko ngā raraunga me ngā pūmāramarama kua whakahoutia te take.

Kua whakawhāitihia anō hoki tā mātou matapae mō te awhe hemihemitanga. Ko te take nui e pēnei ana, nā te Manatū Ahu Matua (MPI) whakarato ki a mātou ngā raraunga whakahou mō ngā ngahere, taea noatia ngā matapae (ā-tau ono rākau) mō ngā ngahere tērā pea ka tuaina. Mā konei e taea ai te tātai te rangirua mō te hemihemitanga e pā ana ki ngā ngahere kua rēhita i te NZ ETS, me te aro anō ki ngā pūmāramarama a te MPI mō te tawhito o aua ngahere.

Te tūpānga ahumahi me ngā tauhoko nō tāwāhi

He iti iho tā mātou matapae ahumahi i tērā i ā mātou tohutohu mō te tau 2025, nā ngā raraunga hou.[viii]

Pērā i ngā tau o mua, e tūtohu ana mātou kia tautuhia te tepenga mō tāwāhi kua whakaaetia kia kore, nā te mea kāore anō ētahi tauhoko nō tāwāhi kua whakaaetia hei whakamahi i te NZ ETS.

Te tapeke o ngā tauhoko ka whakawāteatia pea ki te mākete

Ko te whāinga kua takoto i te Kāwanatanga ko te whakaiti i te hemihemitanga hei te 20230. I runga i te noho hāngai tonu ki taua whāinga, e matapae ana mātou ko te rahinga ka whakawāteatia pea hei hokohoko mō te wā 2027–30 kei te takiwā o te 11.2 miriona ki te 35.8 miriona tauhoko, me te matapae wēanga o te 23.2 miriona tauhoko. Ka taea tērā te whakataurite ki te rahinga mākete i raro i te ritenga o nāianei o te 11.7 miriona tauhoko mō taua wā.

Ki te puritia ngā rahinga o nāianei i te mākete, he mōrearea kei pāngia te mākete ki te takarepa ā te hiku o te ngahurutau nei. Heoi, nā te tūnga moroki o te mākete me te arawātea ki te aromatawai anō i taua mōrearea ā te 2027, kāore mātou i te tūtohu panoni ki aua rahinga mākete. Ka nui ake tā mātou whakamārama i aua take i raro.

[viii] Nā te mea kua whai wāhi kē tētahi tūpānga ahumahi ki te tepenga whānui mō ngā tauhoko, kua whakahou mātou i ngā tepenga whānui atu mai i te 2029 ki te whakaata i te matapae whakahou mō te tūpānga ahumahi. Kāore anō kia whakahoutia ngā tepenga whānui mō ngā tau e rua tuatahi o te wā ritenga (2017–2028), nā te herenga o te Ture mō te whakarerekē i aua tau o te ritenga.

Te mōrearea kei pā he takarepa

Mēnā ka tata te hemihemitanga ki tā mātou i matapae ai, he mōrearea o te whakaratonga iti rawa ā ngā tau tōmuri o te ngahurutau nei. Ka puta wawe pea he takarepa, hei te 2028, ki te tata te hemihemitanga ki tā mātou mātapae wēanga, ā, ki te kore he rawaka ngā hokonga i te mākete. Ahakoa kei te taumata teitei te hemihemitanga o te awhe i matapae mātou, kei reira tonu te mōrearea o te takarepa ki te kore e rawaka ngā hokonga i ngā mākete o te 2026. Pērā e whakaaturia ana i te hoahoa ES.1, ko te āhuatanga anake e kore ai e tūpono he takarepa ko tērā e noho ai te hemihemitanga ki te tōpito o runga i te awhe, ā, ka oti pai ngā hokohoko mākete.

He mea hihiri te hemihemitanga, nā te mea ka tere pea te huri i te whanonga o ngā kaiuru nā runga i ngā āhuatanga e panoni ana. Hei tauira, kua rongo kōrero mātou nā te hekenga me te tākohukohu i nā noa nei i ngā utu NZU, kua whakaitia e ngā kaituku tā rātou whakarauhī whakamua kia noho ai te hemihemitanga ki te pito teitei ake o te awhe. I te hekenga haere o te hemihemitanga i te takanga o te wā, i te mārama haere o te mākete ki ngā take waiwai o te whakarato me te popono i te wā wawaenga, ka panoni pea ngā ritenga whakarauhī e whakaitia ai pea te hemihemitanga ki ngā taumata hahaka atu, me te aha ka pātata haere ki tā mātou matapae pokapū.

I runga anō i tā mātou matapae wēanga ka noho pea te takarepa ka puta i te takiwā o ngā tauhoko 5 miriona. He rahinga hira tērā ki tētahi mākete i noho ai te tapeke o te popono ā-tau mai i ngā tukuwaro peke ko tōna 33 miriona tauhoko i te tau 2025, ā, e noho ai te rahinga mākete kua whakaritea mō te 2026, ko te 5.2 miriona tauhoko.

Kāore i te tino mōhiotia āhea, mēnā rānei, ka puta mārire taua mōrearea o te whakaratonga iti iho rawa. Heoi, he mea hira kia āta whakaaroarohia e te Kāwanatanga me pēhea te whakamauru i taua mōrearea. Mēnā ka hua pū ake, tērā pea ka whakamemeha mārikatia te whāomo o te NZ ETS.

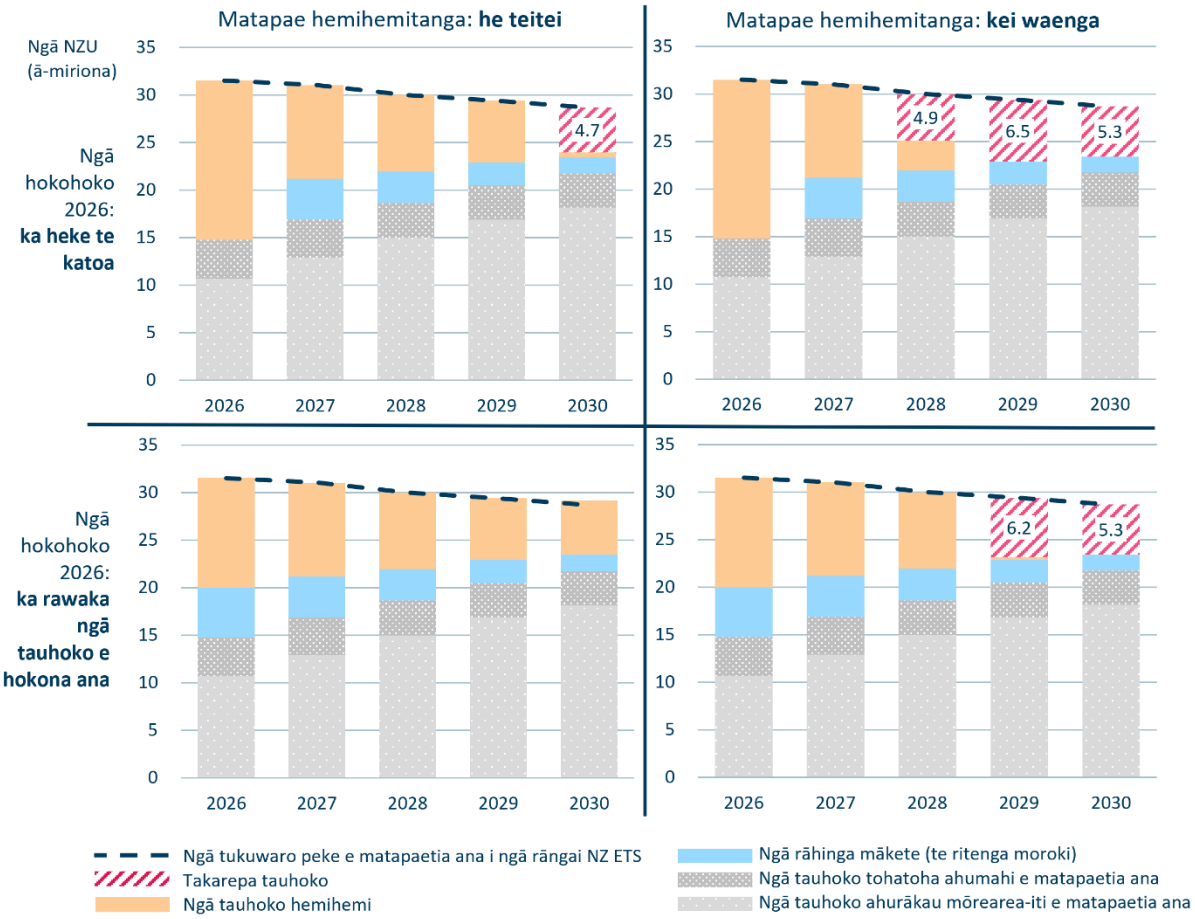
Ngā pāpānga pea mēnā ka puta he takarepa

Ka hua ake pea i te takarepa ngā pikinga tere me te tākohukohu o ngā utu NZU. Kua taka mai ngā pikinga tere o ngā utu i mua, pēnei i ngā tau 2021–2022.

Ko te koronga, he rōnaki te piki haere o ngā utu tukuwaro i roto i te wā, ko te whakatenatena whakaitinga tukuwaro te pūtake. Heoi, ki te tino tere rawa te pikinga utu, kei mua noa atu tērā i tō ngā pakihi āhei ki te urupare. Mā te pērā, ka piki te tākohukohu o ngā utu, tērā ka whakararu i tō te kaupapa āhei ki te whakapoapoa haumitanga ki te whakaiti tukuwaro, i te ahurākau, i ētahi atu rāngai hoki. I ngā wā tē taea te matapae i ngā hua mai i te haumi pūtea, tērā tonu pea ka tinaku ngā pakihi i ngā whakataunga haumi

Ka uruhi pea ngā utu NZU he tere te piki, he tākohukohu hoki, i te whakaiti tukuwaro mā te itinga iho o ngā mahi whakanao, mā te kati wheketere rānei (tē whakapoapoa haumitanga ai ki ngā hangarau tukuwaro iti ake), me te whakaputa āhuatanga e pēhia ana te Kāwanatanga ki te whawhe hanga noa i te mākete.

Hoahoa ES.1: Ētahi horopaki e whakaatu ana i te mōrearea ka puta he takarepa atu i te pane o te tau 2028



Mātāpuna: Tātaraitanga He Pou a Rangi

Kia mōhio: Kei te whakaatu tēnei hoahoa i ngā ahu hira o te rangiruatanga, e pā ana ki te hemihemitanga me ngā mākete hokohoko. He rangiruatanga anō kei ētahi atu wāhanga o te whakarato me te popono tauhoko e whakaaturia ana i ēnei tūtohi, nā te mea he matapae anake.

Ā mātou herenga hokohoko tūtohu

Ko tā mātou e tūtohu nei, me mau tonu te Kāwanatanga ki ngā rahinga mākete NZ ETS tae noa ki te 2030. E marohi nei mātou kia whakarite te Kāwanatanga i ngā rahinga mākete 2031 i runga anō i te whakaaro kua pau kē ngā tauhoko hemihemi i te mākete hei taua wā. E whakaatu ana te tūtohi ES.1 i te herenga hokohoko e tūtohu nei mātou.

Kei te herea tā mātou tūtohu ki te whakaotinga o tērā whakahou NZ ETS ā te 2027

Kei te herea tā mātou tūtohu mō te mōkī ritenga NZ ETS ki te whakaotinga o te whakahou ritenga NZ ETS hei te 2027, tērā e whakaritea ana e te Ture.

Kua kī te Kāwanatanga e whai ana ki te tautoko i te mākete NZ ETS tūwhena, ka taea te matapae, e whakarato whakapoapoa ana rānei mō te haumi ki te whakaiti tukuwaro. E hāpaingia ai taua whāinga, e hiahia ana ngā kaiuru mākete i ngā tohu mārama mo te tūpono

panoni ki te ritenga NZ ETS ā muri ake, taea noatia te āhua e marohi ai te Kāwanatanga ki te whakatutuki i te tūpono takarepa.

Ki te tutuki tērā whakahou hei te 2027 i runga anō i te whakaritenga o te Ture ko tā mātou tūtohu ki te Kāwanatanga me mārama te tohu me te whakamātautau i ngā kōwhiringa mākete mō te whakatutuki i te mōrearea takarepa tērā pea me whakatinana ā ngā tau 2028–30.[ix]

Ka aha ki te kore e tutuki tērā whakahou NZ ETS tae noa ki te 2028?

Kua pānui te Kāwanatanga e whai ana ki te menemana i te Ture kia taka mai ai ngā whakahou ritenga NZ ETS i ia rua tau, kaua i ia tau, pēnei i tēnei wā. I runga anō i te wā o taua menemana, kāore pea tērā whakahou ritenga NZ ETS e taka taea noatia te hiku o te tau 2028. Ka tōmuri rawa mō tā te Kāwanatanga whakatutuki i tētahi mōrearea takarepa ka puea ake i roto i te tau 2028.

Mēnā ka whakamanatia te menemana kua marohitia, mēnā kāore he whakahou ritenga NZ ETS hei te 2027, ko tā mātou tohutohu, me whakatū he tānga iti ake o te utu here tukuwaro (CCR) mō ngā tau 2028–2030. Ko te pūtake o taua tānga CCR rangitahi he whakamauru i te tūpono takarepa ā te 2028, ā, ko te teitei rawa me te tere rawa o te pikinga utu NZU ngā hua ka tūpono pea.

Ka whai tūtohu utu te CCR rangitahi (ARP) kei runga ake i te utu mākete tauraro o nāianei (ARP)[x] engari kei raro i te CCR i tēnei wā, me te aha ka whakarato tauhoko anake ki te mākete mēnā he tere te pikinga utu. Kei roto ko ngā rahinga tauhoko ka taea te hokohoko i runga anō i te matapae wēanga o te hemihemitanga, engari e tūtohu kē ai mātou kia kaua e tukuna hei hokohoko i te whakahou ritenga o tēnei tau. Ko aua tauhoko, e ai kī ā mātou matapae tino pai rawa, kei raro tonu i te taupoki tukuwaro NZ ETS, ka mutu ka hokohokona me te kore e whakararu i ngā ūnga e whāia ana. Ko tērā arawātea mō te whakahou ritenga ko te tau 2028, ā, koia te kōwhiringa anake kua tautuhi nei mātou tērā ka whakatutuki i te mōrearea takarepa hei taua tau.

Te take kāore mātou e tūtohu kia whakawāteatia aua tauhoko i te mākete

Kua kōwhiri mātou kia kaua e tūtohu herenga hokohoko tērā ka whakarahi i te rahinga mākete taketake mō te wā 2027–2030. Ko te tino take e pērā ana, ko tō nāianei āhua o te mākete.

I muri i ētahi marama e āhua tūwhena ai ngā utu i te takiwā o te $50–$60, i nui te hekenga o te utu mākete NZU i Nōema 2025, ka mutu, kua tākohukohu tonu mai i taua wā, ā moroki noa nei. I heke te utu ki tērā he paku nui i te $30 i Hānuere 2026 i mua i te piki mai anō ki tua atu i te $40 i te tīmatanga o Māehe. Kua heke te whāomo o ngā mākete nā te mea e āhei ana

[ix] I raro i te Ture, tē taea ngā tau tuatahi e rua o te wā ritenga te menemana, hāunga te maiea ake o ngā āhuatanga pēnei i te panoni ka nui tōna pānga ki tētahi take me āta whai whakaaro i raro i te Ture. Ko te takune nei, he turuki i te āheinga ki te hanga matapaenga.

[x] Ko te utu mākete tauraro (ARP) te utu mōkito e kore ai e hokona atu ngā tauhoko i ngā mākete kāwanatanga.

ngā kaiuru te hoko tauhoko mai i te mākete tuarua i ngā utu kei raro tonu iho i tō te ARP o nāianei.

Kāore anō mātou kia tautuhia he pūtake e ai ki ngā take waiwai o te whakarato me te popono mō ngā utu mākete kia pērā ai te iti rawa o ngā utu. I whāia te hekenga utu i Nōema 2025 e tētahi raupapa whakatau a te Kāwanatanga e pā ana ki te NZ ETS. I Oketopa 2025 he mea pānui e te Kawanatanga he ūnga mō te 2050 e iti iho ai te hao nui mō te whakaiti i te mēwaro ahukoiora. Ko tāna anō hoki, he awere i ngā tukuwaro ahuwhenua. Katahi te Kāwanatanga, i Nōema 2025, ka pānui i tōna koronga kia tangohia tētahi whakaritenga mō te ritenga NZ ETS kia hāngai ai ki tō Aotearoa takohanga ā-motu (NDC) i raro i te Whakaaetanga o Parī.[1]

Ko te tikanga o aua pānuitanga ahuwhenua me nui ake ā ngā rāngai NZ ETS, pēnei i te ahuwhenua, te tūnuku me te pūngao, kohakoha kia tutuki ai i a Aotearoa ngā whakaritenga o ana tahua tukuwaro. Mā nga panoni e hua ake te rangiruatanga ki ngā kaiuru ki te mākete, nā te mea ka panoni tonu pea ngā whakahekenga tukuwaro ka hiahiatia e ngā rāngai NZ ETS hei urupare ki ngā ia kei ngā tukuwaro ahuwhenua.

I kī mai ngā kaiuru mākete i korero ai mātou i whakaata whānuitia e ngā utu e hekeheke ana i ngā whakaaro me te rangirua ki ngā kaupapahere whakamauru panoni āhuarangi. I kitea e aua kaiuru ngā pānui NZ ETS o nā noa nei, me ērā atu pānui kaupapahere whakamauru panoni āhuarangi (e pā ana ki ngā pūrongo a ngā rāngai ahuwhenua, tūānuku, me te rangatōpū) hei whakaatanga o te ngoikore whānui o tō te Kāwanatanga ū ki te whakaiti tukuwaro. Kīhai rātou i tūmanako ka pai ake ngā utu, ka pērā rānei te whakaoranga anō o ngā utu, i roto i te 2026 kia rawaka ai ngā hokohoko mākete.

I kī anō hoki kua pēhia te utu nā te raru wā poto o te urunga o ngā tauhoko nunui atu ki te mākete mai i ngā tukuwaro whakature ahurākau me tutuki i ngā marama e ono tuatahi o tēnei tau. I kī ētahi he nui te pānga o ngā rerenga tauhoko ahurākau ki te iti o ngā utu i kitea i Hānuere.

Ahakoa ka whakawāteahia pea ngā rahinga tāpiri mō te mākete i runga anō i ngā tahua tukuwaro a te Kāwanatanga, ko tā mātou aromatawai ka nui ake pea te whakararu i te māia mākete mā te tuku i aua rahinga i ngā āhuatanga o tēnei wā.

Te take kāore mātou e tūtohu ana kia iti iho ngā rahinga mākete

Kua kī mai ētahi autaua ka āwhina pea te whakaiti rahinga mākete i ngā tau tae noa ki te 2030 i te mākete ki te whakaora anō i ngā utu iti, tākohukohu anō hoki, o ēnei marama kua heke nei. He mea pānui anō hoki e te Minita tōna whakaaro mēnā ka āwhina ngā rahinga mākete kua whakaitia i te NZ ETS ki te whakatutuki, wā poto nei, i ētahi anō whakaitinga tukuwaro, ka mutu, ki te whakarite anō hoki kia kaha ake tō te Kāwanatanga raukaha ki te whakatutuki i te tāhua tukuwaro tuatoru me ngā NDCs.[2]

E whāomo ai tā te NZ ETS whakapoapoa i te whakahekenga tukuwaro, me āhei ngā kaituku ki te hanga whakataunga haumi i runga anō i ngā mōhiohio kua āta tohua mō ngā kaupapahere me ngā ritenga mō āpōpō. Ki tō mātou nei titiro, ehara i te mea ka

whakatītinatia māriretia ngā kaituku ki te haumi ki te whakaheke tukuwaro mā te whakaiti i ngā rahinga mākete ki raro i ngā taumata o nāianei. Engari, mā te whakaiti rahinga i tēnei wā tonu ka piki ake pea te mōrearea kei puta he takarepa tauhoko, me te aha, ko ngā pikinga utu tere rawa me te tākohukohu te hua.

E āta whāia tonutia te ara e tutuki ai te tahua tukuwaro tuatoru, ka hiahiatia pea ētahi anō kaupapahere hāngai ki te NZ ETS e ai ki ngā mōhiotanga e pā ana ki ngā whakaitinga tukuwaro e whaitake ana pea mō taua roanga wā.

I roto i tā mātou pūrongo aroturuki whakaiti tukuwaro 2025, i ārohia e mātou te āhei o te whakaitinga kia nui ake o ngā tukuwaro e tutuki ai te tahua tukuwaro tuatoru.[3] Mō te nuinga o ngā arawātea i tautuhia, tē taea pea e ētahi te urupare ki ngā whakapoapoa NZ ETS (hei tauira, ngā huringa i te whakamahinga o ngā waka pāhihi, me ētahi atu arawātea tūnuku), kei ngā wāhi kē rānei kāore e kapi i te NZ ETS (hei tauira, te ahuwhenua, kei ngā wāhi rānei kāore pea e nui, e tūwhena rānei, te utu tukuwaro NZ ETS ki te uruhi panonitanga (hei tauira, te whakanao hiko me te ahuwhenua).

Ko te onoono rākau ngahere te mahi e nui rawa ai te tūpono ka whakapoapoatia e te NZ ETS, ka mutu ka āwhina ngā ngahere e onokia ana atu i nāianei tae noa ki te 2031 ki te whakatutuki i te tahua tukuwaro tuatoru me te NDC tuarua (2031–2035), engari kāore e āwhina ki te whakatutuki i te NDC tuatahi (2021–2030). E pēnei ana, nā te mea ka pau i ngā ngahere te 4–5 tau i muri i te ononga te tīmata ki te whakataratahi waro. Mēnā ka nui ake te unu tauhoko i ngā mākete ka whakatenatenatia pea ngā mahi onoono rākau ngahere nui ake, engari e kore aua ngahere e whakarato tauhoko ki te mākete e tutuki ai te popono tukuwaro peke ka matapaetia hei ngā tau tae noa ki te 2030. E kore e whakakorea te mōrearea o te takarepa tauhoko mā ngā mahi onoono rākau anō i ngā tau 2028–2030.

Tā mātou ritenga taura-utu

E tūtohu ana mātou kia noho ngā utu me ngā rahinga ARP me te CCR i tō nāianei taumata mō tēnei wā, ā, kia tautoroa atu mā te ara e whaia ana ināianei ki te 2031, me ngā whakaritenga pikiutu tukipū atu i te 2029. Kua noho pūmau taua ritenga (ahakoa ngā whakaritenga pikiutu tukipū) mai i te 2022. E whakaatu ana te tūtohi ES.1 i te herenga hokohoko e tūtohu nei mātou.

Te take kāore mātou i te tūtohu i tētahi pikinga i te ARP i tēnei wā

Kua whai whakaarohia te painga o te whakapiki i te ARP mō te wā poto. Heoi, kāore i te mōhiotia mēnā ka whaitake te whakapiki i te ARP ki ngā tukuwaro mō te wā poto. Kei raro rawa ngā utu mākete NZU i te ARP o nāianei. I tō nāianei horopaki, ka kitea pea e ngā kaiuru he pikinga ARP hei mea ohorere, whakararuraru, tē hiahiatia rānei, me te aha ka whakararu i tāna e tohu ana mō te ū ki ngā mahi whakamauru huringa āhuarangi.

I te tau 2025, ka tohutohu mātou tērā pea me whakapiki mātou i ngā taumata utu o te ARP me te CCR i tētahi wā i runga anō i te nui o ngā whakaitinga tukuwaro peke ka hiahiatia kia tutuki ai te tahua tukuwaro tuatoru, me te utu pea mō ērā. Kei te tino kumukumu aua āhuatanga e rua, nā te mea ka whakaaweawetia e ngā ia o ngā utu koranehe, te whakamahi

nui ake o ngā waka hiko, me ngā mahi whakatō rākau. Kāore anō kia rawaka te whakakorenga o aua kumukumu i te tau kua hipa e parahautia ai he pikinga o te ritenga taura-utu i tēnei wā. Mā matou e aroturuki ngā whanaketanga nunui me te whakamana huringa ka hiahiatia i ngā tohutohu ritenga ki tua.

Te take kāore mātou e tūtohu i te ARP iti iho

E kore te tūāhuatanga o nāianei e noho ai ngā utu mākete NZU o te wā i raro i te taumata ARP e parahau te whakahekenga o taua taumata. Kāore tā mātou tātaritanga e tohu kua heke te utu mōkito ka hiahiatia e tutuki ai te tahua tukuwaro tuatahi. Kua kī mai ētahi kaiuru mākete e whakaata ana ngā utu mākete o nāianei i ngā whakaaro kua hurihia, ā, kāore he pānga o ērā ki ngā mea taketake e pā ana ki te whakarato me te popono.

E kore tētahi ARP iti iho e hāngai ki ngā taunakitanga e mōhiotia ana mō ngā utu tukuwaro e hiahiatia ana kia tutuki ngā tahua tukuwaro. Ka whakararu tērā i te ara ā-tukuwaro peke e whāia ana e te Kāwanatanga ki te whakatutuki tahua tukuwaro (e korotia ai te wāhi ki te tango waro mā te onoono rākau ngahere hei mea nui) mā te whakaiti whakapoapoa mō te onoono rākau. Tērā pea ka whakanui tērā i te mōrearea o tā te Kāwanatanga hokohoko tauhoko i te utu kei raro o tērā mō te whakamauru i tāwāhi, me te whakanui i ngā utu ohaoha me te ahumoni o te whakaututki i ngā NDC tuatahi me te tuarua.

Ki te rawaka ngā mahi onoono rākau ngahere atu i nāianei ki te 2031 ki te whakakopi i te āputa i waenga i ngā matapae o nāianei me te tahua tukuwaro tuatoru, kei reira pea he pūtake kua kore e hiahiatia he pikinga ARP ā muri atu i te 2031 (hāunga mō ngā whakaritenga pikiutu tukipū), engari kāore i reira he pūtake ki te whakaiti i te ARP nā te mea ka whakararu tērā i ngā haumitanga ahurākau.

Te wāhi ki te NZ ETS ki te whakaiti tukuwaro

Huri noa i te ao, ka noho te tikanga whakahaere utu tukuwaro he taputapu hira mō te whakaiti i ngā tukunga haurehu kati mahana. I te 2025, e 37 ngā kaupapa hokohoko tukunga, e 43 ngā tāke waro e whakamahia ana huri noa i te ao. Ka kapi i aua kaupapa te 28% o ngā tukunga haurehu kati mahana o te ao (taea noatia a Haina, te Hononga o Uropi me ētahi o ngā rohe tūhake nui ake o Te Hononga o Amerika).[4]

I Aotearoa kua āta pūmau kē te NZ ETS, me ana mahi āwhina i te whenua ki te whakatutuki i ana ūnga āhuarangi, ina koa mā te whakatenatena i te onoono rākau ngahere. E mārama ana to te Kāwanatanga kite i te NZ ETS hei taputapu matua mō te whakaiti tukuwaro i Aotearoa.

I ngā marama o Tīhema 2025 me Hānuere 2026 i whakawhiti reta a He Pou a Rangi ki te Minita mō ngā Take Panoni Āhuarangi i matapakia ai te horopaki mō tēnei tohutohu nā nga menemana ā-ture o nā noa nei. I whakapuaki te Minita i tōna aro ki te ritenga NZ ETS (taea noatia te whakaheke rahinga mākete me tētahi ARP teitei ake) tērā ka whakaputa whakahekenga tukuwaro anō hei āwhina ki te whakatutuki tahua tukuwaro me ngā herenga NDC. Hei kōrero anō kei tēnei pūrongo mō aua wāhi.

Ka hiahiatia mō te whakahaerenga whāomo o te NZ ETS ngā whakataunga e pono ana, kua āta tohua i mua, mō te ritenga NZ ETS me ngā kaupapahere āhuarangi hei tautoko i te haumi ki te whakaiti tukuwaro. E ai ki ā mātou kōrero i runga nei, ko tā mātou aromatawai ka nui ake pea tā ngā whakarerekētanga wā poto ki te ritenga NZ ETS whakararu i te mākete me te kore e whakaputa i ngā hekenga tukuwaro e whai ana te Kāwanatanga.

Pērā i ngā tohutohu kei roto i tā mātou pūrongo aroturuki whakaiti tukuwaro o te 2025, e tūtohu ana anō hoki mātou ka hiahiatia he NZ ETS pakari ake i te taha o ētahi atu kaupapahere whakawhāiti i ngā wāhi pērā i te pūngao whakahou, te tūnuku me te ahuwhenua kia tutuki ai ngā ūnga tukuwaro. Kua kapi i te NZ ETS te iti iho i te 40% o ngā tukuwaro peke rāroto o Aotearoa, ā, i tōna āhua o nāianei kāore e taea pea te uruhi i ngā whakaitinga tukuwaro i ētahi o ngā rāngai kua kapi kē i tērā.

E tohu ana ā mātou tātari atu i te 2034 ka kore pea he rahinga tauhoko anō hei hokohoko (nā te mea ka kapi ngā tukuwaro peke katoa kua kapi i te kaupapa, i ngā tauhoko mai i te tūpānga ahumahi me te tūpānga ahurākau). Ka heke pea te taupoki tukuwaro, koia te wāhanga mātua o te ETS e āheitia ai te whakapoapoa whakaitinga, ki te kore ā muri tonu mai. I tua atu, ka whakaaetia pea e te tūpānga ahumahi ki tua o tērā te tuku tukuwaro e hipa ai te taupoki. He āhuatanga pea e tōmua ai te huri i tērā, hei tauira ngā whakahounga ki ngā tahua tukuwaro ka puta i te 2027, ngā pikinga rānei i ngā matapae mō ngā tukuwaro ahuwhenua.

Arā, e whakatata mai ana te wā kua kore e taea e te NZ ETS i tōna āhua o nāianei, te whakapoapoa i ētahi anō whakahekenga tukuwaro peke, ahakoa te hiahia ki ētahi anō whakahekenga e tutuki ai ngā tahua tukuwaro me te ūnga mō te tau 2050.

Hei whakatītina i ngā haumitanga ka hiahiatia kia iti ake ai ngā tukuwaro atu i te 2034, me tīmata te Kāwanatanga i tētahi tukanga i tēnei wā nei ki te whakahou i te hanganga me te mahi a te NZ ETS, ki te whakatinana rānei i tētahi huinga kaupapahere matatini atu hei whakaiti tukuwaro, ki te mahi rānei i ngā mahi e rua.

Ka whakarato te pūrongo aroturuki tukuwaro ka puta ā kō ake nei i ngā tohutohu anō mō ngā tahua tukuwaro me te ūnga mō te 2050.

He aha ngā mahi whai ake ka pā ki te ritenga NZ ETS?

He wāhanga tōtahi tēnei tohutohu o tētahi tukanga whānui atu mō te whakahou i te ritenga NZ ETS.

Ka whai whakaaro te Kāwanatanga ki ā mātou tohutohu, ā, ka whakahaere i tētahi tukanga whakawhiti kōrero ki te iwi whānui tērā ka arahina e te Manatū Taiao mō te taha ki te Minita mō ngā Take Panoni Āhuarangi hei te hauwhā tuarua o te 2026. Me whakatau rawa e Te Kāwanatanga ngā tepenga tauhoko NZ ETS me te ritenga taura-utu mō te whakahou waeture ka oti ā te 30 o Hepetema 2026. Ka mana te ritenga hou ā te 1 o Hānuere 2027.

I raro i ngā ture o te wā nei, ko te tūmanako ka whakaratohia e mātou ngā tohutohu whai muri mō te wā 2028–2032, hei te pane o te 2027.

Ngā whakahau me ngā tono rahinga hokohoko

Ngā tono rahinga tauhoko

	Kāore he panonitanga				Ngā mea hou
Tauhoko miriona	2027	2028	2029	2030	2031
NZU rahinga mākete (atu i ngā rahinga utu here tauraro)	4.3	3.3	2.4	1.7	3.0

Te herenga hokohoko me te ritenga hokohoko kua tūtohua

	Kāore he panonitanga		Kua whakahoutia[xi]		Ngā mea hou
Tauhoko miriona	2027	2028	2029	2030	2031
Te tauoti ki ngā Tauhokohoko o Aotearoa ka wātea mā te hokohoko (te rahinga CCR hoki)	10.2	8.6	7.1	5.6	6.5
Te tauoti ki ngā tauhokohoko o tāwāhi kua whakaaetia ki te whakamahi	0.0	0.0	0.0	0.0	0.0
Te tauoti kau o ngā tauhokohoko	14.6	12.7	10.7	9.2	10.0

[xi] Kua whakahoutia ngā tepenga whānui mō te 2029 me te 2030 hei whakaata i te matapae whakahou o te tūpānga ahumahi.

	Kāore he panonitanga		Kua whakahoutia mō te pikiutu tukipū		Ngā mea hou
Te utu here tauraro	2027	2028	2029	2030	2031
Papanga 1					
Te tūtohu utu	$213	$224	$239	$251	$264
Te rahinga tāpui (tauhoko miriona)	2.1	1.9	1.7	1.4	1.2
Papanga 2					
Te tūtohu utu	$267	$280	$298	$313	$328
Te rahinga tāpui (tauhoko miriona)	3.8	3.4	3.0	2.5	2.3

	Kāore he panonitanga		Kua whakahoutia mō te pikiutu tukipū		Ngā mea hou
Te utu mākete tauraro	2027	2028	2029	2030	2031
Te utu mākete tauraro	$75	$78	$83	$88	$92

Executive summary

This is our advice to the Government on unit limits and price control settings for the New Zealand Emissions Trading Scheme.

The New Zealand Emissions Trading Scheme (NZ ETS) is a key policy tool for reducing domestic greenhouse gas emissions. He Pou a Rangi Climate Change Commission provides the Government with regular advice on the scheme's unit limits and price control settings (NZ ETS settings). This is the fifth year the Commission has provided advice on NZ ETS settings. This advice covers the settings for 2027–2031.

After our recommendations were finalised, the current conflict began in the Middle East. The conflict has evolving implications for the supply and price of fossil fuels. Our advice already factors in uncertainty in the outlook for fossil fuel prices and Aotearoa New Zealand's emissions. The conflict has heightened that uncertainty, and could have further impacts across the economy, affecting emissions. Regular updates to NZ ETS settings allow the Government to keep the NZ ETS settings aligned with emissions targets while responding to uncertainty and changing circumstances. It will be important to reassess these issues in the next review of the NZ ETS settings, which under current legislation is scheduled for 2027.[xii]

This advice is based on the Climate Change Response Act 2002 as it is currently in force. We also refer, where relevant, to the Government's announced intentions to amend this Act, shifting the next NZ ETS settings update to 2028. This reflects the information available to us about those plans at the time this advice was finalised.

Our recommendations

We are recommending that the Government 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. We are also recommending that the Government retain and extend to 2031 the current price control settings, with inflation adjustments from 2029.

Our recommendations balance two competing risks. On one hand it is possible that the current settings (or any reduction in volumes) will lead to an undersupply of units in the market later this decade. An undersupply could lead to rapidly rising and volatile New Zealand Unit (NZU) prices. This could unintentionally drive emissions reduction through

[xii] The Climate Change Response Act 2002 (the Act) requires us to deliver our next advice on NZ ETS settings early in 2027. The Government has proposed to amend the Act to provide settings updates every two years. Information on the proposed changes to the Act can be found here: https://environment.govt.nz/news/government-announces-a-series-of-changes-to-nzs-climate-law

plant closures and reduced production, rather than by incentivising investments in lower-emissions technologies.

On the other hand, a significant drop in NZU prices followed Government policy announcements on 4 November 2025. Market participants have reported that the perception of continued weakening of climate policy in general is contributing to low market sentiment. Any increase in auction volumes at this time to address the risk of undersupply could further undermine confidence in an already depressed market.

Our advice is therefore to maintain the current auction volume settings for now, while preparing to address the risk of a unit shortfall in future years.

Addressing the risk of a unit shortfall

We make our recommendations on the NZ ETS settings package on the basis that the next regulations update will be in 2027 as required by current legislation. On that basis, we advise the Government during the coming year to clearly signal and test with the market options for addressing the risk of undersupply in the years 2028–2030.

If the Climate Change Response Act 2002 is amended as the Government has announced it intends to, and the next settings update moves from 2027 to 2028, our advice would be for the Government to adopt a temporary lower tier of the cost containment reserve (CCR)[xiii] to address the undersupply risk from 2028–2030.

We set out our recommendations in Table ES.1. Below we explain the key judgements, findings and areas of uncertainty that led us to this package of recommendations.

Key points for decision-makers

What are we recommending?

- We are recommending retaining current settings for now, but we advise the Government to prepare for the risk of undersupply 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.

Why have we made these recommendations?

- These recommendations aim to limit the risk of further price instability and loss of confidence in the NZ ETS.
- Recently the NZ ETS emissions price has been low and volatile. Uncertainty about the NZ ETS and wider climate policy appears to have undermined confidence.

[xiii] The cost containment reserve (CCR) makes an additional volume of units available for sale if the price at government auctions exceeds a specified trigger price, to act as a brake on further price rises.

- The market has a surplus of units available now, but that is changing. Under current settings, by 2028 there could be too few units available to meet demand.
- The Government could respond by making more units available through auctions now, but unexpected changes now could destabilise the market further.

Why is a unit shortfall a bad thing?

- For an ETS to be effective, the emissions price should rise steadily over time to encourage the shift to low-emissions options. But when emissions prices rise too rapidly, they can outpace the ability of people and businesses to respond.
- A shortfall could cause rapid increases and volatility in NZU prices:
    - leading to disruptive economic impacts, such as reduced production, factory closures and job losses
    - pressuring the Government to make unplanned interventions in the market, and
    - causing investors to delay investments in reducing emissions.

What is the scope of this advice?

- This advice is about the NZ ETS unit limits and price control settings for 2027–2031. Our other advice can address broader prospects for reducing emissions through the NZ ETS and other mechanisms.
- The NZ ETS is the Government's main tool for emissions reduction, but it currently covers less than 40% of domestic net emissions and that share is reducing.
- Auctioned NZUs, which this advice focuses on, form only a small part of the total units in the system.

What else needs to happen with the NZ ETS?

- 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.
- We have previously advised that meeting emissions targets is likely to require a strengthened NZ ETS as well as targeted policies in other sectors such as transport, energy and agriculture.
- The point when the NZ ETS in its current form will no longer be able to incentivise further net emissions reductions is drawing closer. Our updated analysis for this NZ ETS settings advice indicates that this could happen as early as the mid-2030s.

How we arrived at our recommendations

The Climate Change Response Act 2002 (the Act) requires that NZ ETS unit limits and price control settings accord with emissions budgets and the 2050 target. We aim to ensure accordance by using a method that is centred on this requirement and that also works through other matters that must be considered under the Act.

First, we assess how the country's emissions reduction goals can be shared across sectors inside and outside the NZ ETS, to give the emissions cap for the scheme.[xiv] We then consider how much of that emissions cap is used up by units from industrial allocation,[xv] overseas units, and surplus units already in the market. Any remaining volume under the emissions cap can be made available at auction. We also assess the emissions prices that could be needed to reduce emissions down to the emissions cap, to inform our judgements about the price control settings.

We consider that our recommended package of unit limits and price control settings strictly accords with the second emissions budget and the 2050 target. We also consider that the package accords with the third emissions budget, with a discrepancy that can be justified after considering relevant matters in the Act. This is set out in more detail in *Chapter 5: Price control settings* in this report and in *Technical Annex 3: Assessment of accordance*, published separately on our website.

NZ ETS emissions caps

We assess appropriate emissions caps to be 81.9 $MtCO_2e$ for the second (2026–30) and 28.9 $MtCO_2e$ for the third (2031–35) emissions budget periods.

These caps align with emissions budgets for those periods and are consistent with the Government's current emissions reduction plan. The emissions cap for the third emissions budget is based on an assumption that NZ ETS sectors will be responsible for closing all of the gap between currently projected emissions and the third emissions budget.

The emissions caps are lower than the Government announced when it decided on the last NZ ETS settings in August 2025.[xvi] More recent emissions projections show higher agricultural emissions, as well as greater CO_2 removals by forests. As a result, those August 2025 caps no longer align with emissions budgets.

Our assessment of unit limits

We remove volume from the emissions cap to align with New Zealand's Greenhouse Gas Inventory

We assess that 4.3 $MtCO_2e$ should be subtracted from the emissions cap for the period 2027–31 to account for differences between the emissions reported under the NZ ETS and

[xiv] Emissions budgets can be achieved through emissions reductions by sectors both inside and outside the NZ ETS. The NZ ETS emissions cap is the share of the emissions budget volume allocated to sectors in the NZ ETS. The emissions cap declines over time to reflect emissions reduction targets.

[xv] 'Industrial allocation' (or 'industrial free allocation') is the provision of free NZUs to firms undertaking emissions-intensive-and-trade-exposed (EITE) activities. This reduces the cost of the NZ ETS for these firms and is intended to reduce the risk of emissions leakage.

[xvi] The Government announced an emissions cap of 89.4 $MtCO_2e$ for the second emissions budget (2026–30) and a 'provisional' cap of 40.7 $MtCO_2e$ for the third emissions budget (2031–35).

those estimated in New Zealand's Greenhouse Gas Inventory (GHG Inventory)[xvii] and in target accounting.[xviii]

Of these 'technical adjustments', 3.2 $MtCO_2e$ relates to forestry. A larger adjustment might be necessary depending on Government decisions on updating the NZ ETS default carbon yield tables. Those decisions are expected in 2026. If these yield tables are updated, our advice is that the Government should re-calculate and apply an updated value for the forestry-related technical adjustment.

The surplus of units in the market is continuing to decline

We estimate a surplus range from 17.1 to 41.7 million units, with a central estimate of 29.7 million units.

The surplus is depleting more quickly than previously expected, mainly because auctions have not cleared. Under current unit limit settings, the surplus was expected to reduce by 12.5 million units by the end of 2025. Our central surplus estimate has reduced by a further 6 million units because the 2025 auctions declined, and by another 1.9 million units due to updated data and assumptions.

Our estimated surplus range has also narrowed. This is mainly because the Ministry for Primary Industries (MPI) has provided us with updated data on forests, including estimates (by year of planting) of forests not likely to be harvested. This enabled us to calculate the surplus uncertainty associated with forests registered in the NZ ETS factoring in MPI's assumptions about their age.

Industrial allocation and overseas units

Our industrial allocation forecast is lower than in our 2025 advice, due to new data.[xix]

As in previous years, we recommend that the approved overseas unit limit be set at zero, as no overseas units have been approved for use in the NZ ETS.

Volume of units that could be made available at auction

The Government has adopted a goal of drawing down the surplus by 2030. Consistent with that goal, we estimate the volume that *could* be made available for auction over 2027–30 to be in a range from 11.2 million to 35.8 million units, with a central estimate of 23.2 million

[xvii] New Zealand's Greenhouse Gas (GHG) Inventory is the official annual report of all human-induced emissions and removals of greenhouse gases in Aotearoa New Zealand.

[xviii] Target accounting is the accounting system used to measure progress towards Aotearoa New Zealand's emissions reduction goals. It includes all gross emissions as reported in the GHG Inventory, but only a subset of emissions and removals from land use and forestry.

[xix] As industrial allocation is included in the overall limit on units, we have updated the overall limits from 2029 to reflect the revised forecast of industrial allocation. We have not updated the overall limits for first two years of the settings period (2027–2028) due to the Act's restrictions on amending those years of the settings.

units. This compares to the auction volume under status quo settings of 11.7 million units for that period.

If status quo auction volumes are retained, there is a risk of a unit shortfall in the market towards the end of this decade. However, due to the current state of the market and the ability to reassess this risk in 2027, we are not recommending any changes to these auction volumes now. We explain these issues further below.

The risk of a unit shortfall

If the surplus is close to our central estimate, there is a risk that the market will be undersupplied later this decade. A unit shortfall could arise as early as 2028 if the surplus is close to our central estimate and the 2026 auctions do not clear. Even if the surplus is at the high end of our estimated range, there is a risk of undersupply if the 2026 auctions do not clear. As shown in Figure ES.1, the only scenario in which a shortfall does not occur is if the surplus is at the high end of the range *and* the auctions clear.

The surplus is dynamic, because market participants' behaviour can shift quickly as circumstances change. For example, we have heard that due to the recent drop and volatility in NZU prices, emitters have reduced their forward hedging so the surplus might currently be at the higher end of the range. But as the surplus depletes over time and the medium-term supply and demand fundamentals become clearer to the market, hedging practices could change, which could shift the surplus to lower levels closer to our central estimate.

The potential shortfall in 2028, based on our central estimate, could be around 5 million units. That is a significant volume in a market where annual demand from gross emissions totalled about 33 million units in 2025, and where the currently regulated auction volume for 2026 is 5.2 million units.

Whether and when this undersupply risk could materialise is uncertain. However, it is important that the Government consider how to mitigate this risk. If it does eventuate, its consequences could seriously undermine the effectiveness of the NZ ETS.

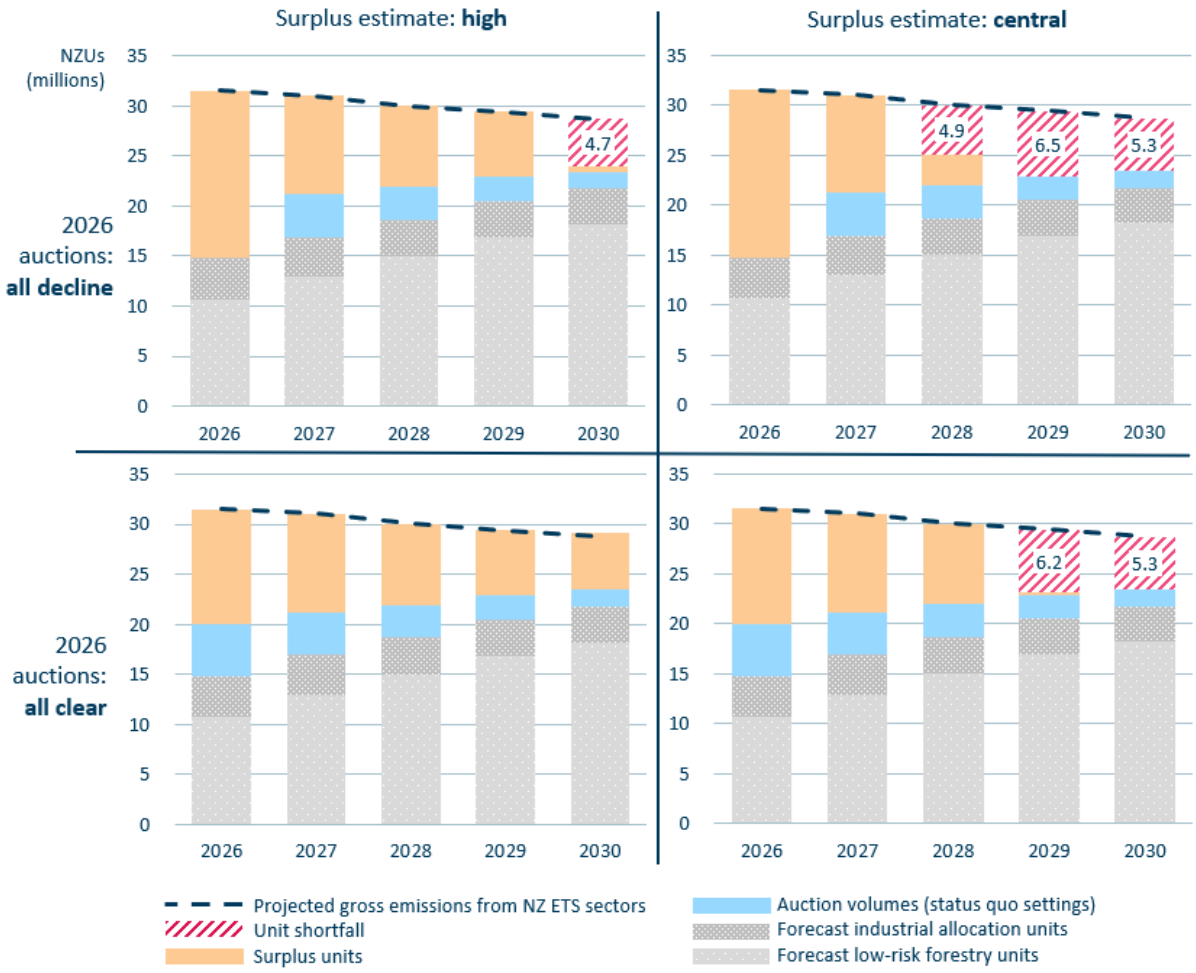
Potential impacts of a shortfall

Any shortfall could result in rapid increases and volatility in NZU prices. Rapid price changes have occurred before, such as in 2021–2022.

The emissions price in an ETS is intended to rise steadily over time to encourage emissions reductions. However, overly rapid price rises can outpace people's and businesses' ability to respond. Such price rises increase volatility, which undermines the scheme's ability to incentivise investments to reduce emissions, both in forestry and in other sectors. When returns are unpredictable, businesses are likely to delay investment decisions.

Volatile or rapidly rising NZU prices could also force emissions reductions through reduced production or plant closures (rather than incentivise investments in lower-emissions technologies), and create conditions where the Government is pressured to make ad hoc interventions in the market.

Figure ES.1: Scenarios demonstrating the risk of a unit shortfall from as early as 2028



Source: Commission analysis.

Note: This figure shows two important dimensions of uncertainty, relating to the surplus and auctions. There is also uncertainty in the other elements of unit supply and demand shown in these charts, as they are projections.

Our recommended unit limits

We are recommending that the Government maintain the current NZ ETS auction volumes through to 2030. We are also recommending that the Government set 2031 auction volumes on the basis that the surplus of units in the market has been depleted by that time. Table ES.1 shows our recommended unit limit settings.

Our recommendations are conditional on the next NZ ETS update going ahead in 2027

Our recommendation for the NZ ETS settings package is conditional on the next update of NZ ETS settings occurring in 2027 as currently required by the Act.

The Government has said it aims to support a stable and predictable NZ ETS market that provides incentives for investment in reducing emissions. To support that goal, market

participants need clear signals about the likelihood of any future change to NZ ETS settings, including how the Government proposes to address the shortfall risk.

If the next update occurs in 2027 as the Act currently requires, we advise the Government to clearly signal and test with the market options for addressing undersupply risk that may need to be implemented over 2028–30.[xx]

What if the next NZ ETS update is not until 2028?

The Government has announced its intention to amend the Act so NZ ETS settings updates occur every two years instead of annually as at present. Depending on the timing of that amendment, the next NZ ETS settings update may not occur until late 2028. That would be too late for the Government update to address any risk of a shortfall that emerges during 2028.

If the proposed amendment goes ahead and there is no NZ ETS settings update in 2027, our advice would be to put in place now a temporary, lower tier of the cost containment reserve (CCR) for 2028–2030. The purpose of this new temporary CCR tier would be to mitigate the risk of a shortfall in 2028 that could lead to NZU prices rising too high, too fast.

The temporary CCR would have a trigger price above the current auction reserve price (ARP)[xxi] but below the current CCR and would only provide units to the market in the case of rapidly rising prices. It would contain the unit volumes that could be auctioned based on the central estimate of the surplus, but which we are otherwise recommending not be offered for auction in this year's settings update. These units, according to our best estimates, are within the NZ ETS emissions cap and could be auctioned without risking accordance with targets. If the next opportunity to update the settings is in 2028, this is the only option we have identified that can address undersupply risk in that year.

Why we are not recommending that those units be made available at auction

We have chosen not to recommend unit limits that would increase the base auction volume over the 2027–2030 period. This is primarily because of the current state of the market.

After several months of relatively stable prices in the $50–$60 range, the NZU spot price fell significantly in November 2025 and has been volatile since. The price reached the low $30s in January 2026 before climbing back into the $40s in early March. Auctions have declined because market participants can buy units on the secondary market at prices far below the current ARP.

We have not identified any reason based on the fundamentals of supply and demand for spot prices to be as low as they are. The price decline in November 2025 followed a series of

[xx] Under the Act, the first two years of the settings period cannot be amended, except if certain circumstances arise such as a change significantly affecting a matter that must be considered under the Act. This is intended to support predictability.

[xxi] The auction reserve price (ARP) is the minimum price below which units will not be sold at government auctions.

Government decisions relevant to the NZ ETS. The Government in October 2025 announced a less ambitious 2050 target for reductions in biogenic methane. It also ruled out pricing of agricultural emissions. In November 2025 the Government then announced its intention to remove a requirement for NZ ETS settings to accord with Aotearoa New Zealand's nationally determined contributions (NDCs) under the Paris Agreement.[1]

The agriculture announcements mean NZ ETS sectors such as forestry, transport and energy may need to do more if Aotearoa New Zealand is to meet its emissions budgets. The changes also create uncertainty for market participants, since the emissions reductions required of NZ ETS sectors may keep changing in response to trends in agricultural emissions.

The market participants we spoke with said the falling prices to a large extent reflected sentiment and uncertainty about climate policy. Those participants viewed recent NZ ETS and other climate policy announcements (relating to agriculture, transport and corporate climate reporting) as reflecting a general weakening in the Government's commitment to emissions reductions. They did not expect sentiment to improve or prices to recover enough during 2026 for auctions to clear.

They also said the price was weighed down by the short-term issue of increased units entering the market from forestry mandatory emissions returns due in the first six months of this year. Some indicated that increased forestry unit flows significantly contributed to the price lows experienced in January.

While additional volumes *could* be made available for auction in line with the Government's emissions budgets, our assessment is that offering those volumes under current circumstances might further undermine market confidence.

Why we are not recommending a further reduction in auction volumes

Some market commentators have suggested that reducing auction volumes in the years to 2030 could help the market recover from recent low and volatile prices. The Minister has also publicly expressed interest in whether reduced auction volumes in the short term might help the NZ ETS to deliver more emissions reductions and better position the Government to meet the emissions budgets and first NDC.[2]

For the NZ ETS to effectively incentivise emissions reduction, emitters need to be able to make investment decisions based on clearly signalled information about future policies and settings. In our view, reducing auction volumes below current levels might not in itself encourage emitters to invest in decarbonisation. Instead, reducing auction volumes now could increase the risk of a unit shortfall, resulting in undesirably rapid and volatile price rises.

To get on track to meet the third emissions budget, additional policies complementary to the NZ ETS are likely to be necessary given what is known about the emissions reductions that are feasible over the period.

In our 2025 emissions reduction monitoring report, we examined the further potential to reduce emissions to meet the third emissions budget.[3] Most opportunities identified were

either not likely to respond to NZ ETS incentives (e.g. passenger vehicle mode shift and other opportunities in transport) or were in sectors not covered by the NZ ETS (e.g. agriculture), or in areas where the NZ ETS emissions price is unlikely to be consistently high or stable enough to drive change (e.g. electricity generation and industry).

Planting forests is the activity the NZ ETS is most likely to incentivise, and forests planted between now and 2031 can help with meeting the third emissions budget and second NDC (2031–2035), but not with meeting the first NDC (2021–2030). This is because new forests take 4–5 years after planting to start to sequester carbon. Withdrawing further units from auctions could encourage more afforestation, but those new forests would not provide units to the market to meet projected gross emissions demand in the years to 2030. Any further planting would not resolve the risk of a unit shortfall over 2028–2030.

Our recommended price control settings

We are recommending that, for now, the ARP and CCR prices and volumes should remain at current levels and be extended on their current trajectory to 2031, with an inflation adjustment from 2029 onwards. These settings have remained consistent (aside from inflation adjustments) since 2022. Table ES.1 shows our recommended price control settings.

Why we are not recommending any increase in the ARP at this stage

We have considered whether raising the ARP would be beneficial in the short term. However, it is unclear that increasing the ARP would have any material effect on emissions in the short term. NZU spot prices are well below the current ARP. In the current context, market participants might perceive an increase in the ARP as an unexpected, confusing and unnecessary change, undermining any signal it might send about commitment to climate action.

In 2025 we advised that it may become necessary at some stage to increase the price levels of both the ARP and CCR, depending on the extent that gross emissions reductions are needed to meet the third emissions budget, and the likely cost of these. Both of these factors are very uncertain, as they will be affected by trends in fossil gas prices, EV uptake and afforestation. These uncertainties have not sufficiently resolved over the past year to justify any increase in the price control settings at this stage. We will monitor developments and address any necessary changes in future NZ ETS settings advice.

Why we are we not recommending a lower ARP

The fact that NZU spot prices are currently below the ARP level does not provide any justification to lower it. Our analysis does not indicate that the minimum price needed to meet emissions budgets has reduced. Market participants have told us that current spot prices reflect sentiment change and are not connected to supply and demand fundamentals.

A lower ARP would be inconsistent with the known evidence about emissions prices needed to meet emissions budgets. It would undermine the Government's net-based approach to meeting emissions budgets (under which carbon removals by forests are intended to play an

important role) by reducing incentives for afforestation. It could also increase the risk of the Government selling units below the cost of offshore mitigation, increasing the economic and fiscal costs of meeting the first and second NDC.

If afforestation between now and 2031 is sufficient to close the gap between current projections and the third emissions budget, there would be a case that the ARP no longer needed to increase after 2031 (except for inflation adjustments), but no case to lower the ARP as that would undermine forestry investments.

The NZ ETS's contribution to emissions reduction

Globally, emissions pricing is an increasingly important tool for reducing greenhouse gas emissions. By 2025 there were 37 emissions trading schemes and 43 carbon taxes operating around the world. These schemes covered 28% of the world's greenhouse gas emissions (including China, the European Union and several of the largest states in the United States).[4]

In Aotearoa New Zealand, the NZ ETS is well established and is playing a role in helping the country to meet its climate targets, particularly through encouraging afforestation. The Government has made it clear that it sees the NZ ETS as Aotearoa New Zealand's main tool for reducing emissions.

In December 2025 and January 2026 the Commission exchanged letters with the Minister of Climate Change discussing the context for this advice in light of recent statutory amendments. The Minister expressed interest in NZ ETS settings (including reducing auction volumes and a higher ARP) that would deliver additional emissions reductions towards meeting emissions budgets and NDC commitments. This report includes commentary on those areas.

Effective operation of the NZ ETS requires credible and well-signalled decisions about NZ ETS settings and climate policy more generally, in order to support investment in emissions reduction. As discussed above, our assessment is that short-term adjustments to the NZ ETS settings might further destabilise the market without bringing the reduction in emissions that the Government is seeking.

As advised in our 2025 emissions reduction monitoring report, our assessment is also that meeting emissions targets will require a strengthened NZ ETS *together with* additional targeted policies in areas such as renewable energy, transport and agriculture. The NZ ETS covers less than 40% of Aotearoa New Zealand's domestic net emissions, and in its current form is unlikely to drive significant emissions reduction in some of the sectors it does cover.

Our analysis suggests that from 2034 there may be no further volume to auction (as all gross emissions covered by the scheme will be covered by units from industrial allocation and forestry). The emissions cap, which is the key element of an ETS that enables it to incentivise reductions, could reduce to zero soon after. In addition, industrial allocation beyond that point is likely to allow emissions above the cap. There are factors that could shift this earlier, for example the revisions to emissions budgets due in 2027 or increases to projections of agricultural emissions.

In other words, the point is drawing closer at which the NZ ETS in its current form will no longer be able to incentivise further net emissions reductions, despite more reductions being needed to meet emissions budgets and the 2050 target.

To encourage the investments that will be needed to achieve further emissions reductions from 2034, the Government will need either to start now on a process to reform the structure and operation of the NZ ETS or implement a more comprehensive suite of other policies to reduce emissions, or both.

Our upcoming emissions monitoring report will provide further advice on progress towards emissions budgets and the 2050 target.

What happens next for NZ ETS settings?

This advice is one step within a wider process for updating the NZ ETS settings.

The Government will consider our advice and run a public consultation on proposals, which we understand will be led by the Ministry for the Environment on behalf of the Minister of Climate Change in the second quarter of 2026. The Government must make decisions on NZ ETS unit limits and price control settings in time for the regulations to be updated by 30 September 2026. The new settings will come into force on 1 January 2027.

Under current legislation we expect to provide our next advice on this topic, relating to the period 2028–2032, in early 2027.

Recommendations and proposed auction volumes

Proposed auction volumes

	No changes				New
Million units	2027	2028	2029	2030	2031
NZU auction volumes (excluding cost containment reserve volumes)	4.3	3.3	2.4	1.7	3.0

Recommended unit limits and price control settings

	No changes		Updated[xxii]		New
Million units	2027	2028	2029	2030	2031
Limit on New Zealand Units available by auction (including CCR volume)	10.2	8.6	7.1	5.6	6.5
Limit on the approved overseas units used	0.0	0.0	0.0	0.0	0.0
Overall limit on units (including auction, industrial allocation, and CCR volume)	14.6	12.7	10.7	9.2	10.0

	No changes		Updated for inflation		New
Cost containment reserve	2027	2028	2029	2030	2031
Tier 1					
Trigger price	$213	$224	$239	$251	$264
Reserve volume (million units)	2.1	1.9	1.7	1.4	1.2
Tier 2					
Trigger price	$267	$280	$298	$313	$328
Reserve volume (million units)	3.8	3.4	3.0	2.5	2.3

	No changes		Updated for inflation		New
Auction reserve price	2027	2028	2029	2030	2031
Auction reserve price	$75	$78	$83	$88	$92

[xxii] The overall limits for 2029 and 2030 have been updated to reflect an updated forecast of industrial allocation.

Chapter 1: Introduction

This is He Pou a Rangi Climate Change Commission's fifth annual advice about unit limits and price control settings for the New Zealand Emissions Trading Scheme.

Under the Climate Change Response Act 2002 (the Act), the Commission is required to provide the Government with annual advice about unit limits and price control settings for the New Zealand Emissions Trading Scheme (NZ ETS). This advice supports the Minister of Climate Change to update NZ ETS settings in regulations.

This is the fifth time the Commission has provided this advice. This report covers the settings for 2027–2031.

About the New Zealand Emissions Trading Scheme

The Government has chosen to use the NZ ETS as its main policy tool for reducing greenhouse gas emissions. It is a government-created market that puts a price on emissions. That changes the relative prices of goods and services across the economy, and is intended to influence producers and consumers to choose lower-emissions options. The NZ ETS applies to emissions from every sector of the economy except for agricultural activities. This means it covers less than 40% of the country's net greenhouse gas emissions,[xxiii] with this proportion decreasing over time.

NZ ETS participants obtain units (called 'New Zealand Units' (NZUs)).[xxiv] They must surrender one NZU for each tonne of carbon dioxide equivalent (CO_2e) emissions from activities they are responsible for.

Participants can acquire NZUs by:

- buying them from the Government at auction
- buying them from other NZ ETS participants
- receiving them from the Government for free (if they undertake an eligible activity that is both emissions-intensive and trade-exposed)
- earning them from the Government for activities such as forestry that remove carbon dioxide from the atmosphere.

Once emissions units are in the market, participants can buy and sell among themselves. The scheme's purpose is to create financial incentives to reduce emissions, while leaving

[xxiii] We estimate (based on the latest government emissions projections) that the NZ ETS accounted for 43% of Aotearoa New Zealand's gross emissions and 36% of the country's net emissions in 2025.

[xxiv] 'NZ ETS participants' include businesses or people who have obligations under the NZ ETS, such as forest owners and businesses that produce emissions or products that release emissions when used by consumers. See Climate Change Response Act 2002, s54.

emitters to decide how that should happen. Emissions trading can address a much wider range of activities than is possible with more targeted policies.

NZ ETS unit limits and price control settings

The Government sets unit limits, the main function of which is to determine the number of units that can be auctioned into the NZ ETS each year. These unit limits aim to keep the supply of units to the market consistent with Aotearoa New Zealand's emissions budgets.[xxv]

The Government also sets price controls that apply at government auctions of NZUs. An auction reserve price (ARP) ensures that units are not auctioned at prices below those needed to support the investments needed to reduce emissions in line with emissions budgets. The cost containment reserve (CCR) releases additional units when auction prices rise to a specified trigger price or prices.

The price controls apply only to auctions. Once units are in the market, participants can buy and sell at any price. In this way, the emissions price in the NZ ETS is ultimately determined by the market.

The unit limits and price control settings are set in regulations for five years into the future. This helps participants and others affected by NZ ETS costs to plan for future costs and investment decisions.

See *Chapter 4: Unit limits* and *Chapter 5: Price control settings* for a more detailed description of the design and operation of these unit limits and price controls.

About this advice

Under the Act, the Minister of Climate Change is required to update unit limits and price control settings annually.[xxvi] The Minister must consider our advice when making decisions about those settings.

Matters that must be considered

Section 30GC of the Act sets out matters that must be considered when NZ ETS auction regulations are updated. These include (among other things) anticipated emissions volumes, the proper functioning of the NZ ETS, international climate change obligations, available ways of reducing greenhouse gas emissions, international emissions prices, impacts of emissions prices on households and the economy, and inflation.

Section 5M of the Act sets out a range of matters we must consider (where relevant) in all of our advice. Those matters include, among other things, available scientific knowledge, likely

[xxv] Other units are allocated for removal activities (mainly forestry) which are not incorporated into or restricted by NZ ETS unit limits.

[xxvi] In November 2025, the Minister announced a series of planned amendments to the Climate Change Response Act 2002. Under one of those proposed amendments, these NZ ETS settings would be updated every two years.

economic effects, social and environmental circumstances, the Crown–Māori relationship and effects on iwi/Māori.

All of our advice is required to be consistent with the Act's purposes. One of those purposes is to set a clear and stable framework for Aotearoa New Zealand to contribute to global efforts to limit average warming to 1.5°C above pre-industrial levels. Other purposes include enabling the country to meet its international obligations, and providing for the operation of an emissions trading scheme that supports global efforts to reduce emissions and that assists the country to meet emissions budgets and the 2050 target.

We set out the legal framework, including the matters from sections 30GC and 5M, and note how we have addressed them in this advice in *Technical Annex 3: Assessment of accordance*, published separately on our website.

Accordance with emissions reduction targets

Section 30GC of the Act requires that unit limits and price control settings accord with emissions budgets and the 2050 target. In this advice, we refer to the emissions budgets and the 2050 target together as Aotearoa New Zealand's 'emissions reduction targets'.

In addition to the material in this report, *Technical Annex 3: Assessment of accordance*, published separately on our website, explains in detail how we have addressed these accordance requirements.

A five-year rolling timeframe

Under the Act, unit limits and price control settings are set for five years in advance and are updated annually. This approach gives market participants clarity about future settings, while also allowing flexibility to adjust settings as circumstances change. As shown in Figure 1.1:

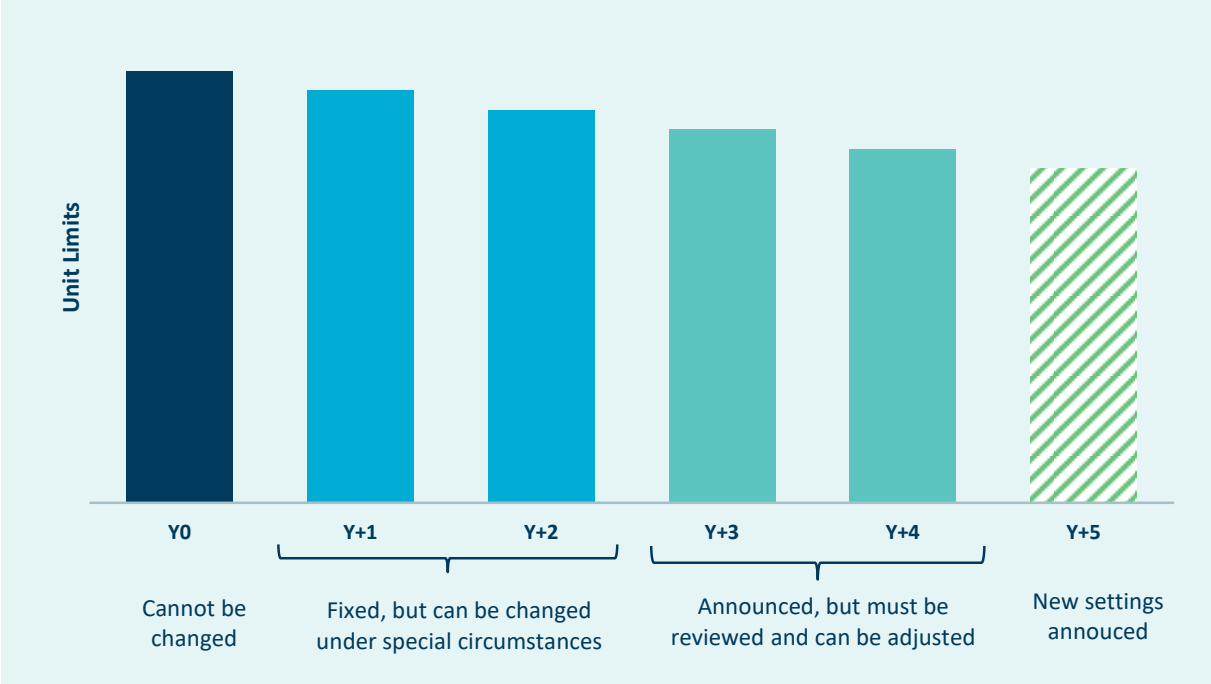
- settings for the current year are fixed and cannot be changed
- settings for the next two years can be changed only under certain conditions
- the Minister can amend settings for years 3 and 4, and must add new unit limits and price controls for year 5.

Settings for years 1 and 2 can be amended only if the price controls have been triggered in the current year, or if amendment is justified by special circumstances including:

- a change to the relevant emissions budget
- a change that has significantly affected any matter that the Minister was required to consider when recommending the settings
- a *force majeure* event.

Chapter 4: Unit limits and *Chapter 5: Price control settings* explain how we have addressed these requirements.

Figure 1.1: The five-year rolling process for unit limits and price control settings



Source: Climate Change Commission

Changes to legislation affecting the parameters for this advice

In December 2025, Parliament amended the Climate Change Response Act 2002 to remove the previous requirement for NZ ETS settings to accord with Aotearoa New Zealand's nationally determined contributions under the Paris Agreement.[5] This reflected the Government's view that the NZ ETS is solely a tool for driving domestic emissions reductions. This advice reflects that change.

The amendments also:

- changed the 2050 target for reducing biogenic methane emissions (the new target is for a 14% to 24% reduction from 2017 levels)
- deferred until 31 December 2027 the date by which the Minister must set the fourth emissions budget, on the basis that more time is needed to reflect the updated 2050 target
- required the Commission by 31 March 2027 to provide advice on any revisions necessary to existing budgets arising from the updated target.

Those changes mean the current second and third emissions budgets remain the benchmark with which the NZ ETS settings must accord under the Act, despite the change to the 2050 biogenic methane target.

The Government has also announced other proposed changes to the Act, which it intends to pursue through an amendment bill in 2026.[xxvii] These include a plan to require NZ ETS settings updates every two years, instead of annually as the Act currently requires. Based on the information available to us at the time we finalised this advice, this would mean that the next NZ ETS settings update would occur in 2028.

This advice is based on the Act as it is currently in force, although we also provide advice on settings the Government could adopt if the Act is amended so that the next NZ ETS settings review is not until 2028. See *Chapter 6: Discussion and recommendations* for more information.

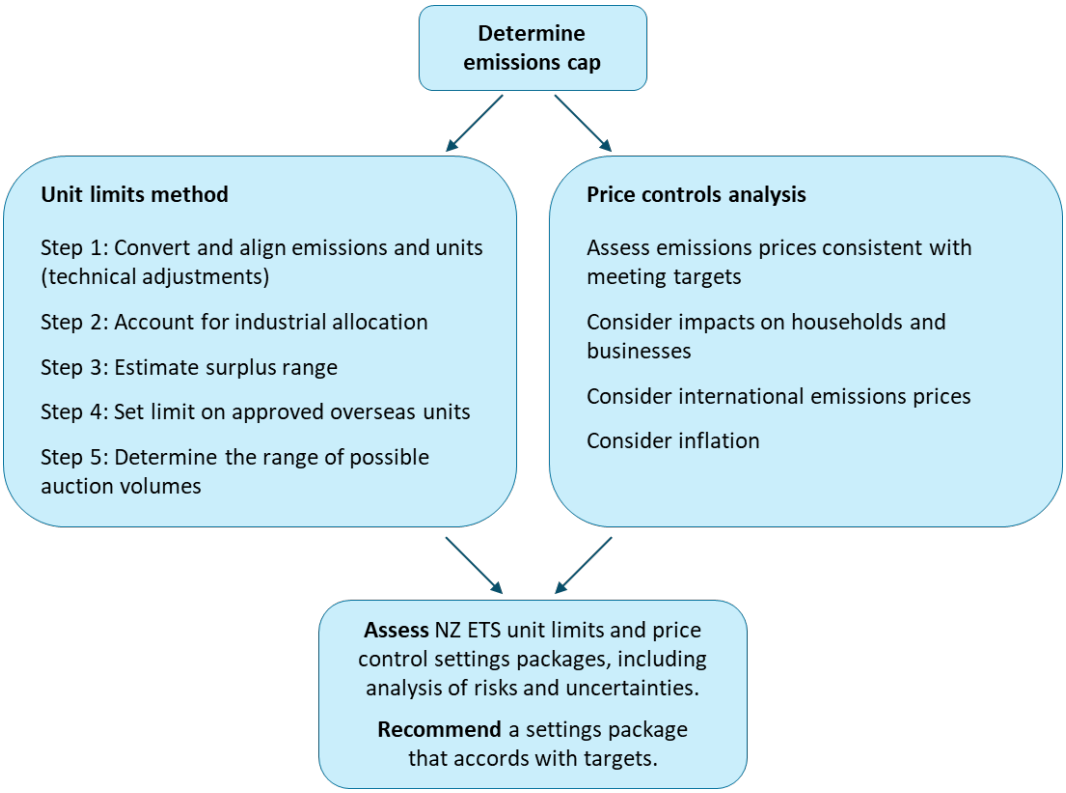
Updates to our analytical approach

For this advice we have revised and updated how we present our analytical approach. These changes partly reflect the Government's removal of the requirement for the NZ ETS to accord with nationally determined contributions. The changes are also intended to more clearly set out the process we use to develop our package of recommendations on unit limits and price controls. Our revised approach is set out in Figure 1.2, and this report follows that structure.

The other notable change is that we are this year presenting a range of possible surplus estimates and auction volumes. This acknowledges the uncertain and dynamic nature of the surplus, and that there are a range of auction volumes that could be consistent with meeting emissions budgets. For more on this see *Chapter 4: Unit limits* and *Chapter 6: Discussion and recommendations*.

[xxvii] More information on the Government's proposed changes to the Act can be found here: https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/amending-the-climate-change-response-act/#making-the-act-more-efficient-and-effectiveo

Figure 1.2: Our analytical approach to developing recommendations for NZ ETS unit limits and price control settings



Source: Climate Change Commission

Engagement

Effective engagement is an important part of our process for developing advice.

To support the development of this advice we engaged with companies from different sectors participating in the NZ ETS, industry associations, non-government organisations, market intermediaries including trading houses, and individual experts and consultants specialising in the NZ ETS. This enabled us to hear insights, test ideas and enhance our understanding of the NZ ETS market and of market participants' and other stakeholders' concerns. We also engaged with iwi/Māori with interests in the NZ ETS including representatives from collective owners of Māori land.

This year's advice also builds on the insights gathered from engagement activities undertaken over the past five years of providing this advice.

Key themes arising from our engagement are summarised in *Chapter 2: Current state of the NZ ETS*.

Iwi/Māori considerations

All of our advice to the Government reflects consideration of the Crown–Māori relationship, te ao Māori, and specific effects on iwi/Māori, as required by the Act. Engagement with iwi/Māori is a key mechanism that helps identify issues relevant to our NZ ETS settings advice. Matters considered in this year's advice include the approaches taken by iwi/Māori

entities to their decision-making about managing their units in the NZ ETS, as well as the impacts of emissions prices on iwi/Māori. Engagement feedback also provides important context about how the interaction of iwi/Māori with the NZ ETS is affected by the specific characteristics and historical circumstances of land owned by Māori.

Chapter 2: Current state of the NZ ETS provides a summary of feedback from iwi/Māori. Specific effects on iwi/Māori are considered and discussed in *Chapter 4: Unit limits* (specifically, in relation to pre-1990 forestry units) and *Chapter 5: Price control settings*, including in terms of the impacts of emissions prices on businesses and households.

How this advice fits with the Commission's wider work

This advice is specifically focused on technical recommendations about the NZ ETS unit limits and price control settings. As required under the Act, the Commission provides separate advice about the 2050 target, emissions budgets, emissions reduction plans, and climate change adaptation risks and policies. The Commission's annual emissions reduction monitoring report, due in July 2026, can address a wider range of prospects for reducing emissions through the NZ ETS and other mechanisms.

While this advice is limited to NZ ETS settings, the broader climate policy landscape remains important context. We summarise those contextual issues in *Chapter 2: Current state of the NZ ETS*.

For our other advice to the Government see our website, www.climatecommission.govt.nz.

Timeframe for consultation and new regulations

Providing this advice is one step within a wider process for updating the NZ ETS regulations. The Government will consider our advice and seek public input on proposed changes. We understand this consultation will be led by the Ministry for the Environment on behalf of the Minister of Climate Change in the second quarter of 2026.

The Government must make decisions on NZ ETS unit limits and price control settings in time for the regulations to be updated by 30 September 2026. The new settings will come into force on 1 January 2027.

Under current legislation we are scheduled to provide our next advice on this topic, relating to 2028–2032, in early 2027. If Parliament enacts the Government's announced legislative amendments, our next NZ ETS settings advice will instead be due in early 2028.

Chapter 2: Current state of the NZ ETS

This chapter discusses the state of the market, recent policy changes and other context for this advice.

The wider context for this advice

He Pou a Rangi Climate Change Commission's recommendations in this report are limited to the NZ ETS unit limits and price control settings for 2027–2031, prescribed by the Act. These settings are a key part of ensuring the NZ ETS is credible and effective, but other aspects of the scheme also matter and can affect how these settings must be managed. The policy and economic landscape within which the NZ ETS sits also shapes how it functions.

This part of our advice highlights key issues relating to this wider context. It discusses how the market has evolved over the past year, recent policy developments, and feedback from engagement with market participants, including representatives of iwi/Māori entities.

After our recommendations were finalised, the current conflict began in the Middle East. It is too soon to judge the extent to which this will have a sustained impact on fossil fuel prices or on emissions, and therefore what the implications for the NZ ETS settings might be. This advice already factors in uncertainty about fossil fuel prices, and the next review of the NZ ETS settings, which under current legislation is scheduled for 2027, would be an appropriate point to reassess these issues.

International developments

Globally, emissions pricing mechanisms continue to expand in both coverage and sophistication, despite political debates about climate action. Around 28% of global greenhouse gas emissions are now subject to carbon pricing, representing around two thirds of global GDP.[4]

There are now 38 emissions trading systems in operation and 20 in development. Many of the emerging schemes are located in middle income and developing economies such as Brazil, India, Indonesia, Turkey and Vietnam.[6] Japan's GX-ETS (Green Transformation ETS) is transitioning to a mandatory system from April 2026.[7] In the United States, 14 states have enacted some form of emissions trading, including economic heavyweights such as California and New York State.[8]

Established emissions trading systems are continuing to expand. In 2025 China increased the scope of its national ETS beyond the electricity sector to cover steel, cement and aluminium smelters, adding an estimated 3,000 $MtCO_2e$ to regulated emissions, around 5% of global GHG emissions. The United Kingdom is expanding its ETS to cover domestic shipping and waste incineration, while the European Union expects to roll out a second ETS to cover emissions from buildings and road transport fuels in 2028.[9]

A newer trend is the linking of climate and trade policy through Carbon Border Adjustment Mechanisms (CBAMs). These apply carbon-linked charges to imported goods, to reduce carbon leakage and level the playing field for domestic producers subject to emissions pricing. The European Union's CBAM became fully operational in January 2026,[10] while in February 2026 the United Kingdom published draft regulations for implementing its own CBAM, which will come into effect from January 2027.[11]

Australia, one of Aotearoa New Zealand's closest economic partners, published the final report of its Carbon Leakage Review in February 2026. This recommended introducing a CBAM, starting with cement and clinker. Its recommendations will be considered in the 2026–27 review of the Safeguard Mechanism, Australia's policy for reducing emissions from large industrial facilities.[12,13] Other jurisdictions actively exploring CBAM-style border measures include Norway,[14] Canada,[15] and the United States.[16]

While New Zealand exporters have limited direct exposure to currently planned CBAMs, this could change as these mechanisms spread to more countries, sectors and products. As a result, it seems likely that demonstrating effective climate policy and emissions performance will become more important for Aotearoa New Zealand's market access and export growth.

State of the NZ ETS market

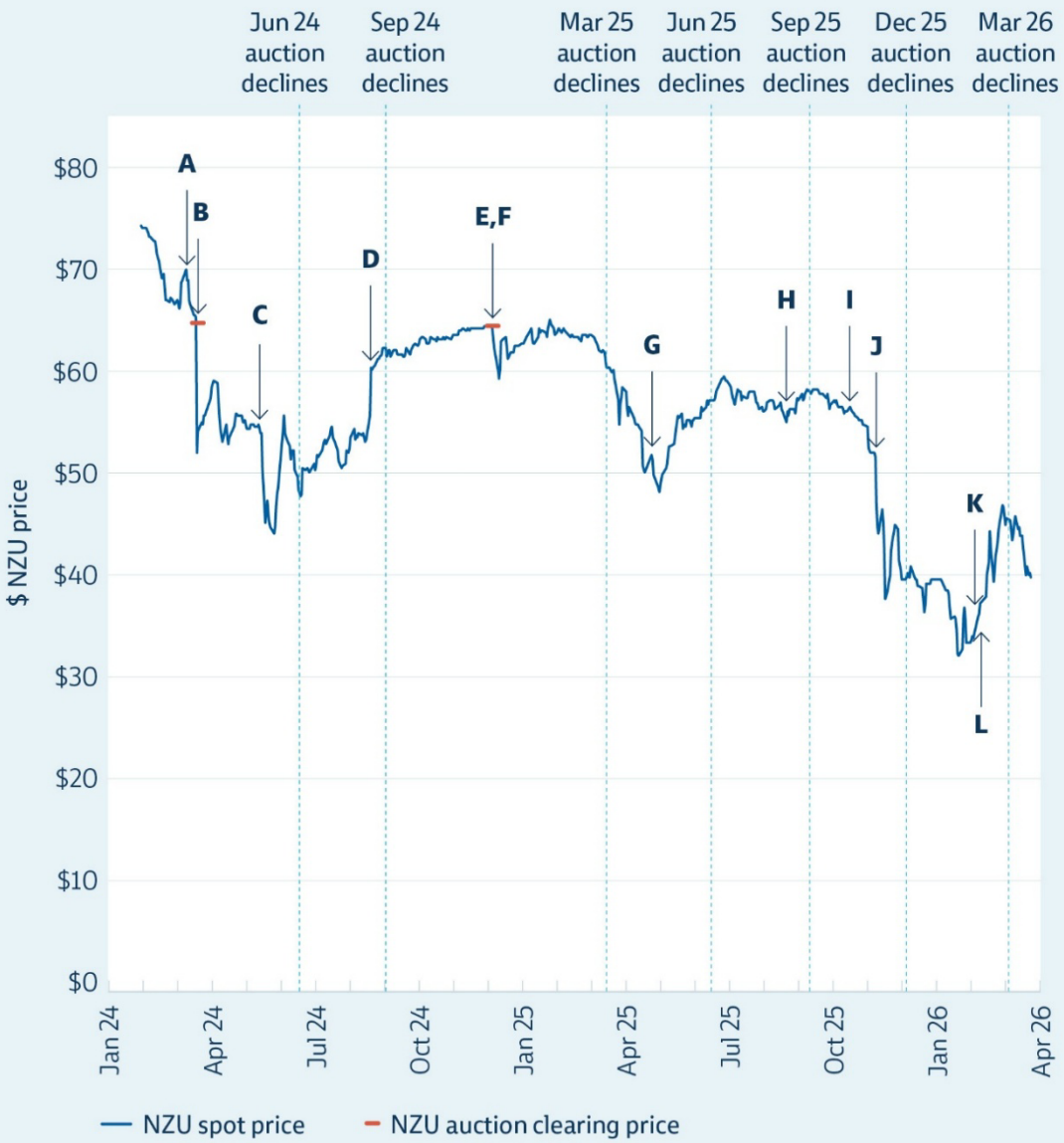
Since the Commission's last advice on the NZ ETS settings in April 2025, the NZ ETS market has once again seen significant price volatility. Figure 2.1 shows the NZU secondary market spot price over 2024 to early 2026.

Following a dip in the NZU price over March–April 2025, there was a partial recovery of prices into the $50–$60 range. Prices then began to weaken in October, with a dramatic drop observed in early November. This coincided with Government climate policy announcements made on 4 November about changes to how the NZ ETS relates to the nationally determined contributions (NDCs) under the Paris Agreement.[1] The spot price reached the low $30s in January and, as of March 2026, remained relatively unsettled.

Fluctuating prices since November do not appear to have stemmed from limited liquidity, as trading platforms have reported significant traded volumes over this period.[17] We provide further commentary on potential reasons for these price trends later in this chapter, in the section on key themes from engagement with NZ ETS market participants.

All four auctions in 2025 declined, and the first auction of 2026 on 3 March also did not clear. These results are unsurprising given the secondary market spot price for NZUs has been well below the auction reserve price ($68 and $71 in 2025 and 2026 respectively). The last (partial) auction clearance occurred in December 2024.

Figure 2.1: NZU prices from January 2024 to mid-March 2026



A	Commission's third NZ ETS settings advice (2025–2029) released
B	March 2024 auction partially clears at floor price
C	Government consultation on NZ ETS settings begins, includes option of lowering price control settings
D	Government announces decision on NZ ETS settings for 2025–2029
E	December 2024 auction partially clears at floor price
F	Government announces restrictions on exotic forests registering in NZ ETS
G	Commission's fourth NZ ETS settings advice (2026–2030) released
H	Government announces decision on NZ ETS settings for 2026–2030
I	Government announces change to the 2050 target
J	Government announces changes to the Climate Change Response Act 2002, including removal of requirement for NZ ETS settings to accord with NDCs
K	Government announces amendment to second emissions reduction plan
L	Commission publishes letters between Minister of Climate Change and Commission Chair

Source: Carbon News NZU Carbon Price Index

Recent NZ ETS policy developments

Several policy developments relevant to the NZ ETS have occurred over the past year.

In May 2025, the Government announced policy decisions on the governance of NZU trading in the secondary market. Their aim is to improve market information, introduce market conduct standards, and enable market monitoring. Amendments to the Climate Change Response Act 2002 (the Act) to implement the decisions are yet to be introduced.

The Government implemented its previously announced intentions to limit the conversion of some classes of farmland to exotic forestry. In September 2025, Parliament passed changes to the Act to introduce limits by Land Use Capability (LUC, a measure of land quality) on land that can register into the NZ ETS for forestry. This impacts the outlook for afforestation, which is discussed further in *Chapter 5: Price control settings.*

Also related to forestry, in 2025 a consultation was held on potential updates to the default carbon yield tables used for forests in the NZ ETS, which could increase the unit entitlements for many forestry participants.[18] A consultation was also held in early 2026 on updating the cost recovery settings for forestry in the NZ ETS. Among other things, this proposed a further reduction to the per hectare annual charge for forests registered in the NZ ETS.[19] Decisions on these matters are still pending.

In October 2025, the Government announced a reduction to the ambition of the 2050 target for reducing biogenic methane emissions, and that it would no longer work towards pricing agricultural emissions.

This was followed in November by an announcement that the Government intended to remove the requirement for the NZ ETS settings to accord with NDCs. As noted above, the market reacted strongly after this announcement. The Government subsequently clarified that the change to accordance requirements in the NZ ETS settings did not lower Aotearoa New Zealand's climate ambition.[20] The change was implemented through amendments to legislation in December 2025.[5]

As noted in *Chapter 1: Introduction*, the Government also announced several other proposed changes to the Act. These included changes to the timing and nature of some Climate Change Commission advice and to some aspects of the climate policy framework contained in the Act, such as shifting from annual to two-yearly updates to the NZ ETS settings regulations. The Government stated that it intends to pursue these through an amendment bill in 2026, although as of March 2026 the bill has not yet been introduced.[xxviii]

[xxviii] More information on the Government's proposed changes to the Act can be found here: https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/amending-the-climate-change-response-act/#making-the-act-more-efficient-and-effectiveo

Key themes from engagement

Each year we engage with a range of organisations and people participating or otherwise involved in the NZ ETS. To gain insights from different experiences and viewpoints, we speak to a selection of emitters, forest owners and consultants, market intermediaries and trading houses, people who can share iwi/Māori perspectives, and NGOs.

These discussions are invaluable for informing our advice by providing us with an updated understanding of the market and participants' experiences of it. They also allow us to test assumptions and other aspects of our analysis.

We set out below key themes from these discussions, which were held in late 2025 and early 2026 (prior to the start of the US/Iran conflict). They provide important context for our advice and how the scheme is operating.

Sentiment is the major driver of current low NZ ETS prices

This year, our engagement discussions about the NZ ETS were dominated by the aftermath of the Government's 4 November 2025 announcement about removing the NDC accordance requirement from the NZ ETS settings. The universal feedback was that this announcement had undermined market participants' confidence in the Government's commitment to the NZ ETS. Many commented that the market reaction was caused not just by the NDC announcement itself, but the way it came after a series of earlier decisions perceived as weakening other aspects of climate policy.

Some we spoke to were aware that the announced change would not necessarily directly affect the NZ ETS settings, understanding that the settings were already more directly coupled to emissions budgets than to NDCs. Regardless, they saw the Government's decision as a step back from climate action, raising questions about how the NZ ETS would be run in future. From others we heard concern about the lack of consultation, rushed implementation, and that the change was poorly communicated, which contributed to an 'emotional' reaction to it by some market participants.

This change was highlighted by everyone we spoke to as a major factor behind the current low and volatile NZU prices. They considered the market had taken a view on the Government's ambition and the risk of further regulatory change. The strong message coming through was that the price did not reflect supply and demand fundamentals or communicate meaningful information about abatement costs. While some foresaw that the market would become significantly tighter towards 2030, they did not expect this to impact the market in the near term as low confidence and uncertainty were the dominant influences.

Some also pointed out that the NZU price had started to somewhat weaken before November 4, and that the end of the forestry mandatory emissions reporting period (MERP) was also weighing on the market. There was an expectation that there would be significant flows of forestry units into the market in the first half of 2026, as foresters' mandatory

emissions returns covering the 2023–2025 fourth MERP are processed. We heard that this was a factor in the prices dipping to the low $30s in January 2026, as cash-motivated foresters rapidly turned units they received over to the market.

The market will take time to recover

In terms of the future outlook for the market, we were told that trust is easily lost and slow to rebuild. There was a sense that the market would now be in a 'wait-and-see' mode at least until after the November 2026 general election, with prices likely to stagnate and auctions continuing to decline.

We heard that the market would likely continue to be very sensitive to Government signals. Participants emphasised that any more policy changes, including to the NZ ETS settings, risked further unsettling the market. They stressed the need for clear signalling to avoid surprises, and that changes to the first two years of the NZ ETS settings should be avoided.

When asked what was needed for a stable and predictable ETS, some we spoke to noted that a more bipartisan approach to climate policy and the management of the NZ ETS was needed. While there was perceived to be unified political support for having an NZ ETS, there was no real consensus on how it should be run and what outcomes it should aim to achieve. The recent instability in the market was not a new problem, but a continuation of many years of successive governments making decisions that disrupt the market.

Price volatility undermines NZ ETS effectiveness

Responses to our questions about how NZU prices could evolve over the next few years indicated that the market was shortsighted. Several market participants commented that the horizon for price expectations had shortened, and that regulatory unpredictability meant they did not attempt to take a view on the price beyond one or two years.

We heard that increased price volatility and uncertainty was affecting the ability of the NZ ETS to direct capital to reducing emissions. It was difficult to make the case for investments based on the emissions price and other drivers were playing a larger role, such as high fossil gas prices. At least one firm commented that they were forging ahead with decarbonisation initiatives, but the unpredictability of the NZ ETS had made it irrelevant to their plans.

For forestry, understanding the new LUC restrictions was an additional challenge and there was concern that LUC was too blunt a tool to guide land-use decisions. We heard that the price needed to drive afforestation had increased due to a combination of factors, including NZU price volatility, land prices, inflation and the LUC restrictions. Foresters reported a downturn in planting plans, with some projects scaled back or cancelled over recent months. Understanding future unit supply from forestry was brought up as a challenge. The publication of more forestry data by MPI was welcomed, but we heard it remained difficult to interpret or analyse.

We also heard that price volatility has affected participants' hedging practices and approach to procuring units. Index-linked contracts, where the price for units is not fixed but moves in line with a benchmark price, were becoming more common, especially where NZ ETS costs can be easily passed through to customers or consumers.

Our targeted engagement for this advice does not represent a comprehensive survey of market participants. Nevertheless, what we heard about the effect of policy uncertainty and price volatility, while somewhat anecdotal, is corroborated by experiences in other carbon markets. Evidence from the EU ETS indicates that a drop in prices, rather than lower emissions reduction costs, can signal shortsighted behaviour by market participants, and that the credibility of political commitment can be a key factor explaining prices in an ETS.[21]

What we heard from iwi/Māori

As we prepared our advice on the NZ ETS settings this year we spoke with people involved in iwi/Māori forest and land management. We heard about issues directly relevant to the current state of the NZ ETS and this advice, and some that were broader and longer-running.

Consistent with other market participants, we heard that recent policy changes have eroded confidence in the NZ ETS and made investment in forestry less attractive. Those we spoke to reported that planting plans by iwi/Māori had been scaled back as a result, with potential flow-on impacts which could affect Māori in the workforce and in businesses associated with forestry, such as nurseries.

We heard there are longer-running issues with the NZ ETS, including its inability to provide stable incentives for decision-making over the multi-generational timescales which may be important for iwi/Māori.

We heard that there was opportunity in the exemption of some types of Māori land from the new Land Use Capability (LUC) class restrictions on registering land into the NZ ETS. However, this would still be hindered by the long-standing challenges for collectively owned land in accessing finance and NZ ETS administration requirements.

We also heard that the NZ ETS can impede iwi/Māori responses to the environmental harm caused by extreme weather events. Specifically, NZ ETS liabilities can impose barriers on transitioning land from production forestry to native forestry. These issues are particularly relevant in the Tairāwhiti region, where iwi/Māori are significant land holders, there is a large area of highly erodible land, and significant land-use change has been proposed.[22]

Although this advice is limited in scope to recommending the NZ ETS unit limits and price control settings specified in the Act, the Government should consider these broader issues as part of other processes.

Chapter 3: The NZ ETS emissions cap

The NZ ETS emissions cap underpins the development of both the unit limits and the price control settings. This chapter sets out our proposed emissions caps that align with the second and third emissions budgets.

The emissions cap is the intended constraint on emissions from sectors covered by the NZ ETS. It is critical to the function of any ETS, as it creates scarcity and therefore helps create the market value of the units in the scheme.

Under the legislative framework, the primary consideration when developing the NZ ETS settings is accordance with emissions reduction targets. This means the emissions cap's level must reflect the contribution needed from NZ ETS-covered sectors to meet the relevant emissions budgets. This targeted level of allowed emissions is then used as the basis for working out how many units can be auctioned, and for assessing the emissions prices that could be needed to reduce emissions to meet the cap and stay within emissions budgets.

Decisions about the emissions cap involve considering effort-sharing across sectors, as well as the feasible scale and pace of change. The emissions cap's level should take account of the realistic potential for the NZ ETS to reduce emissions, as well as the emissions reductions that could be driven by other policies, both for sectors covered and not covered by the scheme. The emissions cap the Government implements represents its judgement about how the responsibility to achieve Aotearoa New Zealand's emissions reduction goals is shared between the sectors inside and outside the scheme.

Summary of proposed emissions caps

The NZ ETS settings timeframe under consideration this year is 2027–2031, covering four years of the second emissions budget (2026–2030) and the first year of the third emissions budget (2031–2035). We have therefore considered the NZ ETS emissions caps for both budget periods.

In August 2025, the Government announced an NZ ETS emissions cap for the second emissions budget period (89.4 $MtCO_2e$) and a "provisional" cap for the third emissions budget period (40.7 $MtCO_2e$).[23] Since then, updated government emissions projections have been released,[24] which show lower emissions overall but higher agricultural emissions than in the 2024 projections. Based on this new information, we assess that neither of the Government's previously announced emissions caps still align with emissions budgets.

For the second emissions budget, we assess that an NZ ETS emissions cap of **81.9 $MtCO_2e$**, based on the most recent government emissions projections, would align with the budget. It is consistent with the Government's emissions reduction plan.

For the third emissions budget, we propose the use of an NZ ETS emissions cap of **28.9 $MtCO_2e$**.[xxix] This is based on the assumption that NZ ETS sectors will be responsible for all further reductions beyond current emissions projections needed to meet the third emissions budget. This assumption is due to the lack of planned constraints on agricultural emissions. This level of further reductions from NZ ETS sectors is feasible.

These caps are consistent with the Government's current emissions reduction plan. We consider lower emissions caps inadvisable, unless the Government implements further complementary policies and significant further analysis to understand the impacts (and options to mitigate the impacts) of seeking to achieve significantly higher emissions reductions through the NZ ETS.

When combined and applied to the period covered by this year's advice, this gives an emissions cap totalling **67.6 $MtCO_2e$** for the 2027–2031 settings period.

Approach to determining emissions caps

We set out in the following sub-sections our analysis and conclusions about preferred options for the emissions caps for the second and third emissions budgets.

To align with emissions budgets, each emissions cap must not exceed the total budgeted emissions for the period when combined with expected emissions from sectors that are not covered by the NZ ETS. The emissions outside the NZ ETS are mostly from agriculture, as well as a small amount of waste emissions.

Given the uncertainties in forecasting emissions and the effects of emissions reduction measures, ideally the total of the emissions caps plus non-NZ ETS emissions would be below the total emissions budgets. Aiming to overachieve emissions budgets in this way provides more confidence that the emissions budgets will be met.

We have considered several approaches to determining the emissions caps by basing them on different targets or pathways for reducing emissions. This includes options based on the demonstration path from the Commission's 2024 advice on setting the fourth emissions budget, as an emissions pathway well below current emissions budgets that has been assessed as achievable if supported by appropriate policy.

We also looked at options based on Aotearoa New Zealand's first and second nationally determined contributions under the Paris Agreement. NDCs are key international targets to reduce emissions and it is relevant to consider whether and how the NZ ETS can assist in meeting them, even though the NZ ETS settings are no longer legally required to accord with them. The Act still requires consideration of international climate change obligations and the cost of ways to reduce emissions to meet emissions reduction targets when determining unit limits and price control settings, along with consideration of international emissions prices

[xxix] This gives the total volume of the emissions cap over 2031–35. The trajectory (slope) of the cap is also important. In developing our settings recommendations, we have used a trajectory for this cap that accommodates the industrial allocation forecast over the third emissions budget period.

when determining price control settings. The Government is using the NZ ETS as its key tool for reducing domestic emissions, and if the reductions needed to meet NDCs are not achieved domestically then it will result in increased costs for mitigation offshore.

The status quo emissions cap levels for both budget periods are those announced by the Government in August 2025, alongside its policy decision on the last NZ ETS settings regulations update.[23] In this and previous decisions about emissions caps, the Government has not given any indication about its preferred approach for amending or updating the emissions caps over time.

Important context to the analysis below is that in late 2025 the Government announced that it no longer planned to work towards pricing agricultural emissions from 2030 onwards,[25] and subsequently updated the second emissions reduction plan to reflect that.[26] This means that the Government has no concrete plans to constrain agricultural emissions in future, although it has said it will leverage market-led schemes that support farmers to adopt new ways of reducing emissions.[27] A consequence of this is that we cannot assume that there will be any further emissions reductions by the agriculture sector beyond what is shown in the latest government emissions projections.

Looking ahead, the Government's approach to agriculture has the potential to create significant uncertainty for the NZ ETS. The lack of incentives to reduce agricultural emissions could allow them to continue to increase, or at least not decrease in line with emissions budgets. This could mean that the NZ ETS emissions cap may need to be lowered, ramping up effort on covered sectors, each time the NZ ETS settings are updated due to the requirement that they accord with targets. This would make the ambition of the NZ ETS dependent on changes in agricultural emissions trends, rather than any assessment of the feasibility of reducing emissions in the sectors it covers.

Emissions cap for the second emissions budget period

We have evaluated the following options for determining the share of the second emissions budget to allocate to NZ ETS sectors and provide the NZ ETS emissions cap, based on:

1. The status quo cap announced by the Government in August 2025 (referred to as 'status quo' in Table 3.1).
2. The 2025 government emissions projections from sectors covered by the NZ ETS ('2025 projections'). This is our preferred option.
3. The demonstration path used in the Commission's 2024 advice on setting the fourth emissions budget ('CCC 2024 budget advice').
4. The first nationally determined contribution, Aotearoa New Zealand's current emissions reduction target under the Paris Agreement for 2021–2030 ('first NDC').

Table 3.1 sets out the emissions cap volumes corresponding to these options, showing how they align to the second emissions budget (305 $MtCO_2e$) and the level of further emissions

reductions that each would require from NZ ETS sectors beyond the latest emissions projections.

This shows that the status quo cap no longer aligns with the second emissions budget. This is due to agricultural emissions increasing in the latest 2025 government projections, compared to the 2024 projections used when the Government set the emissions cap.

We propose to use option 2 as the emissions cap for the second emissions budget period, i.e. aligning the emissions cap to the latest emissions projections. It aligns with the second emissions budgets and provides a buffer of 3.6 $MtCO_2e$ below the budget. It is consistent with current Government policy as set out in its emissions reduction plan.

Options 3 and 4 are more ambitious and so more strongly align with emissions budgets. However, it is not viable to use option 4 (a cap based on the first NDC) as this results in a negative emissions cap that is not compatible with the current structure of the NZ ETS.

Option 3 would require NZ ETS sectors to reduce a further 9 $MtCO_2e$ between now and 2030, on top of the reductions they are already expected to make under current policy.

Table 3.1: Emissions cap options for the second emissions budget period (2026–2030)

Cap option ($MtCO_2e$)	Net cap	Sum cap + non-NZ ETS emissions	Difference to budget (305 $MtCO_2e$)	Further effort for NZ ETS
1. Status quo	89.4	308.9	3.9	7.5
2. 2025 projections (preferred)	81.9	301.4	–3.6	0
3. CCC 2024 budget advice	72.9	292.4	–12.6	–9.0
4. First NDC	–3.0	216.5	–88.5	–84.9

Source: Commission analysis.

Notes:

1. A positive number in the “Difference to budget” column shows that the option exceeds allowed emissions and therefore does not align with the emissions budget. A negative number shows that the option would provide a buffer to increase the likelihood of meeting the emissions budget.
2. A positive number in the “Further effort for NZ ETS” column shows that the option would allow emissions to increase above the levels currently projected, while a negative number shows the further emissions reductions below current projections that the emissions cap option would require from NZ ETS sectors.
3. The NZ ETS emissions used for option 2 do not correspond to the “ETS projections” tab in the spreadsheet of the latest government emissions projections, but reflect the Commission’s more granular calculation of the share of those projected emissions covered by the NZ ETS.
4. The non-NZ ETS emissions used to calculate the values in this table total 219.5 $MtCO_2e$ over 2026–2030, based on the latest government emissions projections.

5. Option 4 is based on a provisional budget for the first NDC calculated using 2025 GHG Inventory emissions (574.7 $MtCO_2e$), allocated according to actual and projected emissions over 2021 to 2025 (358.2 $MtCO_2e$) with the budget balance (216.5 $MtCO_2e$) allocated to 2026–2030.

Option 3 is based on the demonstration path from the Commission's 2024 advice on setting the fourth emissions budget. That advice represents the Commission's most recent assessment of the emissions reductions that are both achievable and ambitious, but it assumed a much more comprehensive package of climate policies than is contained in the Government's emissions reduction plan. Based on that plan, we do not have confidence that the further reductions could be achieved through the NZ ETS without high and potentially unmanageable economic or social costs. The reductions would have to be achieved through reducing gross emissions, as it is now too late for new forest planting to contribute to achieving the second emissions budget. If the Government implemented a greater range of complementary policies to reduce emissions, a lower emissions cap closer to option 3 would become more achievable than it is now under the current emissions reduction plan.

The advice on which option 3 is based will soon be revisited. Since the Commission provided its 2024 emissions budget advice, the Government has made changes to the Act to revise the 2050 target and delay until 2027 decisions on setting the fourth emissions budget and revising existing budgets. The Commission is required to provide updated advice in March 2027 to inform that decision. Using option 3 as the basis for the NZ ETS emissions cap now could be seen as pre-empting that process. It would be attempting to implement the Commission's 2024 emissions budgets advice, despite the new process in place for the Commission to develop, and for the Government to consider and make decisions on, an updated assessment.

Emissions cap for the third emissions budget period

An important factor in deciding the appropriate NZ ETS emissions cap for the third emissions budget period is that the most recent government emissions projections show that the country is not on track to meet the budget.

The latest emissions projections use a scenario-based approach to agricultural emissions from 2030 onwards. This differs from the government emissions projections prepared in previous years. Rather than providing a single "with additional measures" (WAM) projection[xxx] for agricultural emissions estimating likely future policy impact, the projections included three scenarios (named A, B and C). There is uncertainty about which of these three

[xxx] With additional measures (WAM) projections are usually included each time the Government releases emissions projections. The WAM projection is intended to show projected emissions if all planned emissions reduction policies are implemented, in addition to policies already implemented. We take this to mean the WAM reflects the Government's current intentions. The WAM projection is typically presented alongside high and low sensitivities.

scenarios is preferred by the Government, or what policies the Government will adopt to realise its preferred scenario.

Based on the information available, we have interpreted the WAM scenario B for agricultural emissions as the policy goal that the Government is working towards. For example, the government emissions projections use scenario B in the WAM central projection.[24] We have therefore used that scenario in our assessment of how the emissions cap options align with the third emissions budget. However, if the Government is not aiming to achieve the WAM scenario B, it should clarify its policy goals for agricultural emissions. It should use a scenario which represents those policy goals when making decisions about the NZ ETS settings for 2027–2031 and when assessing whether those settings accord with emissions budgets and the 2050 target.

We set out below the following options for the NZ ETS emissions cap, based on:

1. The status quo "provisional" emissions cap for the third emissions budget period announced by the Government in August 2025 ('status quo' in Table 3.2).
2. The 2025 government emissions projections from sectors covered by the NZ ETS ('2025 projections').
3. Assuming NZ ETS sectors will be responsible for all the further emissions reductions needed to meet the third emissions budget, using the "with additional measures" scenario B for agricultural emissions ('further reductions'). Using this approach is our preferred option.
4. The second nationally determined contribution, Aotearoa New Zealand's current emissions reduction target under the Paris Agreement for 2031–2035 to reduce emissions by 51% to 55% below 2005 emissions ('second NDC').

Table 3.2 sets out the emissions cap volumes corresponding to these options. It shows how they align to the third emissions budget (240 $MtCO_2e$) and the level of further emissions reductions that each would require from NZ ETS sectors beyond the latest emissions projections.

We also considered options based on assuming the Commission's 2024 fourth emissions budget advice (giving a cap of 22.9 $MtCO_2e$) or a variation on option 3 using the (higher emissions) "with existing measures" (WEM) projection for agricultural emissions (giving a cap of 23.9 $MtCO_2e$).[xxxi] These are both similar to the less ambitious end of the second NDC cap range, so have been omitted from here for clarity.

[xxxi] The WEM projection is 5 $MtCO_2e$ higher over 2031–2035 than the WAM – central scenario. It is based on existing Government policy that has been implemented, so it is the emissions outcome that results if the Government's consideration of further agricultural emissions policies does not lead to further action. An option using this projection illustrates the further reductions that could be needed from NZ ETS in this case.

Table 3.2: Emissions cap options for the third emissions budget period (2031–2035)

Cap option ($MtCO_2e$)	Net cap	Sum cap + non-NZ ETS emissions	Difference to budget (240 $MtCO_2e$)	Further effort for NZ ETS
1. Status quo	40.7	251.8	11.8	3.0
2. 2025 projections	37.7	248.7	8.7	0
3. Further reductions (preferred)	28.9	240.0	0	–8.7
4. Second NDC	24.5 to 14.2	235.5 to 225.3	–4.5 to –14.7	–13.2 to –23.5

Source: Commission analysis.

Notes:

1. A positive number in the "Difference to budget" column shows that the option exceeds allowed emissions and therefore does not align with the emissions budget. A negative number shows that the option would provide a buffer to increase the probability of meeting the emissions budget.
2. A positive number in the "Further effort for NZ ETS" column shows that the option would allow emissions to increase above the levels currently projected, while a negative number shows the further emissions reductions below current projections that the emissions cap option would require from NZ ETS sectors.
3. The NZ ETS emissions used for option 2 (basing the emissions cap on the 2025 emissions projections) do not correspond to the "ETS projections" tab in the 2025 government emissions projections spreadsheet, but reflect the Commission's more granular calculation of the share of those projected emissions covered by the NZ ETS.
4. Non-NZ ETS emissions over 2031–2035 are assumed to be 211.1 $MtCO_2e$ (with 194 $MtCO_2e$ of that corresponding to the WAM scenario B for agriculture).
5. Option 4 is a range as the second NDC is expressed as a range (a reduction of 51–55% on 2005 emissions). The second NDC is a point year target so this net emissions cap has been estimated assuming a straight line between 2030 projected emissions and the 2035 second NDC target emissions. Other trajectories for meeting the second NDC are possible.

Table 3.2 shows that neither the status quo cap nor one based on the 2025 government emissions projections align with the third emissions budget. Options 3 and 4 align with the budget and require increasing levels of further emissions reductions from NZ ETS sectors.

We propose to use option 3 as the basis for this year's NZ ETS settings recommendations. The key reason for this is that this level of further reductions is feasible and consistent with the Government's emissions reduction plan. As this only applies to the last year of the recommended settings, 2031, there is time to adjust this approach if necessary.

The abatement required by option 3 (8.7 $MtCO_2e$) is similar to that implied by the status quo "provisional" cap when it was adopted by the Government in August 2025, based on the previous emissions projections.[28] It is also consistent with the approach the Government took to setting that provisional cap, where it assumed that all extra abatement to meet the third emissions budget would be achieved by NZ ETS covered sectors. This is not the

Commission's preferred approach to setting NZ ETS emissions caps,[xxxii,29] but is what is compatible with current Government policy. It is also achievable – with five years before the third emissions budget starts, it is possible to achieve a significant amount of the reductions through forestry at relatively low financial cost. This is not guaranteed, however, as future afforestation is very uncertain. We also acknowledge that afforestation can have a range of other impacts, for example on communities (this has a bearing on our judgement not to use a lower cap – see below).

Option 4 is stronger than option 3 from the perspective of aligning with the budget, but the reductions needed go well beyond what has been analysed or planned for in the Government's emissions reduction plan. It is doubtful that these reductions could be achieved by the NZ ETS alone, without further complementary policies. By way of example, to achieve the 13.2 $MtCO_2e$ reductions for the less ambitious end of option 4 through afforestation, a further 28,000 ha of exotic forests would need to be planted per year over 2027–31 on top of the average 34,000 ha of planting per year already assumed in the 2025 government emissions projections. If achieved primarily through gross emissions reductions without further complementary policies, this would entail higher impacts and costs on households and businesses than anticipated in the second emissions reduction plan.

Whatever combination of net and gross emissions reductions used to meet a lower cap such as one based on the second NDC, we do not think that such a material increase in ambition should be implemented without undertaking further analysis of the impacts and their mitigations. That is, significantly lower caps should be considered in conjunction with the policy options to mitigate their impacts and potential changes to the emissions reduction plan. This is beyond what the Commission can do as part of this advice on the NZ ETS settings. However, if the Government wished to implement lower emissions caps, it would be possible for it to do this, for example, as part of its adaptive management process.[xxxiii]

We note that at this point the emissions cap for the third emissions budget will only impact one year of the settings (2031), which is a year that can be easily adjusted in future updates to the regulations. This means that if, with time, the Government increases the ambition of its climate policies, emissions projections are revised downwards, or reducing emissions turns out to be easier than expected, it will be possible to revise this emissions cap downwards. In other words, the decision now on the emissions cap for the third emissions budget does not rule out higher ambition, if it proves more feasible than it currently appears under the Government's current emissions reduction plan.

[xxxii] As set out in our 2022 NZ ETS settings advice, the Commission's preferred approach would be to split the abatement effort to meet emissions budgets across sectors that are and are not covered by the NZ ETS, in a way that reflects that there is potential for reductions in all sectors.

[xxxiii] In its second emissions reduction plan (pp. 21-23), the Government has set out an "adaptive management approach" for how it will monitor and respond to policy delivery and changing circumstances affecting how Aotearoa New Zealand is tracking towards emissions budgets.

Chapter 4: Unit limits

This chapter contains our analysis on NZ ETS unit limits for the years 2027–2031.

The Government must set unit limits that serve to determine the number of units that can be auctioned into the NZ ETS each year.

The Climate Change Response Act 2002 requires annual updates to three types of unit limits across a five-year window:

- a limit on the New Zealand Units (NZUs) available by auction (NZUs for planned auctions and cost containment reserve)
- a limit on approved overseas units
- an overall limit on units (NZUs available by auction, overseas units, and industrial allocation).

The Act requires the Commission to recommend unit limits which, in combination with the price control settings, either 'strictly accord', or 'accord' with emissions reduction targets. We understand this to mean that we must recommend unit limits that align to a high degree to achieving all of the targets, in terms of the constraint that they place on future emissions. If we recommend unit limits that do not align to a high degree with achieving one or more emissions budgets, the discrepancy must be justified. The recommended unit limits must still have a good likelihood of achieving what is required or the discrepancy must be one that can be made up for elsewhere.

Summary and findings

We have identified two options for auction volumes over 2027–2030. These are: retaining status quo auction volumes to 2030 (option 1); and increasing the auction volumes based on the central surplus estimate (option 2). We assess that both options would align with meeting emissions budgets.

Over the last year the surplus has continued to be drawn down faster than expected. This results in a risk of a unit shortfall under status quo auction volumes. There are ways this risk could be mitigated beyond the unit limits, such as through the price control settings. We therefore leave determining the unit limit recommendations to C*hapter 6: Discussion and recommendations*, where we consider packages of NZ ETS settings including both the unit limits and price control settings.

We propose auction volumes for 2031, the final year of the settings, of 3 million units. This is based on the outcome of the unit limits method steps for that year and assumes the surplus is fully drawn down by 2030, consistent with the Government's surplus reduction goal.

Method

The seven-step method used to determine unit limits options in our advice from 2022–2025 has been updated for this 2026 advice to five steps. As noted in *Chapter 1: Introduction*, this change reflects that there is no longer a legal requirement that the NZ ETS settings accord with NDCs and aims to improve the communication and clarity of our advice. The steps are set out below:

1. Convert and align emissions and units (technical adjustments).
2. Account for industrial free allocation.
3. Estimate the surplus range.
4. Set the limit on approved overseas units.
5. Determine the range of possible auction volumes.

Step 1: Convert and align emissions and units (technical adjustments)

In this step we compare past emissions reported in the NZ ETS and in New Zealand's Greenhouse Gas Inventory (GHG Inventory) and target accounting. Target accounting is the accounting system used to measure progress against emissions budgets. If we identify differences, then adjustments may need to be applied to the emissions cap to align the NZ ETS with target accounting.

In this year's advice, we identified two technical adjustments relating to waste and forestry. These technical adjustments subtract volume from the emissions cap to convert it to a volume of allowed units in the NZ ETS.

Waste adjustment: subtract 1.1 $MtCO_2e$ from the NZ ETS emissions cap

We have identified an ongoing discrepancy where waste emissions reported for disposal facilities in the NZ ETS are significantly lower than emissions for managed waste disposal sites in the GHG Inventory. The NZ ETS allows for significantly higher land fill gas (LFG) capture in emissions returns, and therefore lower reported emissions, than the default LFG capture rate of 20% assumed in the GHG Inventory. We understand that the Ministry for the Environment is aware of this discrepancy and is considering how best to address it. We have made a technical adjustment to subtract 1.1 $MtCO_2e$ from the emissions cap over 2027–2031, to align with the more site-specific estimates used in the NZ ETS reported emissions. We will monitor how this discrepancy evolves in future NZ ETS settings advice.

Forestry adjustment: subtract 3.2 $MtCO_2e$ from the NZ ETS emissions cap

This year we have undertaken a significant piece of analysis exploring the impacts of differences in how forestry emissions and removals are accounted for in the NZ ETS and in Aotearoa New Zealand's target accounting. We found that, overall, across all post-1989 forests registered in the NZ ETS, more units are being allocated than the net carbon removals recognised in target accounting for those forests. This is projected to continue until 2036.

For individual forests, the difference depends on forest age. All forests under 10 years are allocated more units in the NZ ETS than the carbon dioxide removals recognised in target accounting. Beyond age 10, this reverses for permanent exotic forests, which are on average allocated fewer units than the removals recognised in target accounting in the long term.

Several factors contribute to the overall difference across the forestry estate, including differences in data and the accounting methodology. A significant contributor to the difference for forests planted less than 10 years ago is that, when pasture is converted to forest, initial biomass and soil carbon losses are accounted for in target accounting but not in the NZ ETS. Due to the age distribution of the total forest estate, this is a key driver of the discrepancy out to 2036.

We have estimated that, to address this issue over the 2027–31 period, 3.2 $MtCO_2e$ should be removed from the emissions cap. This is based on the Government's current NZ ETS policy. However, the Government is expected to consider updates to the NZ ETS default carbon yield tables in the first half of this year, following consultation in 2025. If these yield tables are updated, it is important that the Government updates this analysis when making its decision on the 2026 NZ ETS settings update.

We have also estimated the necessary technical adjustment if the Government were to adopt the default carbon yield tables contained in its 2025 consultation document.[18] Using these yield tables we estimate that 6.1 $MtCO_2e$ would need to be subtracted from the emissions cap.[xxxiv]

This analysis is described in detail in *Technical Annex 2: Forestry accounting,* published separately on our website.

Step 2: Account for industrial free allocation

Industrial allocation refers to the free NZUs provided by the Government to entities whose activities are both emissions-intensive and trade-exposed (EITE). Annual industrial allocation units use up some of the volume under the NZ ETS emissions cap, reducing the volume of NZUs available for the Government to auction.

The volume of NZUs given out each year via industrial allocation is not determined as part of the NZ ETS settings annual process. The rules governing industrial allocation are in separate provisions of the Act and associated regulations.

We have updated our forecast of industrial allocation to align with assumptions in the Ministry for the Environment's latest projections. This reduces expected industrial allocation volumes over 2027–2031 by 3.7 million units compared to our 2025 advice. This is primarily due to reductions in forecast production of methanol, and a reduction in expected

[xxxiv] A further uncertainty in calculating this technical adjustment is the assumption about the percentage of forests which are measured using the default carbon yield tables, rather than participant-specific yield tables. Changing this assumption could also significantly impact the estimated technical adjustment. This is discussed in detail in *Technical Annex 2: Forestry accounting.*

allocations for NZ Steel in relation to its new electric arc furnace. There have also been adjustments to assumptions related to aluminium and pulp and paper production. More detail is provided in *Technical Annex 1: Unit limit settings* published separately on our website.

The forecast volume of industrial allocation reduces over time, but at a slower rate than emissions projections and emissions budgets. Because of this, in this advice we have adjusted the trajectory of the emissions cap for 2031–2035, to ensure that industrial allocation does not exceed the cap in the later years of that period.

Step 3: Estimate surplus range

In this step, we estimate how many units are surplus. We calculate a central estimate as well as high and low estimates which provide a range. If surplus units are not taken into account when determining auction volumes, they could allow emissions above emissions budgets.

As of 31 December 2025, there are 135.9 million units held in private NZ ETS registry accounts. This is sometimes termed the NZU 'stockpile'. A stockpile of banked NZUs is necessary to enable participants to undertake hedging and manage their surrender obligations. However, it is possible for the stockpile to be so large that it presents risks to the achievement of emissions budgets. We consider the excess volume of units in the stockpile above what is needed for the smooth operation of the scheme to be 'surplus'.

We estimate the surplus units by subtracting categories of units we consider unlikely to be available to the market from the total unit stockpile. Below we discuss the reasons we consider these unlikely to be available to the market. The categories are:

- pre-1990 forest allocation units likely to be held long term
- units held for post-1989 forest harvest liabilities
- units held for hedging purposes by emitters
- units held by emitters for emissions that have already occurred (holding volume, or Y0 hedging).

We also include an adjustment to reconcile the results from our forestry model (used to estimate post-1989 forest harvest liabilities) with actual forestry unit allocations and surrenders to date. We refer to this as the forestry unit reconciliation.

Based on data as of the end of 2025, our updated central estimate of the surplus is 29.7 million units. We have calculated a surplus range of 17.1 to 41.7 million units, giving a span of 24.6 million units.

Since our 2025 advice, our estimate of the surplus has decreased by 20.4 million units, from 50.2 million units as at the end of 2024. Each year we expect the surplus to become smaller as the auction volumes in regulations are designed to ensure it is drawn down. The decrease in our central estimate is mainly due to a combination of an expected reduction built into the unit limit settings (12.5 million), and an additional drawdown from 2025 auctions not

clearing (6 million). We provide more detail on the changes in the central surplus estimate later in this chapter (see Table 4.1).

Our surplus range has also decreased, from a span of 39.3 million units in our 2025 advice to 24.6 million units in this year's advice. This is mainly driven by a narrower uncertainty range for post-1989 harvest liabilities (11.9 million units versus 19.8 million units in 2025). We describe this change further in the section on post-1989 forest harvest liabilities below.

The surplus is dynamic. Many factors, including the changing behaviour of NZ ETS participants, can influence how it changes over time. It is therefore important to consider an uncertainty range around our central estimate. This range reflects our assessment of the reasonable upper and lower bounds of the different components we use to estimate the surplus.

We discuss the basis and effect of the contributing factors to our updated estimate of the surplus range in the sections below. More detailed descriptions of the approaches to estimating each category are set out in *Technical Annex 1: Unit limit settings*, published separately on our website.

Total unit holdings

Total private unit holdings in the NZ ETS registry, sometimes referred to as 'the stockpile', have decreased from 150.4 million units at the end of 2024, to 135.9 million units as of 31 December 2025.[30] The decrease reflects that more units have been surrendered for emissions liabilities over the past year than have been allocated into the market through auctions, industrial allocation and forestry activities.

Pre-1990 forest allocation units held long term

Our central estimate of pre-1990 units likely to remain in original accounts in 2030 is 5.7 million units, with a range of between 4.6 and 7.0 million units.

When the NZ ETS was established, there was a one-off allocation of units to owners of forests planted before 1990 (pre-1990 forests). In line with our previous advice, we continue to assume that a proportion of these units (pre-1990 units) will be held long term and not come to market over the period to 2030.

Consistent with our 2025 advice, we have used historic transfer rates to set an assumed rate at which NZUs are made available to the market each quarter. In this year's advice we have made a minor adjustment to the transfer rates used in our high and low surplus estimates, based on trends observed in the six most recent years of data.

Units held for post-1989 forest harvest liabilities

The largest and most uncertain category of non-surplus units are those held by foresters that will need to be surrendered when a post-1989 forest is harvested.

Our central estimate of units held for post-1989 forest harvest liabilities is 40.0 million units, within a range of 34.3 to 46.2 million units.

To determine our estimate of units held for harvest liabilities we use a forestry model that is based on data on the total area and species of forests registered in the NZ ETS, the mandatory emissions reporting period (MERP) in which the forest was registered, and information on carbon stored by the forests (NZ ETS yield tables).

Since our last advice, our central estimate of units held for post-1989 forest harvest liabilities has slightly decreased from 40.7[xxxv] million units as at the end of 2024, to 40.0 million units at the end of 2025.

This central estimate sits within a range spanning 11.9 million units, a reduction from a span of 19.8 million units in our 2025 advice. This is mainly due to the Ministry for Primary Industries (MPI) providing us with more detailed forestry data, used in the 2025 government emissions projections.

The updated MPI data provides a breakdown by year of forest establishment (i.e. age class) of the areas of post-1989 exotic forest assumed to be managed as permanent forest rather than for production. We understand that MPI developed its permanent forest estimates based on a combination of commissioned research into harvest, afforestation and deforestation intentions,[31,32] analysis of historical trends, and expert judgement.

This new data enabled us to factor MPI's assumptions about the ages of production versus permanent forests into our estimate of units held for harvest.

Overall, we have assumed that, over the period of 1990–2024, 12% to 22% of total exotic forest area is permanent, with the central estimate of 17% reflecting the assumption MPI applied to the forestry data it supplied to us. This is reduced from our assumptions in previous advice that 10% to 30% (with a central estimate of 20%) would be managed as permanent.

Forestry unit reconciliation

We have estimated a forestry unit reconciliation term of 13.7 million units. When calculating the surplus, we have subtracted this volume from the total unit holdings (136 million units) as of December 2025. This gives an adjusted stockpile volume that reflects the unit surrenders relating to the 2023–2025 MERP4 years, which we expect to occur in 2026.

Some of the post-1989 forestry units earned over the fourth mandatory emissions reporting period (MERP4: 1 January 2023 to 31 December 2025) will only be allocated into the market after participants submit their end-of-MERP final emissions returns in the first half of 2026. Similarly, some surrenders for harvest or deforestation occurring over 2023–2025 will not be made until mid-2026.

[xxxv] Note that this year we have developed a simpler method to account for differences between modelled and actual net forestry entitlements and surrenders. This is mathematically equivalent to the approach we used last year and does not represent a substantive change in methodology. It is described further in the section on the forestry unit reconciliation. We have restated our 2025 estimate of post-1989 units held for harvest liabilities based on the new methodology, to enable a clear comparison.

This forestry unit reconciliation term is included to align results from our forestry model. The model estimates forestry unit allocations and surrenders year-by-year as removals and emissions occur, while actual forestry unit allocations and surrenders to date may follow different timing. In conjunction with the forestry technical adjustment described in step 1 and the units held for post-1989 forest harvest liabilities immediately above, it replaces the MERP4 additional surplus units included in our 2025 NZ ETS settings advice.

This does not represent a substantive change in methodology, rather a simpler calculation method. The new approach will be easier to repeat over time. This year, we have modelled the units held for harvest as at the end of MERP4 (2023–2025) and then worked back from that, making an adjustment through the forestry unit reconciliation term to reflect actual data on surrenders and allocations to date. In contrast, in our 2025 NZ ETS settings advice we estimated the units held for harvest at the end of MERP3 and applied an adjustment to roll forward to the end of MERP4 to account for units not yet allocated or surrendered. The changed approach is mathematically equivalent and is why this year the forestry unit reconciliation term is subtracted while last year we added a volume of units.

This term is calculated by taking the difference between net allocations (total allocations less surrenders) produced by the forestry model and the NZ ETS post-1989 forestry net unit allocations to date. This gives the net amount of units we expect to be removed from the market when all MERP4 final emissions returns have been processed. This reflects that for MERP4, our analysis indicates that a significant amount of surrenders have not yet happened and can be expected to come through in the final emissions returns submitted in 2026 (final data will only be available on this in the second half of 2026).

Units held for forward hedging by emitters

Hedging involves emitters securing NZUs in advance of compliance obligations, to lock in a price with customers or suppliers and manage their exposure to NZU forward price risk.

Our central estimate of units held for forward hedging by emitters has reduced from 17.4 million units in our 2025 advice to 14.5 million units. This is due to a reduction in our hedging assumptions for the stationary energy and industrial process sectors. We adjusted our assumptions downward as feedback from engagement meetings as well as new public information relevant to the electricity sector indicated that our previous assumptions were overly generous.

We estimate units held for forward hedging as of 2030, to reflect that hedging is expected to decrease over time as emissions decrease. With the assumptions used for our central estimate, we are not attempting to precisely estimate what emitters may be hedging right now, but a level of hedging that reflects normal hedging practices by emitters to manage forward price risk. The assumptions we use to give the range reflect our judgements about the reasonable upper and lower boundaries for hedging in different sectors, as hedging behaviour can vary over time with emitters' risk assessments and other factors.

The Ministry for the Environment (MfE), in its advice to Ministers on the 2025 ETS settings, adopted lower hedging assumptions on the basis of an assumed 'overlap' between holding

and hedging volume. We have considered this approach but do not consider it robust. It implies that units could be held and surrendered against both emissions that have already occurred as well as future emissions. It also produced unrealistic hedging profiles where in some cases Year 1 hedging was lower than Year 2 hedging. MfE applied a blanket reduction across all sectors which in our view is not logical, given we had already made reductions to hedging assumptions for some sectors (e.g. liquid fossil fuels) in our 2025 advice and we have a clear basis for these assumptions, connected to the nature of businesses in these sectors. A fuller discussion of these issues can be found in *Technical Annex 1: Unit limit settings*, published separately on our website.

Units held for surrender for past emissions (holding volume)

In our 2025 advice, we introduced a new category of non-surplus units referred to as holding volume. These are units held for emissions that have already occurred, but for which emitters are yet to surrender NZUs.

We use a single estimate of holding volume across our surplus range estimates, as there is a high degree of certainty about this value. This is based on the gross emissions forecast for NZ ETS sectors for 2025 (32.5 $MtCO_2e$) minus a technical adjustment to waste emissions of 0.3 million units. This results in a holding volume of 32.2 million units.

We assess the surplus and unit stockpile at the end of the calendar year to account for the final auction results, and so also take the holding volume from the end of the year. We assume that emitters are accumulating units to match their emissions throughout the year, so by year-end 100% of emitters' obligations from that year are held, and will be surrendered the following year.[xxxvi] Therefore, our holding volume is based on the estimate of emissions that occurred in 2025.

Overall change in surplus estimate

The overall change in our central surplus estimate is set out in Table 4.1 below. There are two types of change that can be distinguished.

The first is how data and methodology improvements have affected our estimate. This is quantified by re-estimating the surplus based on this year's data and methodology at the same point in time as the surplus was estimated in the 2025 advice (31 December 2024). This is set out in the first part of Table 4.1.

The second key aspect of change is how the surplus has developed over the 2025 calendar year. This is set out in the second part of Table 4.1. These two changes combined arrive at our final central estimate of the surplus used in this advice, estimated as at 31 December 2025.

[xxxvi] More specifically, we assume that the units to be surrendered exist in the stockpile by the end of the calendar year. Whether they are held by emitters directly, indirectly via third parties, or are yet to be purchased does not affect the overall calculation of the surplus so long as the units are in the registry.

Table 4.1: Breakdown of changes in the central surplus estimate since our 2025 NZ ETS settings advice

Surplus central estimates including breakdown of changes	NZU (millions)	
Surplus estimate as at December 2024 (2025 advice)		**50.2**
Updated data and assumptions:		
Forestry model updates, including updated MPI data on area of exotic forest managed as permanent versus production[xxxvii]	*–7.3*	
Updated data on pre-1990 forestry units	*–0.1*	
Updated holding volume for emissions in 2024 using actual surrender data	*+1.7*	
Updated emitter hedging assumptions	*+2.9*	
Total		–2.8
New surplus estimate as at December 2024 (updated for new data and assumptions)		**47.3**
Surplus drawdown:		
Expected surplus drawdown built into the unit limits for 2025	*–12.5*	
Lower-than-expected supply as a result of 2025 auctions not clearing	*–6.0*	
Total		–18.5
Remaining un-isolated variance[xxxviii]		+0.9
Surplus estimate as at December 2025		**29.7**

Source: Commission analysis.

Note: figures in this table may not appear to add correctly due to rounding.

[xxxvii] These changes affect the post-1989 forestry units held for harvest liabilities and the forestry unit reconciliation terms in the surplus calculation.

[xxxviii] The remaining un-isolated variance results because we are unable to track every factor which can affect how the surplus develops over time. Possible explanations include differences between actual and expected industrial allocation, or differences in timing of when units for 'other removal activities' are issued.

Step 4: Set the approved overseas unit limit

As in previous years, we recommend that the limit on overseas units be set at zero. There are no overseas units approved for use in the NZ ETS. The Government has made clear statements that it sees the NZ ETS as a tool for domestic emissions reductions and removals.[5] We also note that, while offshore mitigation will clearly be needed if Aotearoa New Zealand is to meet its first nationally determined contribution, it would now not be feasible for the NZ ETS to deliver the overseas units needed due to coverage and volume limitations.

Step 5: Determine range of possible auction volumes

The final step uses the outcomes of the four previous steps to identify the range of possible auction volumes for the 2027–2031 period.

We have identified two options for auction volumes over 2027–2030. These are retaining status quo auction volumes to 2030 (option 1) and increasing the auction volumes based on the central surplus estimate (option 2). There is a risk of a unit shortfall under option 1, however there are ways this risk could be mitigated beyond the unit limits, such as through the price control settings. We therefore leave determining the unit limit recommendations to C*hapter 6: Discussion and recommendations*, where we consider packages of NZ ETS settings including both the unit limits and price control settings.

We have determined auction volumes for 2031, the final year of the settings, of 3 million units. This is based on the outcome of the unit limits method steps for that year. The Government has adopted the goal of reducing the unit surplus to zero by 2030, to reduce the risk of exceeding emissions budgets after the end of the second emissions budget. This means the surplus is relevant only for determining auction volumes over 2027–2030. [xxxix]

Consider the range of auction volumes that could align with emissions budgets

Table 4.2 shows auction volumes that could be consistent with fully drawing down the surplus by 2030 based on the surplus uncertainty range (low, central and high surplus estimates). It also shows the option of retaining the existing settings in regulations for 2027–2030, which is equivalent to drawing down an implied 41.2 million unit surplus by 2030. We call this the surplus estimate implied by current settings.

[xxxix] The aim of reducing the surplus by 2030 is also why there is a year-on-year increase in auction volumes from 2030 to 2031, if the status quo auction settings are retained. Note this is not an increase in overall unit supply under the emissions cap. It simply reflects that there are no longer any surplus units in the secondary market serving as a source of units.

Table 4.2: Auction volumes for 2027–2031 consistent with drawing down the surplus by 2030, across our surplus uncertainty range

Surplus estimate / million NZUs	Surplus	Total auction volume 2027–2030	Auction volume 2031
Surplus implied by current settings	41.2	11.7	3.0
High surplus estimate	41.7	11.2	3.0
Central surplus estimate	29.7	23.2	3.0
Low surplus estimate	17.1	35.8	3.0

Source: Commission analysis.

This shows that more units could be made available for auction over 2027–2030 than the status quo settings, while still aligning with budgets. For example, if the settings were updated based on the central surplus estimate, the volume of NZUs that could be auctioned could approximately double in comparison to the status quo settings.

We have considered two options: retaining status quo auction volumes to 2030 (option 1); and increasing the auction volumes based on the central surplus estimate (option 2). We have done this to take a cautious approach to aligning auction volumes with emissions budgets. We have not considered auction volumes based on the low surplus estimate as we consider it unlikely that the surplus is at this low end of the range currently (see discussion of Figure 4.3 below for more information). Basing auction volumes on the low surplus estimate at this time could lead to units being made available that could increase risks to the achievement of emissions budgets.

We also need to consider whether the options identified would supply enough units to the market to maintain proper functioning of the scheme. In our 2025 NZ ETS settings advice, we identified a risk of a unit shortfall in the late 2020s. This risk needs to be considered under both options. For option 2 we need to consider how the increase in auction volumes should be distributed over 2027–2030 to address any shortfall risk.

Under the Act the first two years of the settings period cannot be amended, except in certain circumstances. We therefore need to consider whether there could be a need for the auction volumes to be increased in these years (2027 and 2028).

There is still a risk of a unit shortfall towards the end of this decade

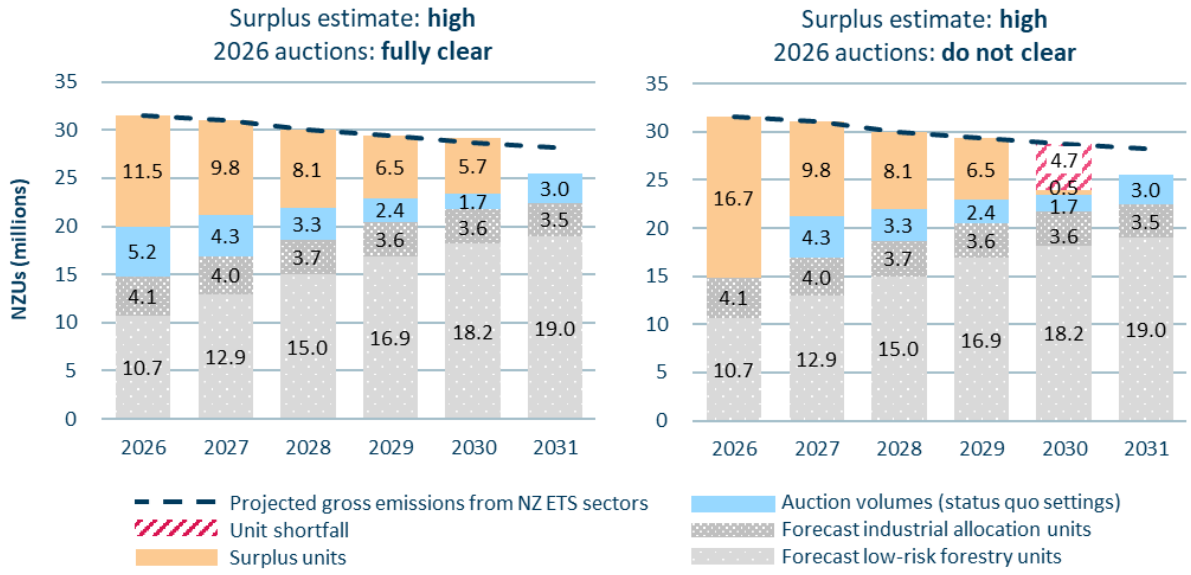
As in our 2025 NZ ETS settings advice, we have again identified a risk of a unit shortfall in the late 2020s, although our analysis uses new information and updated data compared to our 2025 assessment.

Our analysis shows that under option 1 a unit shortfall could occur as early as 2028 and last until 2030, if the central surplus estimate eventuates and if auctions in 2026 do not clear. This suggests that if auction volumes are increased (option 2), they should be increased from 2028 onwards to address this risk.

The following charts show how the risk of a unit shortfall may emerge over time, if status quo auction settings for 2027–30 are retained (option 1) and depending on whether or not the 2026 auctions clear. A pair of charts is shown for each surplus estimate (high, central and low).

Figure 4.1 shows the risk of unit shortfall under status quo auction volumes and assuming the surplus is at the high end of the range. It demonstrates that, while there may be sufficient units available if the 2026 auctions fully clear, if they do not then a unit shortfall may emerge in 2030.

Figure 4.1: Risk of unit shortfall under high surplus estimate and status quo auction volumes (option 1)[xl,xli]



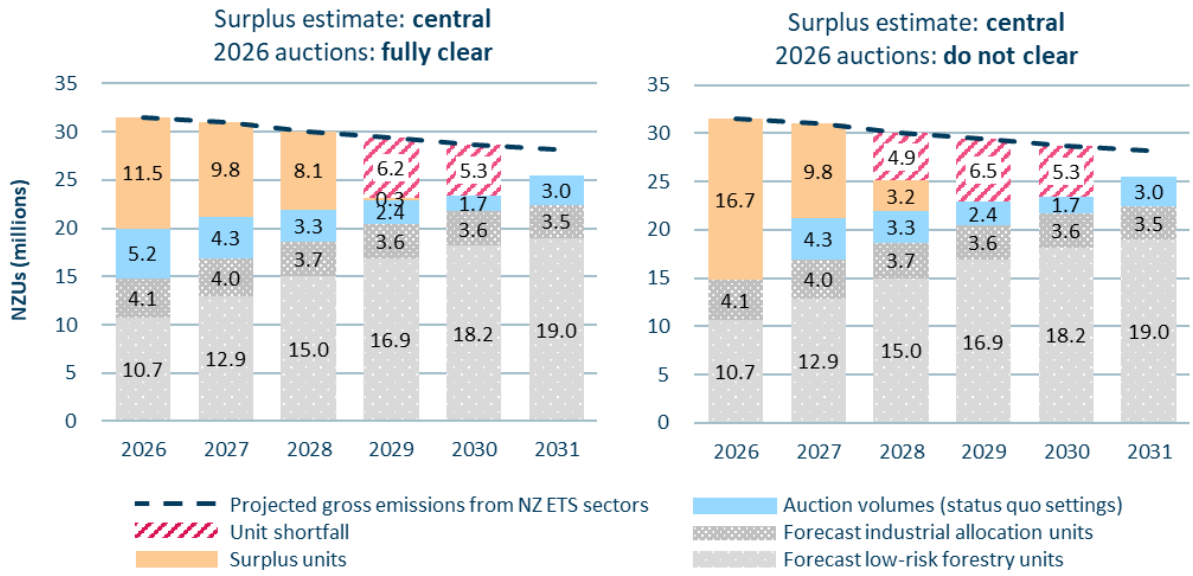
Source: Commission analysis.

Figure 4.2 shows the risk of unit shortfall under status quo auction volumes and assuming the central surplus estimate. Under the central surplus estimate, there is likely to be a unit shortfall regardless of whether the 2026 auctions fully clear or not. If the 2026 auctions do not fully clear, the unit shortfall could emerge as early as 2028.

[xl] These figures show a gap between projected gross emissions and projected unit supply for 2031, but we do not consider this to represent a unit shortfall risk at this stage. This is discussed further later in this section.

[xli] These charts illustrate scenarios, rather than predictions, and auction volumes in 2031 assume that the surplus reduces to zero in or before 2030, consistent with the Government's stated objective. The actual timing of when surplus units in the market are fully depleted could be earlier or later, and due to the dynamic and uncertain nature of the surplus it will not be possible to pinpoint exactly.

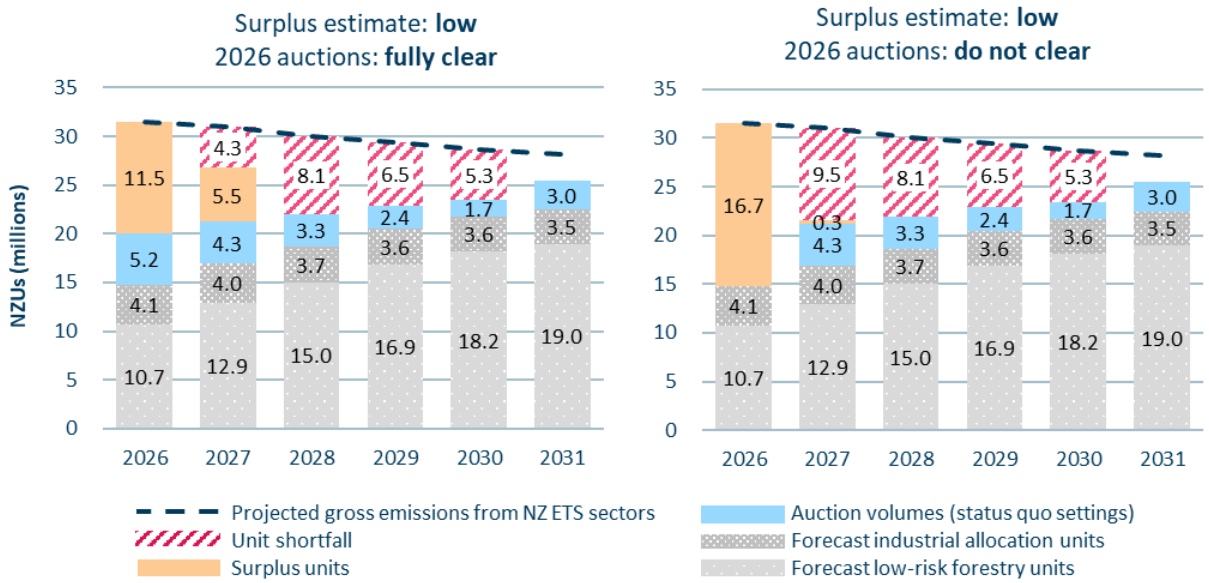
Figure 4.2: Risk of unit shortfall under central surplus estimate and status quo auction volumes (option 1)



Source: Commission analysis.

We have also considered the shortfall risk under the low surplus estimate, as shown below in Figure 4.3.

Figure 4.3: Risk of unit shortfall under low surplus estimate and status quo auction volumes (option 1)



Source: Commission analysis.

Figure 4.3 shows that if the surplus was at the low end of the range, the unit shortfall could begin in 2027. However, we consider it is unlikely that the surplus is at the low end of the range currently, and therefore this risk is unlikely to materialise. Even if market participants

have limited foresight, 2027 is so close that we would expect the market to be pricing in a possible shortfall in that year now. Due to current low NZU prices and given that the March 2026 auction (the only one so far this year) did not attract any bids, we consider it unlikely that the surplus is at the low end of the range.

These figures illustrate two important dimensions of uncertainty, relating to the surplus and auctions. There is also uncertainty in other elements of the unit supply and demand shown, as they are projections. In particular, there is uncertainty in the volume of low-risk forestry units available to the market, as well as in the timing of when these become available. Our analysis assumes supply from low-risk forestry units becoming available in the year in which they are earned. In reality, foresters are not required to submit emissions returns until the end of mandatory emissions reporting periods (MERPs), which are typically five years long (the next one, MERP5, ends in 2030). This means that some of the forestry unit supply may come to market later than these figures show, bringing forward the risk of unit shortfall.

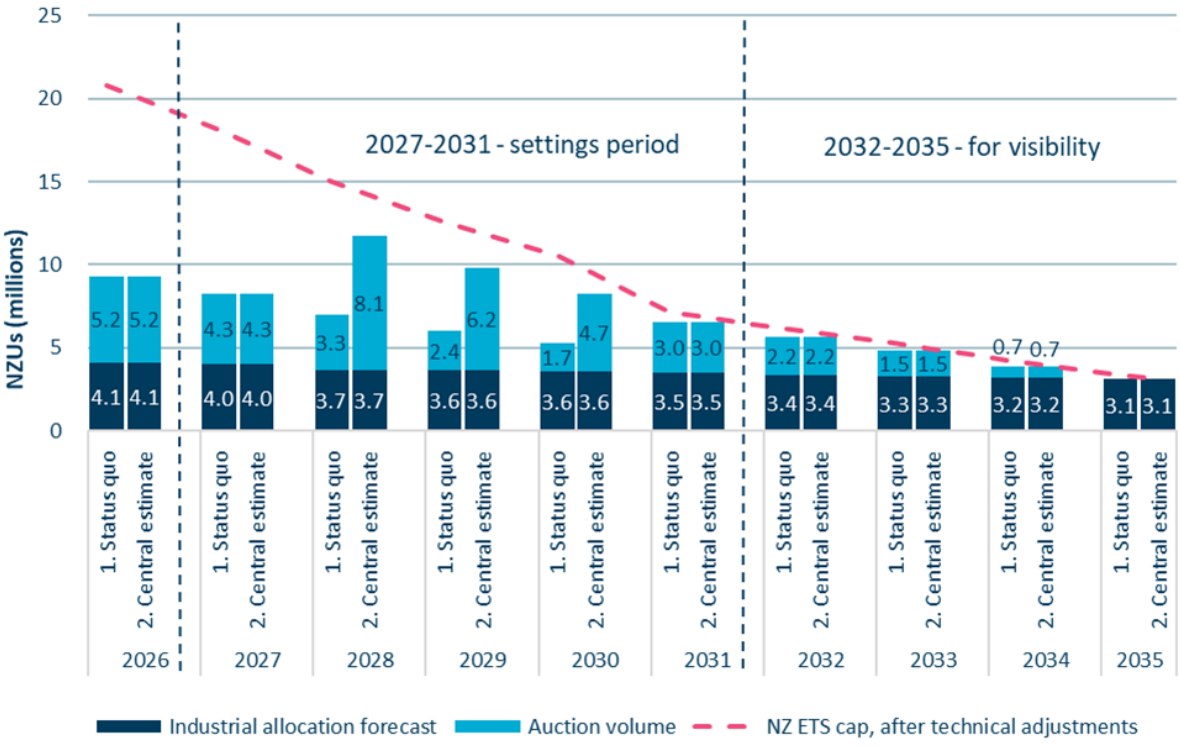
The figures also show a gap in 2031 between projected gross emissions for NZ ETS sectors and total unit supply. We do not consider this a unit shortfall risk which needs to be addressed. This gap primarily exists due to the need for NZ ETS sectors to achieve net emissions reductions in that year, in line with the emissions cap for the third emissions budget period.[xlii] The gap is intended to either drive gross emissions reductions or incentivise planting, which would provide additional supply of forestry units in that year. While there is a four-year lag between a forest being planted and when it starts sequestering carbon, there is still time for forests to be planted to supply additional units for 2031. This is distinct from the shortfall risk up to 2030, for which there is no longer time for planting to supply additional forestry units and less lead-in time for gross emissions reductions.

Comparison of options for auction volumes

The two auction volume options are set out in Figure 4.4 below along with forecast industrial allocation units. The figure shows how option 2 would distribute the additional auction volumes across years. For visibility it also shows a forecast of unit volumes beyond 2031, based on our current analysis and information.

[xlii] Another smaller contributor to this gap is the need to reflect ongoing surplus reduction, to avoid the development of a new surplus beyond 2030. This ongoing surplus reduction accounts for further pre-1990 forest units coming to market beyond 2030, and the declining volume of hedging units needed as emissions reduce.

Figure 4.4: Combined auction and forecast industrial allocation volumes for option 1 (status quo) and option 2 (derived from central surplus estimate)



Source: Commission analysis.

We see the identified risk of a unit shortfall towards the end of the 2020s as a critical issue to consider in determining the auction volumes and final unit limit recommendations.

However, option 2 (auctioning units based on the central estimate) is not the only available option to mitigate the unit shortfall risk. It would also be possible to wait a year until the next update to the NZ ETS settings in 2027 (as required under current legislation) before making any changes. By then, it would be certain whether 2026 auctions had cleared or not, and a further year of data about other issues may also help clarify the risk and timing of the possible shortfall.

Another option would be to mitigate the unit shortfall risk by using the price control settings. A lower tier of the cost containment reserve could be created, containing the units that could be auctioned based on the central surplus estimate, to release further units if prices rose rapidly due to a unit shortfall.

We therefore consider it important that the unit limits are considered together with the price control settings to determine a package of recommendations which balance addressing the risk of unit shortfall with other important considerations. We cover assessment of these options in *Chapter 6: Discussion and recommendations*.

Chapter 5: Price control settings

This chapter contains our analysis and recommendations for updating the price control settings that operate at government auctions of New Zealand Units (NZUs) for the years 2027–2031.

Under the Climate Change Response Act 2002, the price controls for NZU auctions consist of:

- An auction reserve price (ARP), a minimum price below which units cannot be sold at auction. The ARP can be set at zero.
- A cost containment reserve (CCR), a reserve volume of NZUs that is released for sale at auction, if a trigger price is reached or exceeded by bidding at the auction.

The price controls operate at government auctions of New Zealand Units (NZUs). They are safety valves to manage risks of price and unit supply extremes in either direction, and to signal the bounds of the NZU prices likely needed to meet Aotearoa 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. The levels of the ARP and CCR give a price range within which price discovery is largely expected to occur. However, the secondary market can trade outside the range of the price control settings, as it has been recently.

The Act requires the Commission to recommend price control settings which, in combination with the unit limit settings, either 'strictly accord', or 'accord' with emissions reduction targets.[xliii] We understand this to mean that we must recommend price control settings that align to a high degree with these targets, in terms of the range of NZU prices that are likely to be needed to achieve them. Alternatively, if the Commission recommends price control settings that do not strictly accord with the targets, the discrepancy must be justified. The recommended settings must still have a good likelihood of achieving what is required or the discrepancy must be one that can be made up for elsewhere.

[xliii] Emissions reduction targets here refer to emissions budgets and the 2050 target. The settings must strictly accord with the 2050 target. However, the settings need not strictly accord with emissions budgets as long as any discrepancy is justified, after considering a range of matters set out in the Act (see section 30GC). This advice covers the period 2027–2031. Therefore, the settings must accord with both the second emissions budget (2026–2030) and the third emissions budget (2031–2035).

Summary and recommendations

We recommend that the ARP and CCR price control settings be extended to 2031, with minor inflation adjustments.[xliv] We have not identified any reasons that would justify amending the first two years of the price control settings.

Our recommendations on the price control settings are primarily informed by our analysis of the range of emissions prices that would be consistent with meeting emissions reduction targets. This is critical for the NZ ETS to play its role as the Government's chosen main tool for reducing emissions. If the price control settings do not align with Aotearoa New Zealand's targets, then this will undermine the credibility of the scheme. It will also mean the scheme will not be able to encourage the cost-effective emissions reductions, across the economy, that the Government is relying on.

We conclude that both the CCR price levels and the ARP remain fit for purpose for the time being. They align to a high degree to the NZU prices likely to be needed to meet the second emissions budget. They also align to a good degree to what may be needed to meet the third emissions budget.

Consistent with our 2025 advice, we have concluded that there is a risk that both the ARP and CCR price triggers are too low to be consistent with meeting the third (2031–2035) emissions budget. Our 2025 advice identified large uncertainties about the actions and NZU prices needed to meet this budget. Those uncertainties remain and it is not clear if this risk will materialise. Some of this uncertainty could be resolved within two to three years. Rather than recommending an increase to the price control settings now, we consider it acceptable to reconsider this issue the next time the NZ ETS settings are reviewed. If the Act is amended as proposed, so the NZ ETS settings are updated every two years, then the next review would be in 2028. We consider that there would still be sufficient time to implement any changes needed to the price control settings as part of that review of the NZ ETS settings.

In the following sections, we set out our conclusions on the ARP and CCR, followed by the evidence and analysis that underpins our conclusions and our consideration of whether to recommend a desirable price path. This chapter then closes with a summary of the state of knowledge about the impacts of emissions prices on households and the economy.

[xliv] The inflation adjustments are applied from 2029 and use the Treasury's December 2025 Half Yearly Economic and Fiscal Update consumer price index inflation forecast. We suggest the Government uses the latest inflation forecasts available at the time it does its own analysis for these adjustments.

Auction reserve price

The auction reserve price (ARP) is the price below which units cannot be sold at auction.[xlv] The ARP is a safety valve that helps guard against NZU prices dropping below what is needed for meeting emissions budgets.

The ARP is not a hard price floor, as secondary market prices can fall below it. Instead it supports prices by preventing the Government from adding further NZUs into the market when prices are low.

We consider there to be a high bar for making changes to the ARP. This is due to the current fragile state of the market and the risk that changes will create further uncertainty for participants.

To determine the appropriate levels for the ARP over 2027–2031 that align with the targets, we have considered:

- the minimum prices needed to meet the second and third emissions budgets, to consider whether the current ARP levels align with budgets
- the role of the ARP to support proper functioning of the NZ ETS, and
- alignment of the current ARP levels with relevant Government statements.

The current ARP aligns with the second emissions budget

To align with budgets, the ARP needs to be at or above the minimum price that may be needed to meet emissions budgets. When considering alignment with the second emissions budget we need to analyse the emissions prices that are needed to support gross emissions reductions. This is because the level of removals through forests over the second emissions budget period is already locked in due to the time lag between planting forests and the point at which they begin removing carbon dioxide from the atmosphere. Evidence suggests that emissions prices of at least $75 are likely needed to incentivise gross emissions reductions over the second emissions budget period.[33]

The 2025 government emissions projections assume an NZ ETS price which rises to $80 in 2030 and falls to $73 in 2035 (in 2024 dollars). This suggests that the existing ARP, which rises to $77 in 2030 (in 2024 dollars) is appropriate and has a high probability of accordance with the second emissions budget. Given these emissions projections overachieve the second emissions budget by around 4 $MtCO_2e$, a lower ARP could be in accordance with the second emissions budget. However, due to the large uncertainties involved in projecting emissions we consider a lower ARP could significantly increase risks to meeting the second emissions budget.

[xlv] The Government has also implemented a confidential reserve price, which prevents NZUs from being sold at auction at a price significantly below the secondary market price, to avoid unduly disrupting the secondary market. The confidential reserve price is not within the scope of this advice.

The outlook for the 2030s remains uncertain

Our 2025 NZ ETS settings advice included modelling using the Energy and Emissions in New Zealand (ENZ) model. This modelling suggested there is a wide range of prices that could potentially be needed to deliver the third emissions budget. In our 2025 advice we concluded that it was most appropriate to maintain the existing ARP for the time being and monitor how factors developed over a few years. While some new information has become available over the last year, the outlook for the 2030s remains highly uncertain.

If gross emissions reductions are needed to achieve the third emissions budget, then the ENZ modelling suggests the ARP may need to rise more quickly than its current trajectory. Alternatively, if greater levels of forest planting occur by 2031 than assumed in the latest government projections, an increasing trajectory may no longer be necessary, and it could be appropriate to flatten out the ARP levels.

Our recommended ARP would support proper functioning of the NZ ETS

The ARP supports proper functioning of the NZ ETS by reducing the risk of the market becoming oversupplied with NZUs. It also supports market confidence by transparently indicating how the Government will behave in regard to selling units.

The market is highly responsive to Government signals about the ARP. The 19% fall in NZU prices after the 2024 NZ ETS settings consultation discussed lowering the ARP shows this.[xlvi] Respondents to the consultation were also mostly opposed to lowering the ARP, seeing it as destabilising the market and increasing uncertainty.

This indicates that retaining current ARP levels is important for rebuilding confidence and the effectiveness of the NZ ETS. This is likely to support the Government's stated intent to continue restoring credibility to the NZ ETS.

The current ARP levels align with the Government's stated approach to meeting targets

The Government has stated its intention to pursue a net-based approach to meeting emissions budgets. It is therefore important for the ARP to be above the level of prices needed to incentivise afforestation. Government estimates place this between $25 and $75/$tCO_2e$.[34] This suggests that the current ARP, which is around the top end of that range, is appropriate.

The Government has stated it aims to achieve the first and second NDCs domestically as much as possible. While the NZ ETS settings are no longer required to accord with NDCs, the Act still requires consideration of international climate change obligations and the cost of ways to reduce emissions to meet emissions reduction targets when determining unit limits

[xlvi] The Government consultation began on 15 May 2024, the 19% change in price occurred over 15–27 May according to the Carbon News NZU Carbon Price Index

and price control settings, along with consideration of international emissions prices when determining price control settings. Lowering the ARP would increase the risk of the Government selling units below the cost of offshore mitigation, increasing the economic and fiscal costs of meeting the NDCs.[xlvii]

The current ARP remains appropriate

We recommend extending the current ARP to 2031, as it aligns to a high degree with the second emissions budget, and to a good degree with the third emissions budget. If it becomes clearer that changes are needed to the ARP to meet the third emissions budget, there is still time to implement these before the third emissions budget period starts.

We see no case for lowering the ARP

There is no evidence to suggest the ARP should be lowered, either now or in the 2030s. Our analysis does not indicate that the minimum price needed to meet emissions budgets has reduced. Reducing the ARP would pose a risk to the accordance of the settings with emissions budgets, particularly given the large uncertainties in projecting emissions. Lowering the ARP would significantly damage the credibility and effectiveness of the NZ ETS as the Government's chosen main tool for reducing emissions.

Based on feedback from the Commission's targeted engagement, the low prices experienced in the market in recent months appear to be due to low market confidence and short-term factors such as the end of MERP4, rather than a reflection of supply and demand fundamentals. NZ ETS settings updates, such as lowering the ARP, would likely further undermine market confidence.

The Government has stated its intention to pursue a net-based approach to meeting emissions budgets. Lowering the ARP could risk undermining forestry investments already made, and the net-based approach more generally.

The Government has stated it aims to achieve the first and second NDCs domestically as much as possible. Lowering the ARP would increase the risk of the Government selling units below the cost of offshore mitigation, increasing the economic and fiscal costs of meeting the NDCs.

Evidence is too uncertain to justify increasing the ARP now

Our analysis finds there is a risk that the current ARP settings could be too low to be consistent with meeting the third emissions budget (2031–2035). However, this applies to only some scenarios for the future. We think it would be premature to increase the ARP for this reason now when it is still very uncertain that an increase is necessary.

We have also considered whether raising the ARP would be beneficial in the short term. However, it is unclear that increasing the ARP would have any material effect on emissions in

[xlvii] See our 2025 NZ ETS settings advice for more detail. Over the past year there do not appear to have been significant changes in the outlook for possible costs of offshore mitigation.

the short term. NZU spot prices are well below the current ARP. In the current context, raising the ARP could be perceived by market participants as an unexpected, confusing and unnecessary change, undermining any signal it might send about commitment to climate action.

We recommend retaining the current ARPs as shown in in Table 5.1. Those prices are adjusted for inflation using the Treasury's latest inflation forecasts from the 2025 Economic and Fiscal Update (released in December 2025).[xlviii] We have extended these to 2031 based on following the existing increasing trajectory of a 3% annual increase. As we do not consider that there have been any special circumstances under the Act that would justify amending the first two years of the price control settings, the inflation adjustments can only be applied to the 2029–2031 years.

Table 5.1: Recommended auction reserve prices

	No changes		Updated for inflation		New
Auction reserve price	2027	2028	2029	2030	2031
Auction reserve price	$75	$78	$83	$88	$92

The evidence suggesting that in some scenarios of the future the ARP might need to be higher means that at this time we are unable to say that our recommended ARP levels align to a high degree with the third emissions budget. Nevertheless, we consider there to be a good likelihood that the current ARP levels align with what is needed, and that taking this approach can be justified, having considered relevant matters.

In particular we have considered:

- The forecast availability and cost of reducing emissions to meet targets. There is large uncertainty about the costs of abatement that may be applicable when looking nine years into the future, when assessing what emissions reductions will be needed to meet the third emissions budget. For example, over the past nine years the costs of some low-emissions technologies have reduced significantly.
- The proper functioning of the NZ ETS – especially the importance of regulatory predictability given the current state of the market.

Another relevant matter we have considered is that the policies affecting Aotearoa New Zealand's ability to meet the third emissions budget are evolving. This includes through the Government's adaptive management process set out in the second emissions reduction plan, and with the third emissions reduction plan due in 2029.

[xlviii] We suggest the Government uses the latest inflation forecasts available at the time it does its own analysis for these adjustments.

Cost containment reserve

The cost containment reserve (CCR) is a supply of NZUs that only become available for sale if the auction clearing price meets or exceeds a specified trigger price. This helps to mitigate short-term extreme price increases, by making more units available when the CCR trigger price is exceeded.

In this section we set out our analysis of whether the current CCR settings in regulations remain appropriate. We first consider the CCR trigger prices and then the unit volumes in the reserve.

To assess whether the CCR trigger prices remain fit for purpose we have considered:

- alignment of the current CCR trigger prices with the upper range of prices required to achieve the second and third emissions budgets, and
- how the CCR trigger prices support proper functioning of the NZ ETS.

The CCR trigger prices are consistent with the second emissions budget

We looked at a range of evidence which suggests gross emissions reductions are economic at prices below $200, which roughly aligns with the first tier CCR trigger prices.[xlix] This suggests that the existing CCR trigger prices should not inhibit emissions prices from rising to the levels needed to meet the second emissions budget and therefore align with the budget.

The 2025 government emissions projections also provide some information about the range of emissions prices needed to meet the second emissions budget. These projections achieve the second emissions budget by assuming an $80 NZU price in 2030 (in 2024 dollars). This provides assurance that the proposed CCR trigger prices are consistent with what is needed to achieve the second emissions budget. The modelled 2030 NZU price is comfortably below the first trigger price in 2030 ($251, or $220 in 2024 dollars). There is substantial headroom (around $140) for the price to range higher if necessary. Sufficient headroom is important as uncertainties exist in the modelling which may result in higher NZU prices being needed.

NZU prices needed to meet the third emissions budget remain uncertain

Our 2025 advice highlighted a risk that the current CCR levels could inhibit NZU prices rising sufficiently high to meet the third emissions budget. However, we assessed that due to the large uncertainties in how the third emissions budget will be met it was not clear that the risk would materialise. We recommended maintaining the existing CCR levels and monitoring how uncertainties developed and resolved over two to three years.

Over the last year the key uncertainties identified have not resolved. We therefore still consider it is too early to tell whether the CCR levels need to be increased.

[xlix] For example, EECA's Regional Transition Accelerator research; the Commission's previous modelling in 2021–2022 to inform the setting of the first, second and third emissions budgets and the NZ ETS price control settings; and the analysis of marginal abatement cost curves by MfE in 2020.

The role of the CCR to support proper functioning of the NZ ETS

The CCR supports the proper functioning of the NZ ETS by providing information about when and how the Government will intervene in the event of tight supply, if bids at auction are sufficiently high.

The existing CCR levels are significantly higher than NZU spot prices across 2025 and early 2026. This may suggest that the CCR levels should be lowered, as they may appear out of step with the current state of the market. However, we do not consider lowering the CCR levels would be appropriate, as it would risk setting them at a level insufficient for meeting the third emissions budget. Nor do we think lowering them would support the proper functioning of the NZ ETS. We assess that, given the current fragile state of the market, it is important to minimise changes to the NZ ETS settings unless there is strong evidence to suggest it is necessary.

The current CCR price triggers remain appropriate for the time being

We assess that the current CCR trigger prices align strongly with the second emissions budget and there is a good likelihood the settings align with the third emissions budget. We recommend retaining the current CCR levels in Table 5.2, which are adjusted for inflation using the Treasury's latest inflation forecasts from the 2025 Half Yearly Economic and Fiscal Update (released in December 2025). We have extended these to 2031 based on following the existing increasing trajectory of a 3% annual increase. As we do not consider that there have been any special circumstances under the Act that would justify amending the first two years of the price control settings, the inflation adjustments can only be applied to the 2029–2031 years.

Table 5.2: Recommended trigger prices for the CCR

CCR trigger prices	No changes		Updated recommendations		New
	2027	2028	2029	2030	2031
Tier 1	$213	$224	$239	$251	$264
Tier 2	$267	$280	$298	$313	$328

This approach means that the recommended CCR trigger price levels may not align with the third emissions budget under all possible scenarios of the NZU prices that could be needed to meet them.

Nevertheless, we consider that there is a good likelihood that the proposed settings align with what is needed, and that, having considered relevant matters, the discrepancy is justified. In particular, we have considered:

- The forecast availability and cost of reducing emissions to meet targets. There is large uncertainty about the costs of abatement that may be applicable when looking nine years into the future, when assessing what emissions reduction will be needed to meet the third emissions budget.
- The proper functioning of the NZ ETS – especially the importance of regulatory predictability given the current state of the market.

Another relevant matter we have considered is that the policies affecting Aotearoa New Zealand's ability to meet the third emissions budget are evolving, including through the Government's adaptive management process set out in the second emissions reduction plan, and with the third emissions reduction plan due in 2029.

Determining the CCR unit volumes

The existing CCR reserve volume is based on recommendations the Commission made in its first (2022) advice on the NZ ETS settings. The total volume in the two tiers of the CCR was set to be equal to the total surplus reduction volume estimated in 2022.

This volume has not been adjusted as the surplus estimate has changed. The CCR's ability to contain prices, in the unlikely event that it is triggered, will be related to whether reserve volume is sufficient to satisfy participants' near-term surrender obligations and hedging needs. Fluctuations in the surplus have not been caused by increased unit demand, so it does not follow that they justify an increase to the reserve volume. We have also not seen other evidence to suggest that the existing volumes are inappropriate.

As in last year's advice, we see no compelling case to change the reserve volume. Retaining the existing volumes would support regulatory predictability by not making unnecessary changes. Our recommended volume for 2031 is based on extending the current reserve volumes following their existing declining trajectory.

Table 5.3: Recommended CCR reserve volumes

	No changes				New
Million NZUs	2027	2028	2029	2030	2031
Tier 1 volume	2.1	1.9	1.7	1.4	1.2
Tier 2 volume	3.8	3.4	3.0	2.5	2.3
Total CCR volume	5.9	5.3	4.7	3.9	3.5

Evidence used in our assessment of the price controls

Our 2025 NZ ETS settings advice considered a range of evidence to determine whether the existing price control levels remained fit for purpose. This included modelling using the Energy and Emissions in New Zealand (ENZ) model. Our 2025 advice had to consider accordance with all notified emissions budgets, which included the second and third emissions budgets, and so remains relevant for the 2026 advice.

The ENZ modelling produced a range of emissions price scenarios consistent with meeting the second and third emissions budgets under different emissions outcomes.[I] It suggested that, while the existing price control levels remained appropriate for the time being, they might need to be adjusted in future. We identified three key uncertainties which needed to be monitored over the next few years, to determine whether the price control levels needed to be adjusted. These were future fossil gas prices, EV uptake, and afforestation levels.

This year, we considered whether an updated set of ENZ modelling was needed. We concluded that the 2025 ENZ modelling remains relevant and that new modelling would be unlikely to generate additional insights, because:

- The emissions cap we have used for the third emissions budget requires a similar level of abatement to what was modelled in the 2025 ENZ modelling.
- The level of gross emissions for NZ ETS sectors assumed in our emissions cap for the third emissions budget in 2026 is similar to the levels in the 2025 ENZ modelling.
- Over the last year there have not been any major developments to ENZ or its assumptions which we consider likely to significantly change the results of the modelling. An exception to this is fossil gas prices, however we have accounted for this change in our analysis separately.

[I] Note that because the Government's 2024 emissions projections used in the second emissions reduction plan (which this ENZ modelling was based on) achieved the second emissions budget but did not achieve the third emissions budget, meeting the third emissions budget was the main constraint in the modelling.

Over the last year, the three key uncertainties (fossil gas prices, EV uptake and levels of afforestation) have not resolved.

All else being equal, if fossil gas prices are higher then emissions prices don't need to rise as much to create an equivalent price signal. Fossil gas reserves have continued to decline quicker than expected, making higher fossil gas prices more likely in the future. The Government has announced it will support the building of a Liquified Natural Gas (LNG) import terminal.[35] The import price of LNG and how it may affect domestic fossil gas prices is uncertain, especially given recent impacts on LNG production and transportation as a result of the conflict in the Middle East.[36] However, the 2025 ENZ assumptions on fossil gas prices were lower than likely LNG import prices. This means that, even if LNG starts to be imported, fossil gas prices would still be higher than previously assumed.

The supply of EVs and EV uptake is uncertain and could significantly impact the emissions prices needed to meet emissions budgets. Higher uptake of EVs corresponds to lower required emissions prices to meet the third emissions budget, all else being equal. In the 2025 ENZ modelling we varied the EV supply constraint assumption. This identified that under the EV supply assumptions in the 2024 Government projections and the second emissions reduction plan, emissions prices may need to be significantly higher than the existing ARP. In the 2025 government emissions projections EV uptake has slightly decreased (compared to the 2024 projections).

The emissions reductions required to meet the third emissions budget do not need to be gross emissions reductions, they could come from removals by forests. Higher planting rates prior to 2031 would mean greater removals and lower emissions prices in the third emissions budget period, all else being equal. Since the 2025 analysis, the Afforestation and Deforestation Intentions Survey (ADIS) for 2024 has provided updated data on afforestation levels.[32] Afforestation in 2025 is estimated to be double that expected under previous government projections. However, future afforestation levels remain uncertain and will need to be monitored.

We estimate that approximately an additional 18,000 hectares would need be planted each year between 2027 and 2031 to meet the third emissions budget solely through removals by forests. Including the annual planting already assumed in the 2025 government emissions projections, this would mean 53,000 hectares would need to be planted on average each year between 2027 and 2031. While annual planting at this level has occurred in recent years, whether it will continue at these levels into the future is extremely uncertain.

The developments over the last year operate in different directions on potential prices, and therefore it is still unclear whether the higher emissions price scenarios will materialise. It now appears more likely that fossil gas prices could be higher than assumed, which could suggest moving toward a lower emissions price scenario might be likely. However, EV uptake projections have slightly decreased since last year, which suggests a higher emissions price scenario could be likely. Due to the uncertainty in afforestation over the next few

years, especially in light of Government policy changes in this area, it is difficult to say which way this factor is leaning. Overall, we therefore consider the insights from the 2025 ENZ modelling remain applicable to this year's advice.

Desirable emissions price path

The Act states that each time the Commission recommends the price control settings, it must consider whether to recommend "any desirable emissions price path".[li]

In previous years, we have concluded that uncertainty about the context and NZ ETS policy means that we have not been able to define such a path. Our position this year remains the same, particularly given the uncertainty around the emissions prices needed to meet the third emissions budget.

Impacts of emissions prices on households and the economy

The economy will continue to grow while meeting emissions budgets

Modelling shows that Aotearoa New Zealand's economy would continue to grow under the emissions budgets. In many cases, low-emissions investments made now will more than pay for themselves in the medium to long term, and there are significant additional health benefits due to cleaner air from less fossil fuels being burned for transport.[3]

The Government has chosen the NZ ETS as its primary mechanism to incentivise the changes and investments needed to meet emissions budgets. To do this, the NZ ETS must be able to incentivise more efficient choices by changing the relative prices of emissions-intensive activities, goods and services.

Impacts of steadily rising emissions prices are best managed outside the scheme

The Act requires that we consider the likely economic impacts of climate policies, including differences between sectors and regions. In our 2023 *Advice on the direction of policy for the Government's second emissions reduction plan*, we recommended the Government use targeted policies to promote equity and, in setting those policies, to include the impacts of climate change and adaptation, as well as mitigation.[37]

Although the NZ ETS will impact households and businesses through its effect on the prices of emissions-intensive goods and services, such impacts are best managed with policies outside the scheme. Attempting to manage impacts through NZ ETS settings, such as by lowering the price controls, would counteract the NZ ETS's ability to drive change.

Households and businesses are affected both by direct impacts on fuel and energy prices and indirectly through increased prices for emissions-intensive goods and services. With a

[li] Section 5ZOA(2) of the Act

steadily rising emissions price signal, and declining costs of lower-emissions technologies, we expect households and businesses will be able to adapt to reduce their exposure to emissions costs and to fossil fuel price volatility.

The most significant direct impact of the NZ ETS on household expenditure is for transport fuel, followed by household energy. Modelling and data show that direct, sustained cost impacts through the NZ ETS are modest in comparison to other drivers of cost.[38, 39] Over the last five years,[lii] the NZ ETS has added an average of 14 cents per litre to regular (91) petrol, compared with 34 cents from GST and 73 cents from Fuel Excise Duty.[40] Other factors have greater influences on fuel prices; for example, at the time of writing, the conflict in the Middle East has led to fuel price rises significantly larger than the impact of the NZ ETS.

Emissions prices, and higher fuel and energy prices generally, will disproportionately affect lower-income households because those households have less budget flexibility to absorb rising costs, and may also be less able to adapt by switching to lower-emissions goods or services.[39] Targeted Government policies outside the NZ ETS can reduce impacts by removing barriers to adopting lower-emissions, higher energy-efficiency options. This is true both for households in general and specifically for those who face higher impacts or challenges adapting. Examples of targeted policies that could be used include building quality standards, energy efficiency, and support for public transport and active travel.[3] In addition, the Government has options to address effects on lower-income households through existing tax and transfer mechanisms.[38]

Steady and predictable upward emissions price trajectories can support businesses and households to respond

It takes time for businesses and households to switch to lower-emissions alternatives, and if emissions prices rise too quickly this may overtake their ability to respond in ways that reduce exposure. Steady and predictable price increases are easier to plan for and respond to, for example by investing in lower-emissions alternatives. Rapid price rises lead to a greater risk of disruptive economic impacts to businesses, such as abruptly reduced production, plant closures and cost inflation for emissions-intensive goods and services. Households could also face unavoidable direct and flow-on negative impacts due to job losses and higher prices for energy and other goods and services. We therefore consider it important, when recommending NZ ETS settings, for us to consider market stabilisation options to help avoid the risk of rapid, disruptive price rises and the potential impact on households and businesses.

This year we have identified a heightened risk of rapid and volatile price increases due to a possible unit shortfall in the late 2020s. This risk carries uncertainties but we judge it to be significant enough to consider and mitigate when developing the NZ ETS settings recommendations.

[lii] 12 March 2021 to 13 March 2026

Normally, we would expect the market to anticipate a forthcoming shortfall, so the emissions price would rise and auctions would start to clear, adding new unit supply to the market that would lessen the risk of rapid price rises. However, if the market is short-sighted due to current low sentiment, this mechanism may not function. Expectations of higher unit flows in 2026 due to forestry emissions returns at the end of the 2023–2025 mandatory emissions reporting period may also be affecting market participants' ability to see beyond the short term to a coming shortage. The unit shortfall may only become apparent in prices very suddenly. In this situation, it is possible that speculation in the carbon market could exacerbate the speed and volatility of price changes. Emissions prices may then rise quickly and households and businesses might bear the increased cost.

It takes time to put in place supporting climate policies outside the NZ ETS, or to adjust tax and transfer measures. These may be useful to support the transition in the medium to long term, but are not ideal solutions to quickly mitigate potential impacts from volatile emissions prices. Therefore, we have considered and propose ways this risk could be mitigated in determining our recommended package of NZ ETS settings. The details of this are set out in *Chapter 6: Discussion and recommendations*.

Impacts on iwi/Māori

The Act requires that we consider the Crown–Māori relationship, te ao Māori, and specific effects on iwi and Māori. The Commission has emphasised that it is important the Government ensure a fair and equitable transition for and with iwi/Māori. This includes acknowledging the Crown role as a partner in Te Tiriti o Waitangi/The Treaty of Waitangi and ensuring that iwi/Māori have agency to exercise leadership on climate action.

Iwi/Māori communities and entities have varied priorities and aspirations, and a range of interests relating to the NZ ETS. Iwi/Māori account for a larger relative share of employment in emissions-intensive industries. They own a significant proportion of primary sector assets and may face unique and more prevalent barriers to transitioning those assets and land-holdings to lower-emissions activities. Barriers can include land-locked or hard-to-access land, fragmented ownership, limited access to capital, legislative constraints on use, development and divestment of whenua Māori, and no economically viable alternative land uses.[41] These factors can put iwi/Māori landowners at a disadvantage in terms of being able to take up the economic opportunities presented by the NZ ETS.

Forestry is a large part of the Māori economy, and approximately one-third of the forestry workforce are Māori.[42] Government decisions on operating the NZ ETS or reforming its structure can impact hapū, iwi and Māori landowners around Aotearoa New Zealand and should include consistent consideration of Te Tiriti o Waitangi/The Treaty of Waitangi and Treaty principles. This approach will support effective participation and leadership by iwi/Māori and the ability to address specific circumstances, challenges and impacts in regions such as Tairāwhiti as we heard about in engagement and described in *Chapter 2: Current state of the NZ ETS*. As a significant part of the forestry sector, effective participation

of iwi/Māori in processes to amend the NZ ETS may also improve the outcomes for forestry more generally.

A recent analysis of the Māori economy by BERL showed it is has grown as a share of Aotearoa New Zealand's economy between 2018 and 2023. This includes diversification into other areas beyond the large existing asset base in primary sectors, with service sectors the largest contributors to the Māori economy GDP in 2023.[43] Economic activity in these areas may be less exposed to the impacts of transition and the NZ ETS emissions price than some primary sector activities.

Impacts on businesses and industries

In general, the effect of emissions pricing will be more manageable for businesses that are less emissions-intensive or have more ability to pass on increased costs. The NZ ETS may enable more opportunities for these and other (new) low-emissions businesses.

For emissions-intensive and trade-exposed businesses and industries, emissions leakage risk – the possibility that a rising emissions price could cause some production to shift overseas in a way that increases global emissions – is currently being managed through industrial allocation. This substantially reduces the cost of the NZ ETS for these businesses and therefore the risk of economic slowdown and regional employment impacts.

As discussed above, a stable and predictable upwards emissions price trajectory enables businesses to plan and make decisions accordingly, such as upgrading fleets of fossil fuel vehicles to electric alternatives on normal asset replacement cycles.

In the medium to long term, the NZ ETS will help drive more efficient and competitive businesses. Internationally, there are growing expectations from investors, customers and consumers around disclosing emissions and taking climate action through the value-chain. To remain competitive, many of Aotearoa New Zealand's businesses will need to take action to reduce their emissions. The incentives provided by the NZ ETS can support them to make the shift.

Impacts on sectors and regions

The impacts of the NZ ETS price on different sectors and regions are influenced by the make-up of the local economy and workforce. It is important that the Government ensures the outcomes of these impacts are equitable, to help maintain ongoing support for using the NZ ETS as a tool to help Aotearoa New Zealand meet its emissions targets.

Some regions have a higher concentration of emissions-intensive industries. That is particularly the case for Southland, Taranaki and the West Coast. In contrast, employment in more urban areas is often concentrated around service sectors with lower emissions intensity.

Some regions, such as Tairāwhiti, have significant areas of forest, much of which is voluntarily registered into the NZ ETS, augmenting income from forestry activities.

Increases to the NZ ETS emissions price over recent years have played a role in increases to forest planting rates across the country, with land conversions more concentrated in some regions with potential impacts on rural communities. We have previously heard concerns that land-use change to forestry could reduce employment in rural communities.[44] The second emissions reduction plan set out the Government's intended policies to reduce the distributional impacts of land-use change. These included limiting by Land Use Capability class the land that can register into the NZ ETS for exotic forestry. The effects of this policy remain somewhat unclear, as it was only enacted on 31 October 2025.

The NZ ETS interacts with challenges currently faced by the forestry sector due to environmental harm after extreme weather events. The Tairāwhiti region has developed a plan for sustainable land-use transition[22] following Cyclone Gabrielle and the Ministerial Inquiry into Land Use.[45] The plan proposes significant land-use change but highlights that NZ ETS liabilities arising from changing the use of land currently registered in the NZ ETS create a barrier to switching erodible land to other viable uses such as native forestry.

Chapter 6: Discussion and recommendations

In this chapter we consider the combination of settings that accords with emissions budgets and best supports the NZ ETS's effective operation.

Summary of recommended NZ ETS settings package

Our recommended unit limits and price control settings work together as a package to achieve accordance with emissions budgets and support the effective operation of the NZ ETS.

We are recommending that the Government 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. We are also recommending that the Government retain and extend to 2031 the current price control settings, with inflation adjustments from 2029.

Our recommendations balance the potential need to update the unit limits and price control settings in order to ensure the scheme's effective operation, with the risk that updates at this time might further undermine confidence in an already depressed market.

In the case of the unit limits, it is possible that the current settings (or any reduction in volumes) will lead to an undersupply of units in the market later this decade. An undersupply could lead to rapidly rising and volatile NZU prices. This could unintentionally drive emissions reductions through plant closures and reduced production, rather than by incentivising investments in lower-emissions technologies that enable sustained economic activity.

However, recent Government policy announcements have created uncertainty for market participants, which appears to have contributed to falling NZU prices. Any increase in auction volumes to address the risk of undersupply at this time could further unsettle the market. There are also options to mitigate this undersupply risk that use elements of the NZ ETS settings framework other than the unit limits, either through price control settings or considering the risk again in future annual updates.

When considering the price control settings, our analysis suggests that these may need to be increased in the future to align with meeting the third emissions budget. However, this depends on the balance of gross and net emissions reductions needed to meet the third emissions budget, and the likely cost of gross reductions. Both of these factors are very uncertain, as they will be affected by trends in fossil gas prices, EV uptake and afforestation. These uncertainties have not sufficiently resolved over the past year to justify any increase in the price control settings at this stage. We will monitor developments and address any necessary changes in future NZ ETS settings advice.

Our advice is therefore to:

- maintain the current auction volume settings at this time while preparing to address the risk of a unit shortfall in future years
- maintain and extend the current price control settings, monitor developments and update these settings as necessary in future NZ ETS settings updates.

We make our recommendations on the basis that the next NZ ETS settings regulations update will be in 2027 as required by current legislation. Assuming that is the case, we advise the Government during the coming year to clearly signal and test with the market options for addressing the risk of undersupply in the years 2028–2030. If the Climate Change Response Act 2002 is amended as the Government has announced, and the next settings update is shifted to 2028, then our advice would be for the Government to act this year to adopt a temporary lower tier of the cost containment reserve (CCR) that would address the undersupply risk from 2028–2030.

Accordance with emissions budgets

The Act requires the Commission to recommend unit limits and price control settings which either 'strictly accord', or 'accord' with emissions reduction targets.[liii] We understand this to mean that we must recommend unit limits and price control settings that align to these targets to a high degree. Alternatively, if the Commission recommends unit limits and price control settings that do not strictly accord with the targets, the discrepancy must be justified. The recommended settings must still have a good likelihood of achieving what is required or the discrepancy must be one that can be made up for elsewhere.

We assess that our recommended package of unit limits and price control settings strictly accords with the second emissions budget and the 2050 target, and accords with the third emissions budget with a discrepancy.

The discrepancy for the third emissions budget relates to the price control settings. There is evidence that the CCR price triggers and ARP levels recommended may be lower than the NZU prices needed to meet the third emissions budgets in some scenarios of the future. However, this may not materialise because there is a high level of uncertainty about whether the future will play out in line with these high emissions price scenarios. We consider this discrepancy is justified after considering relevant matters in the Act.

More detail on this is contained in *Chapter 5: Price control settings* in this report and *Technical Annex 3: Assessment of accordance*, published separately on our website.

[liii] Emissions reduction targets here refer to emissions budgets and the 2050 target. The settings must strictly accord with the 2050 target. However, the settings need not strictly accord with emissions budgets as long as any discrepancy is justified, after considering a range of matters set out in the Act (see section 30GC). This advice covers the period 2027–2031. Therefore, the settings must accord with both the second emissions budget (2026–2030) and the third emissions budget (2031–2035).

Assessment of risks and analysis of NZ ETS settings package

The NZ ETS settings are a balancing act

The purpose of the NZ ETS is to assist Aotearoa New Zealand to meet its emissions budgets, 2050 emissions target, and international obligations, and therefore support and encourage global efforts to reduce the emissions of greenhouse gases. To achieve this, the NZ ETS will be most effective and efficient if it encourages emissions reductions through a steadily rising emissions price.

The Act requires us to recommend NZ ETS settings that accord with the 2050 target and emissions budgets. From this point of view, the fewer units made available at auction, the higher the chance that emissions will be constrained to the level of the relevant budget or below.

However, we also need to consider the proper functioning of the NZ ETS. Creating too much scarcity in the NZU market too quickly can create unmanageable pressures for people and businesses, potentially forcing emissions reductions via reduced production, rather than through decarbonising production processes. In turn, that could lead to job losses and higher NZ ETS pass-through costs, potentially undermining public support for climate action. This creates a risk of rushed and ad hoc interventions by Government, which could damage the scheme's ability to operate well in the future.

The unit limits and price control settings need to work together to balance these factors. They need to be designed in a way which makes units progressively more scarce,[liv] so the emissions price rises over time, but not create that scarcity so quickly that the price overtakes the pace at which it is feasible to effectively reduce emissions.

The price control settings can support the NZ ETS's effective operation by withholding or adding units to the market depending on prices reached at government auctions. This reduces the risk of price extremes in either direction. The ARP can provide a safeguard against oversupply of units and helps to support the price signal provided by the NZ ETS by withholding units if NZU prices are too low. Similarly, the CCR can provide a safeguard against undersupply of units, releasing more units to the market if bids at auctions are sufficiently high. However, it is important that the CCR volume and price triggers are set in a way that does not undermine the scarcity needed to drive emissions reductions.

There are two particular issues which the 2026 NZ ETS settings update must balance. First, as set out in *Chapter 4: Unit limits* (see Figures 4.1, 4.2 and 4.3) we have again identified a risk of a unit shortfall which could occur as early as 2028. The current depressed and volatile state of the market means it may not foresee and price in the coming scarcity well in

[liv] There are limits to the extent that the NZ ETS settings can achieve this. These settings can only control the number of units auctioned into the market. The volume of other units supplied into the market from forestry and industrial free allocation is determined by other factors, and those sources represent a larger and growing share of overall unit supply.

advance. This could create the conditions for overly rapid and disruptive price increases in the coming years.

Second, the state of the market also means that making changes now to the NZ ETS settings could further undermine confidence.

We need to consider how unit limit and price control settings packages can work together to manage these issues.

Risks to balance and criteria for assessing NZ ETS settings package options

We have identified three key risks which need to be balanced in the 2026 ETS settings update:

- risks to accordance with emissions budgets from oversupply of NZUs
- risks to the proper functioning of the NZ ETS from undersupply of NZUs
- risks to the proper functioning of the NZ ETS from a lack of regulatory predictability.

Based on these risks we have developed the following criteria to assess NZ ETS settings packages.

1. **Accordance with emissions budgets**. This is the key requirement of the Act, which we must give a relatively heavy weight to in our analysis. It relates to the probability that the NZ ETS settings package will constrain NZ ETS emissions to a level consistent with meeting the emissions budgets.
2. **Risk of undersupply**. If units are too scarce, this could lead to sharp NZU price increases over a short period, leaving firms to face quickly rising costs without sufficient time to adjust production processes. Price spikes of this nature are likely to negatively affect the proper functioning of the NZ ETS and its ability to drive cost-effective emissions reductions.
3. **Regulatory predictability**. NZ ETS participants need clarity about the way the NZ ETS will be operated so they can plan and manage their compliance obligations and emissions reduction initiatives. There are different aspects of regulatory predictability that need to be considered, including:
    - how much change the option presents compared to the current NZ ETS settings and the most recent Government decision on settings[lv]
    - how much clarity the option gives participants about the Government's future decisions or actions, and
    - the risk that an option could result in short notice or ad hoc changes in future.

[lv] Note, in general we do not consider consistency with past Government decisions per se to be a valid basis on which to make further policy decisions. However, we have included this aspect in our consideration of the regulatory predictability criterion as prior decisions shape the expectations of market participants about how the scheme will be managed in future, and it is important to examine how the market may perceive or react to changes to previously agreed settings.

There are several options for mitigating undersupply risk

In *Chapter 4: Unit limits* we identified two auction volume options. These were: retain status quo auction settings (option 1); or update the auction volumes based on our central surplus estimate (option 2). We have combined these with our recommended price control settings, as well as ways to mitigate the risk of undersupply, to produce the options for unit limit and price control settings packages set out below. All of these options include the recommended price control settings set out in *Chapter 5: Price control settings*.

Options for mitigating undersupply risk

- ***Option 1.0 – no undersupply risk mitigation***

  This option would retain status quo auction volumes, with no mitigation to address undersupply risk. As the status quo, this is what the other options are compared against to understand whether they provide an overall net benefit.

- ***Option 1.1 – temporary CCR tier***

  This option would retain status quo auction volumes, but put a temporary, lower CCR tier in place for the 2028–2030 years when there is the higher risk of insufficient units to meet demand. Across the three years, the volume of units in the additional CCR tier would total the additional units which could be auctioned based on the central surplus estimate. Further detail on this option is set out at the end of this subsection.

- ***Option 1.2 – signal criteria for changing the settings in 2027***

  This option would retain status quo auction volumes, but signal the criteria that would be used to assess whether an update to the first two years of the settings would be required in 2027 to address undersupply risk in 2028–2030.

- ***Option 1.3 – defer a decision on mitigating undersupply risk for one year and signal potential change in 2027***

  This option would retain status quo auction volumes, but clearly signal and prepare for the potential need to amend the settings at short notice in 2027. This keeps both approaches for mitigating undersupply risk (temporary CCR and setting criteria for future changes) on the table, but avoids changes until 2027 when it will be clearer whether it is needed. This option is also only possible if the Government does not amend the Act to shift the next NZ ETS settings update to 2028.

- ***Option 2 – increase auction volumes based on the central surplus estimate***

  In this option, the regulatory decision in 2026 would increase auction volumes in 2028, 2029 and 2030 to reflect the updated central surplus estimate, as the mitigation to undersupply risk. The auction reserve price would ensure that the additional units only come to market if bids at auction are sufficiently high.

Further detail on option 1.1 – temporary CCR tier

A CCR tier would be put in place at a much lower level than the existing CCR tiers only for the three years where we have assessed that there is a higher risk of a unit shortfall (2028, 2029 and 2030). It would mitigate the risk of overly rapid and volatile price rises by releasing enough units to the market to allow participants to meet their compliance obligations and act as a brake on further price increases. It would also balance the risk to accordance of making more units available to a greater extent than option 2, by only allowing these units to enter the market if they are needed, and sufficiently high prices are reached at auctions.

Determining the trigger prices for the temporary CCR tier

Unlike the CCR tiers that already exist and can release units that may cause the emissions cap to be exceeded, this tier would provide volume that we consider, based on our best estimates, to be within the emissions cap. We therefore think it acceptable for it to be at a substantially lower price than the other CCR tiers which have a different purpose.

We have used $160 as an example trigger price, roughly the mid-point between the auction reserve price levels and the trigger prices for tier 1 of the existing CCR. However, other lower price trigger levels could be chosen – although we suggest that the price trigger level should be well above the auction reserve price. If the Government were to implement a temporary CCR tier of this nature, it should set the trigger price at a level it is comfortable with NZU prices rising to over a relatively short period of time.

A benefit of this option is the clear signalling it provides to the market about when and how additional units could be made available to the market at auction. Therefore, if implemented, it is important that ad hoc Government interventions in the market do not occur in response to prices below the trigger price for this tier, as that would undermine its intended function.

Determining the volume of units in the temporary CCR tier

In this option, the volume of units in the temporary CCR tier would be the difference between the central surplus estimate and the surplus volume implied by maintaining the status quo auction volumes (11.7 million units). This volume of additional units helps mitigate the shortfall risk, while ensuring unit limits align with emissions budgets.

We have chosen to spread this volume across the three years with higher risk of unit shortfall (2028–2030), but propose a higher volume in 2028 than in 2029 and 2030. This helps address the additional shortfall risk that arises in 2028 if 2026 auctions do not clear, as there may not be an opportunity to adjust the volumes again in 2027. The remaining volume is then split across 2029 and 2030 in line with the declining NZ ETS emissions cap.

If the 2026 auctions do not clear, the Government may need to revise upwards the volumes for 2029 and 2030 in the NZ ETS settings update in 2027 or 2028, to ensure they adequately mitigate the risk of unit shortfall.

Table 6.1 below sets out the volume of units which would be included in the temporary CCR tier. It also provides an example of a possible trigger price level for this additional tier.

Table 6.1: Example settings for option 1.1 – a temporary CCR tier

	2027	2028	2029	2030	2031
Additional unit volumes (million units)	0	4.9	3.6	3.0	0
Trigger prices (example)	N/A	$160	$160	$160	N/A

Discussion

When considered with our recommended price control settings, we judge that all of the options for 2027–2030 accord with emissions budgets (options 1.1, 1.2, 1.3 and 2). Therefore the key criteria that need to be considered when assessing which option is preferable overall are Criterion 2 (Risk of undersupply) and Criterion 3 (Regulatory predictability). More specifically, we need to consider two uncertain factors:

- the magnitude of the unit shortfall risk in 2028, and the ability of the market to cope with the shortfall without Government intervention, and
- how each option supports market confidence.

How concerned should we be about the risk of a unit shortfall in 2028?

Our assessment is that that, while the undersupply risk in 2028 is uncertain, it is not trivial and it would not be responsible to ignore it. We could not identify sources of additional 'surplus' units in the market that can reliably address this risk. Without further policy support we also do not consider it likely that participants would be able to reduce demand for units fast enough to offset the shortfall, except by rapidly slowing or halting production. Market participants' foresight might be limited, creating a risk that they will not anticipate the shortfall and respond by securing units in advance at auction. That risk, if not addressed, could result in a sudden lack of supply which drives up prices very rapidly. We consider it prudent to develop a mechanism or plan for how to deal with this risk now.

Whether a unit shortfall arises in 2028 depends in part on whether 2026 auctions clear. The Government will have to make decisions on the NZ ETS settings before knowing the outcomes of all 2026 auctions. This leaves us to consider two things:

- how likely the surplus is to be at the higher end of our estimated uncertainty range through to 2028, and
- the potential for additional non-surplus units to come to market.

The surplus is dynamic

We have estimated the surplus range based on what we consider to be reasonable and realistic assumptions about participant behaviour, and on the latest data available. However, because market participants' behaviour can shift quickly as circumstances change, the surplus is dynamic. For example, we have heard that, due to the recent drop and volatility in NZU prices, emitters have reduced their forward hedging. As a result, the surplus might currently be at the higher end of the range. But hedging behaviour can and does change. As the surplus depletes over time and the medium-term supply and demand fundamentals become clearer to the market, forward hedging by emitters may increase, pushing the surplus to lower levels within the range. In other words, even if the surplus is at the high end of the range now, that may change by 2028.

Other factors could increase the risk and impacts of a unit shortfall

Other factors can also change the availability and price of units in the market, while not necessarily changing the surplus estimate. For example, it is uncertain when forestry units will become available to the market. While foresters can voluntarily submit emissions returns annually, they are not required to until the end of mandatory emissions reporting periods (MERPs), which are typically five years long (the next MERP ends in 2030). Over the years to 2030, the flow of forestry units into the market may be lower than our forestry model implies. The model assumes forestry units become available in the year that removals occur and does not factor in that some foresters will only submit emissions returns and receive their unit entitlements in 2031.

It is also possible that if prices start to rise rapidly, speculative activity (driven by profit, rather than compliance obligations) by both NZ ETS compliance participants (foresters and emitters) and other types of market participants could accelerate rising prices and volatility. Studies in other emissions trading schemes (particularly the EU ETS) have not found conclusive evidence that speculation has driven sustained price increases,[21, 46] but there is some evidence that speculative activity has substantially amplified price movements in the short term.[47]

There are no reliable additional sources of units

We have considered whether units could be supplied from the 'non-surplus'units in the event of a unit shortfall. While there could be some flexibility in this respect, we think it is prudent to assume it is limited. For example, emitters could use to a greater extent forward contracts for units not yet allocated into the market to cover hedging needs. It is also possible that if participants (especially foresters) expect NZU prices to fall in the 2030s, they could make units we assume to be non-surplus available to fill any gap in the late 2020s when prices are high, on the expectation they will later be able to buy units back at a lower price. This would be rational behaviour if they have sufficient market foresight. However, we have heard in engagement that participants find it difficult to take a view on the NZU price beyond a year or two due to the price volatility of recent years and regulatory uncertainty surrounding the NZ ETS.

NZ ETS participants' decisions on whether to sell units are likely also influenced by factors other than maximising profit from their NZU holdings, which for many is not core business. Large production forests account for the majority of the forest area registered in the NZ ETS and consequently a large amount of the non-surplus units that could potentially be made available. Large commercial foresters may be reluctant to sell such units, because if their price assessment is incorrect, it could create significant risks for their main business, producing timber.

Potential price impact of a shortfall

We have not quantitively assessed the potential impact of a unit shortfall on NZU prices as this is challenging to model. The NZ ETS cannot be assumed to function as a theoretical efficient market should. While supply and demand fundamentals do influence the scheme, historically large changes in NZU prices appear to have often been strongly influenced by actual or perceived government policy changes or policy uncertainty. This means that any forecast based on supply and demand fundamentals is unlikely to accurately predict future NZU prices. This makes it difficult to quantitatively assess what the impact of a unit shortfall might be, including how high and how quickly prices may rise.

We are not aware of any NZU price modelling tools which would be appropriate to use for this type of analysis. The NZU price modelling exercises to date have provided useful illustrations of how prices in the NZ ETS may evolve over the medium to long term but have not provided realistic forecasts of short-term NZU prices. Existing NZU price modelling has modelled annual NZU prices.[lvi] This does not account for the volatility which can occur within a year, and which is a critical aspect to understanding how a unit shortfall may play out.

Despite this, our other qualitative and quantitative analysis of the supply-demand balance in the market indicates that the undersupply risk exists. Our view is that it should not be ignored, because the consequences of it could seriously undermine the effectiveness of the NZ ETS.

It is prudent to manage the undersupply risk

Considering these factors together, our view is that while the undersupply risk in 2028 is uncertain, it is not trivial. The potential unit shortfall based on our central surplus estimate is approximately 5 million units. This is significant in a market with annual demand from gross emissions at around 33 million units in 2025.

The undersupply risk increases with time from 2028 through to 2030. Irrespective of when exactly a unit shortfall might emerge, we think it prudent to develop a mechanism or plan for how to deal with this risk now. The risk of undersupply was always likely to increase as

[lvi] See NZ ETS settings decisions for 2026–2030 package (https://environment.govt.nz/assets/publications/Cabinet-papers-briefings-and-minutes/2025-update-to-New-Zealand-Emissions-Trading-Scheme-settings-and-regulations.pdf) and Parliamentary Commissioner for the Environment, Projected price outcomes from the New Zealand Emissions Trading Scheme (https://pce.parliament.nz/media/hkdlpfr0/pce_enz-modelling-note.pdf).

the surplus depletes to low levels, however according to our analysis it is arriving sooner than previously anticipated.

Importance of supporting market confidence

Because of the current depressed and volatile state of the market, we consider it is particularly important to consider how options support market confidence.

As discussed in *Chapter 2: Current state of the NZ ETS*, through our engagement discussions we heard that a key driver of the recent low and volatile prices was the 4 November Government announcement on removing the NDC accordance requirement from the NZ ETS settings. This announcement followed a series of other changes perceived as weakening climate policy and took some market participants by surprise. This is consistent with NZ ETS experience over many years of NZU prices being significantly impacted by announcements and policy changes from successive governments.

In our engagement we heard that rebuilding confidence in the NZ ETS will take time. Those we spoke to emphasised that any more sudden policy changes, including to the NZ ETS settings, risked further unsettling the market. They stressed the need for clear signalling and consultation to avoid surprises.

This situation leads us to prioritise minimising change from existing settings in the short term, even though that brings higher risk of needing to amend the settings at short notice in the medium term. We think that any changes away from status quo settings should be made in a very cautious way, with advance signalling to allow market participants to build understanding and avoid surprises.

Conclusions from options analysis

As discussed further below, our preferred option is option 1.3 – defer a decision on mitigations for one year but signal now the potential for change to the first two years of the settings in the 2027 update. We therefore recommend settings that retain current NZ ETS auction volumes through to 2030. We advise the Government during the coming year to clearly signal and test with the market options for addressing the risk of undersupply in the years 2028–2030.

This recommendation is based on the current version of the Act which requires annual advice and updates to the NZ ETS settings regulations. Although this recommendation does not immediately address the risk of undersupply, it does recognise that the Act under certain conditions allows for new unit limits and price control settings to be made in the 2027 NZ ETS settings update.[lvii]

Amending any of the 2028 NZ ETS settings in the 2027 settings update could raise concern about the predictability of the settings process. However, that concern could be addressed

[lvii] Under the Act the first two years of the settings period cannot be amended, except if certain circumstances arise such as a change significantly affecting a matter that must be considered under the Act.

by signalling to and engaging with market participants over the next year about the shortfall risk and how to address it. Even previewing the possibility of amending the settings in the 2027 update makes it less likely that market participants would be caught by surprise. The concern is also addressed by the Act itself, which would require justification for amending the first two years of the settings in the 2027 update. A key question would be whether there has been a change since the adoption of the 2026 settings that significantly affects the proper functioning of the NZ ETS. The justification would be assessed in 2027 using updated information and analysis about the unit shortfall risk as it exists then, including certainty about whether 2026 auctions have cleared.

Other options may not provide sufficient clarity to the market and could undermine market confidence if introduced without signalling

Option 1.1 (the temporary CCR tier) addresses the undersupply risk from 2028 onwards and sets out clearly to the market the circumstances under which additional units would be made available (via the trigger price for the additional CCR tier). However, it is not clear how the market may respond to this change, so its effect on market confidence is uncertain.

Option 1.2 (signal criteria for changing settings in 2027) provides some clarity to the market about the circumstances under which the Government may make more units available at auction. However, it would be difficult to pre-determine very precise criteria, meaning they would likely need to be high level. This would leave a lot of discretion and therefore uncertainty for the market about whether changes are likely to be made to the settings in 2027.

Due to the current state of the market, we are not recommending option 2 – increase auction volumes based on the central surplus estimate

We have chosen not to recommend unit limits that would increase the base auction volume over the 2027–2030 period. This is primarily because of the current state of the market. Rebuilding confidence in the market will take time, and we heard from market participants that any changes to the NZ ETS settings could further unsettle the market. While additional volumes *could* be made available for auction in line with the Government's emissions budgets, our assessment is that offering those volumes under current circumstances might further undermine market confidence.

Our recommendations are conditional on the next update of the NZ ETS settings occurring in 2027

As noted earlier, our recommendations are conditional on the next update of the NZ ETS settings occurring in 2027, as currently required by the Act. The Government has announced its intention to amend the Act so NZ ETS settings occur every two years. If that amendment is made, then the next NZ ETS settings update will not occur until late 2028. That would be too late for the Government to address any risk of a shortfall that emerges in 2028.

Therefore, if the proposed legislative amendment is made, our advice would be to put in place now a temporary, lower tier of the CCR for 2028–2030 (option 1.1). The purpose of

this new CCR tier would be to mitigate the risk of a shortfall that could lead to NZU prices rising too high, too fast. If the next opportunity to update the settings is not until 2028, this is the only option we have identified that can address undersupply risk in that year. We consider that it would be justified because the nature and extent of the shortfall risk has become clearer since the adoption of the settings in 2025, and because the legislative amendment (if made) would remove an opportunity to address that risk in 2027.

Reducing auction volumes further risks pushing sectors covered by the NZ ETS too far, too fast

Some market commentators have suggested that reducing auction volumes in the years to 2030 could help the market recover from recent low and volatile prices. The Minister of Climate Change has also publicly expressed interest in whether reduced auction volumes in the short term might help the NZ ETS to deliver more emissions reductions and better position the Government to meet the third emissions budget and NDCs.

There are two lenses from which reducing auction volumes below the status quo can be considered – to manage the surplus, or to achieve more emissions reductions. We have considered each of these and concluded that it would not be appropriate to further reduce auction volumes for either purpose at this time.

First, auction volumes could be reduced as a way to further reduce the risk of exceeding emissions budgets that arises from the uncertain volume of surplus units. As set out in *Chapter 4: Unit limits*, the status quo auction volumes align closely to our high surplus estimate. This means that any reduction in auction volumes would increase the risk of a unit shortfall, which could have serious consequences for people, businesses, and the functioning of the NZ ETS.

Auction volumes could also be reduced as a result of adopting a lower NZ ETS emissions cap. As discussed in *Chapter 3: The NZ ETS emissions cap*, we have considered a range of possible emissions caps on which to base our recommendations. While lower emissions caps could be adopted, we do not recommend this unless additional policy is introduced to support further emissions reductions in NZ ETS covered sectors.

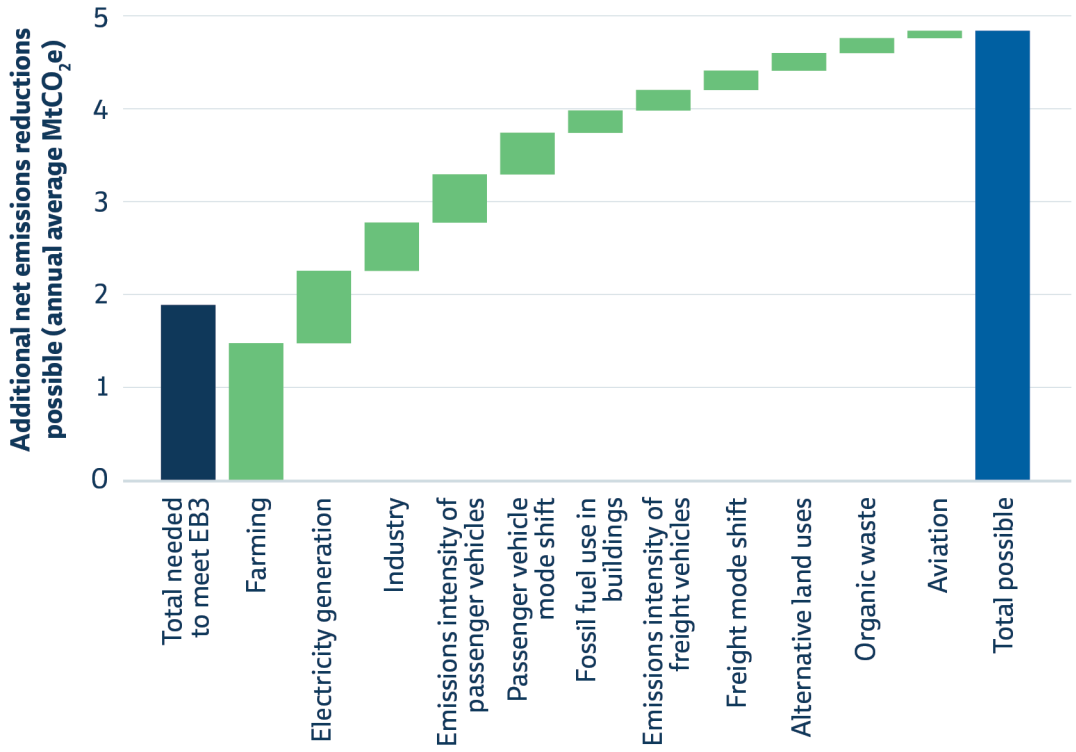
The second emissions budget period (2026–2030) has already begun, and it is now too late for any additional forestry planting to contribute removals to this budget period. Adopting a lower emissions cap now, as a means to increase ambition, would provide a very limited window for affected people and businesses to respond and achieve the additional emissions reductions required. It would be critical for additional policies to be introduced to support NZ ETS sectors to further reduce emissions.

There is more lead time until the third emissions budget (2031–2035). A lower emissions cap for this period is more feasible than for the second emissions budget period, given the ability for NZ ETS sectors to ramp up emissions reduction effort. However, we have based our recommendations on an emissions cap for the third emissions budget period which already assumes that the further 9 $MtCO_2e$ of reductions needed to meet the budget will come from

NZ ETS covered sectors. As discussed in *Chapter 3: The NZ ETS emissions cap*, reducing the emissions cap further would go well beyond what the Government has analysed or planned for in its second emissions reduction plan. It is doubtful that these reductions could be achieved by the NZ ETS alone without further complementary policies, and the Government would need to undertake significant further analysis to understand and consider how to manage the potential impacts of doing so.

In our 2025 *Monitoring report: Emissions reduction* we identified a wide range of opportunities to achieve further gross emissions reductions over the third emissions budget period.[3] Figure 6.1 shows the scale of emissions reductions possible in various sectors if these opportunities were taken up.

Figure 6.1: Further reductions possible in the third emissions budget period (EB3), based on Commission analysis in 2025



Source: Commission analysis.[3]

About three quarters of the reductions identified come from sectors either not likely to respond to NZ ETS incentives (e.g. passenger vehicle mode shift and other opportunities in road transport) or sectors not covered by the NZ ETS (e.g. agriculture). Of the remaining quarter, which is in the electricity and industrial sectors, the price signals provided by the NZ ETS may not be sufficiently consistent or strong enough to effectively drive change.

We therefore do not recommend adopting an emissions cap for the third emissions budget period lower than the one we have used, unless additional policy is put in place to support its achievement.

Challenges for the future operation of the scheme

Price volatility can impact the ability of an ETS to drive emissions reductions

As highlighted in Figure 2.1 in *Chapter 2: Current state of the NZ ETS*, the last few months have seen volatile NZU prices. This follows several periods of high volatility in previous years, connected with policy decisions made by successive governments and regulatory uncertainty. This history of emissions price volatility and uncertainty, if it continues into the future, is likely to hinder the NZ ETS from driving efficient emissions reductions.

For an ETS to effectively drive emissions reductions, people and businesses must be able to make long-term investment decisions based on expectations of future emissions prices. Emissions prices need to be sufficiently high to incentivise decarbonisation, but price levels are not the only factor. If prices are highly volatile, investors may lack the confidence needed to commit to low-emissions technologies that can take years to pay off.

Price volatility can undermine an ETS's effectiveness. A recent study of the EU ETS found that uncertainty about future carbon prices can have an impact on decarbonisation investment comparable to an actual fall in prices. They found that a 10 percentage point increase in carbon price uncertainty had a similar effect on investment as an €11.2 (NZ$22.10)[lviii] drop in the carbon price.[48]

It is important that the NZ ETS is managed in a way which reduces the risk of price volatility to support the scheme to drive emissions reductions. Unfortunately, the price volatility to date has likely already reduced the effectiveness of the NZ ETS, increasing the risk of relying primarily on the NZ ETS to meet targets.

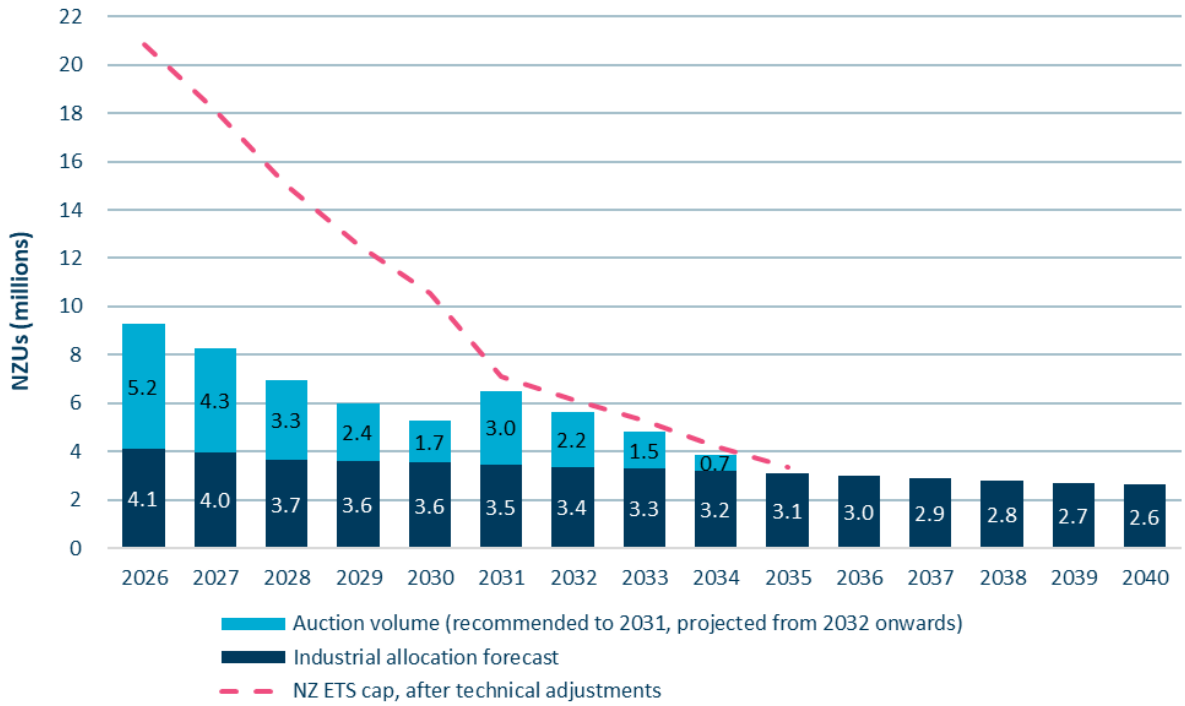
The NZ ETS will soon no longer be able to drive further net emissions reductions

While the settings period covered by this advice only extends to 2031, our updated analysis also provides insights about the future outlook for the NZ ETS.

Our analysis indicates that, due to ongoing industrial allocation, the NZ ETS emissions cap for the third emissions budget period would not allow for any further auctioning after 2034. This is illustrated in Figure 6.2 below.

[lviii] Based on an exchange rate of 0.507 European euros per New Zealand dollar on 19 March 2026, sourced from the Reserve Bank of New Zealand.

Figure 6.2: Forecast industrial allocation and auction volumes to 2040



Source: Commission analysis.

Why does this matter?

In order for an ETS to drive emissions reductions, units need to be made progressively more scarce. Once no further auctioning is possible, the Government no longer has any way to reduce unit supply.[lix] This means that while the NZ ETS could still maintain the net emissions that it covers at the same level, it would not be able to incentivise any further net or gross reductions.

This point at which no further units could be auctioned may shift forward due to:

- a Government decision to update the NZ ETS default carbon yield tables for post-1989 forests (expected to be made in early 2026), as this could decrease volume available to auction through the need for a larger forestry technical adjustment
- an increase to projections of agricultural emissions or higher-than-forecast afforestation, which could mean the NZ ETS emissions cap for the third emissions budget is lowered further in the next NZ ETS settings update.

This reinforces the need for the Government to consider the role of the NZ ETS in meeting emissions reduction targets beyond this decade, and ensure it is fit for purpose to play its part.

[lix] Unless it changes legislation which governs how other unit supply (industrial allocation and forestry entitlements) is determined.

Recommendations and proposed auction volumes

Proposed auction volumes

	No changes				New
Million units	2027	2028	2029	2030	2031
NZU auction volumes (excluding cost containment reserve volumes)	4.3	3.3	2.4	1.7	3.0

Recommended unit limits and price control settings

	No changes		Updated[lx]		New
Million units	2027	2028	2029	2030	2031
Limit on New Zealand Units available by auction (including CCR volume)	10.2	8.6	7.1	5.6	6.5
Limit on the approved overseas units used	0.0	0.0	0.0	0.0	0.0
Overall limit on units (including auction, industrial allocation, and CCR volume)	14.6	12.7	10.7	9.2	10.0

	No changes		Updated for inflation		New
Cost containment reserve	2027	2028	2029	2030	2031
Tier 1					
Trigger price	$213	$224	$239	$251	$264
Reserve volume (million units)	2.1	1.9	1.7	1.4	1.2
Tier 2					
Trigger price	$267	$280	$298	$313	$328
Reserve volume (million units)	3.8	3.4	3.0	2.5	2.3

	No changes		Updated for inflation		New
Auction reserve price	2027	2028	2029	2030	2031
Auction reserve price	$75	$78	$83	$88	$92

[lx] The overall limits for 2029 and 2030 have been updated to reflect an updated forecast of industrial allocation.

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