

Latest tweaks to Emissions Trading Scheme have a more than minor impact

The Government has announced another round of changes to New Zealand's Emissions Trading Scheme (ETS) and the Climate Change Response Act 2002 (CCRA). The aim is to simplify compliance, broaden the recognition of carbon removal activities, and adjust market settings to smooth the operation of the CCRA. However, the announcement has impacted on market confidence in the ETS and has caused a significant fall in carbon prices.

Key Changes

1. Broader recognition of carbon removal activities

Until now, forestry has been the primary method for earning carbon credits. The new *Assessment Framework for Carbon Removals* signals a shift in the approach to date, with activities such as wetland restoration, peatland rewetting, and "blue carbon" projects expected to be recognised as carbon removal activities. Amendments to the CCRA will create a legal pathway for these activities to be recognised. The Government first signalled an intent to look beyond forestry as the primary method to recognise or reward carbon removals when it consulted on a proposal to implement a carbon capture and storage regime last year.

The Ministry for the Environment expects to launch application tools to enable submissions of activities for assessment in the first half of 2026.

2. ETS settings and market confidence

One of the most controversial changes is the removal of the requirement for ETS unit volumes and price control regulations to align with New Zealand's Paris Agreement targets.

This change has been linked to the dramatic drop in carbon prices, reflecting market uncertainty in the integrity of the ETS. Critics warn that delinking the ETS from international commitments could undermine long-term credibility. There is also concern that the shift from annual to biennial ETS settings updates will reduce responsiveness to market conditions.

3. Compliance and administrative adjustments

Several operational changes have been introduced which aim to reduce complexity, including:

- flexibility for foresters to re-establish forests after significant events;
- discretion to waive penalties in certain circumstances;
- adding the import of carbon dioxide as an ETS activity;
- updating penalty repayment provisions managed through the Environmental Protection Authority; and
- extending deadlines for emissions returns following major disruptions.

The Government and Climate Change Commission's reporting requirements and timeframes under the CCRA are also being updated to create a more logical sequence of advice that avoids duplication. This includes bringing the timing of the Commission's annual emissions monitoring report forward to align with the annual release of emissions projections to enable both reports to be considered as one coherent package.

4. Updating the requirements for ERPs and NAPs

The Government can now amend national adaptation plans and emissions reduction plans (ERPs) content requirements have been simplified to only include

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policies and strategies for meeting relevant emissions budgets, a strategy to mitigate impacts on iwi and Māori; and any additional policies that the Minister deems necessary. The requirement to consult on ERP changes has been removed, and processes for amending or replacing ERPs have been streamlined to enable more frequent updates.

The Climate Change Commission is no longer required to advise on ERPs but will continue providing policy advice through its five-yearly emissions budget advice and the annual Emissions Reduction Monitoring report.

5. Reviewing firms' industrial allocation

Under the current industrial allocation settings, firms' emissions intensity and eligibility for industrial allocation can be reviewed. The Government has removed this review process to provide greater certainty for emissions-intensive and trade exposed firms that receive industrial allocation. It is hoped that this will decrease the barriers for firms and encourage investment in decarbonisation projects.

6. Carbon neutrality targets

The Government has extended the carbon-neutral target for public sector organisations from 2025 to 2050 aligning it with New Zealand's broader net-zero goal. The original 2025 deadline was deemed unrealistic, as achieving neutrality would have required extensive reliance on offset credits — an option limited by the scarcity of domestic offsets and the complexity and cost of international alternatives.

These changes to the CCRA, including provisions introduced under the Zero Carbon Amendment Act 2019, will be introduced over the next year.

Want to know more?

If you have any questions about the changes to the emission trading scheme, please contact our [ESG & Climate Change](#) specialists.