

Potential for international linking of the NZ ETS

Stuart Calman
Director – Climate and Risk



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Outline

- An overview of linking
- Different forms of linking
- Issues of linking
- Possible multilateral, regional and bilateral linking options



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What is linking?

- Joining up of carbon pricing schemes in different jurisdictions
- Benefits of linking
- Can take several forms:
 - ‘indirect’ linking through the international carbon markets
 - ‘direct’ linking between national schemes

Indirect linking

- Different schemes accept certificates from the same credit-generating mechanisms
- The NZ ETS is indirectly linked internationally through:
 - export of forestry credits
 - import of Kyoto Protocol units
- Requires an international architecture through the UNFCCC
- Uncertainty of a Kyoto Protocol style arrangement post-2012

Direct linking

- More important in light of the ongoing international uncertainty
- Countries are pressing ahead with the development of domestic mechanisms
- Spectrum of linking options:
 - alignment of key design elements
 - mutual recognition of each other's domestic units
 - full harmonisation with a single scheme

Issues of direct linking

In the absence of an international agreement, direct linking can raise issues:

- **Environmental integrity:** Ensuring that jurisdictions are comfortable with approaches to defining and accounting for emissions – “a tonne equals a tonne”
- **Price, demand and supply:** Ensuring that jurisdictions are comfortable with the effect that linking will have on the carbon price
- **Arbitrage:** Avoiding profiteering because of carbon price difference between jurisdictions

International negotiations

To ensure indirect linking, New Zealand supports:

- the continuation of the existing Kyoto Protocol flexible mechanisms
- reforms to CDM and JI
- the development of new, UNFCCC approved market mechanisms

Role of the UNFCCC

- Is there a role for the UNFCCC to help 'glue together' market mechanisms that are developing regionally?
 - develop a system where units from domestic schemes can be freely traded in the international carbon market
 - with participants having the same confidence in these units as they currently do for those generated by the Kyoto mechanisms

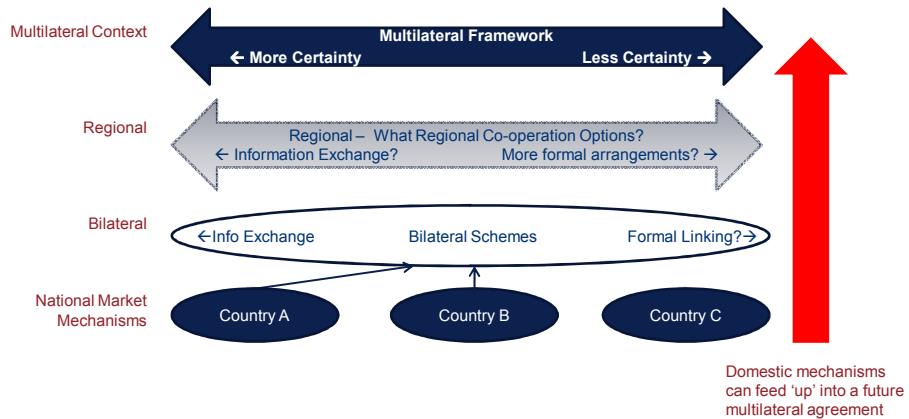
Regional engagement

- Number of countries in the region developing or intending to develop mechanisms
- New Zealand is actively engaging with other countries and jurisdictions in the Asia-Pacific region
- Challenges around linking different type of mechanisms in different countries
- The regional space is largely underdeveloped
- It is still early days
- Possibility of a regional market 'feeding up' into a future multilateral agreement

Linking with Australia?

- Prime Minister Gillard and Key's announcement of senior official working group to investigate linking
- General themes when considering bilateral agreement:
 - Level of mitigation commitment
 - Adequate and comparable monitoring, reporting, verification and compliance
 - Nature of price controls
 - Comparability of design and market rules

Development of carbon markets



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