

Examples of trading approaches in New Zealand

Case Study 1 – The New Zealand Emissions Trading Scheme (NZ ETS)

The New Zealand Emissions Trading Scheme is an internationally linked scheme where emission units – sometimes called 'carbon credits' – are traded between participants in the scheme. It has been designed to support efforts to reduce greenhouse gas emissions while maintaining economic productivity.

Under the NZ ETS, all sectors except agriculture have or will have obligations to surrender emission units to match their emissions by the end of 2013. From 2015, processors of agricultural product will have to surrender emissions units to cover their GHG obligations.

All participants may buy emission units from the Government for a fixed price of \$25 or from domestic and international carbon markets at market prices. The Government also provides some sectors with free allocations of emission units to mitigate the risk of businesses losing international competitiveness.

Participants are required to:

- Monitor, record and report activities that produce or remove greenhouse gas emissions
- Surrender to the Government emission units to cover emissions associated with their activities each year.

Secondary market traders, such as brokers, can also hold and trade emission units, but do not have to monitor and report emissions and are not required to surrender emission units. They can hold and trade emission units to take advantage of opportunities in the financial market.¹

Case Study 2 – Waikato Regional Council Lake Taupō nitrogen trading scheme

The Waikato Regional Plan Variation 5 (RPV5) was publicly notified in mid-2005, comprising a long term water quality objective - 20 per cent of manageable nitrogen load currently being leached from land use to be permanently removed so it does not enter Lake Taupō.

This objective was to be achieved through rules to cap non-point sources of nitrogen at a property level, and a public fund to permanently remove nitrogen from pastoral properties. Allowance was made in the rules for landowners to trade nitrogen with each other.

Farming activities are allowed but require resource consent as a controlled activity.

The nitrogen cap for a property is termed the nitrogen discharge allowance. Each farm has a resource consent that lists the nitrogen discharge allowance for that property. If the farmer changes their farm system they need to show that the new scenario complies with their nitrogen cap. This also occurs if the farmer decides to buy or sell some of their units of

¹ <http://www.climatechange.govt.nz/emissions-trading-scheme/about/questions-and-answers.html> - downloaded on 30 July 2013

nitrogen. The altered nitrogen plan must comply with the farmers new nitrogen discharge allowance once the trade has been completed.

Farmers facing high nitrogen reduction costs in terms of output and profits may choose to buy nitrogen allowances from another farmer, and vice versa. Additionally the Lake Taupō market has another common buyer of allowances, the Lake Taupō Protection Trust (LTPT), a public fund jointly financed by national, regional and district government and charged with accomplishing the mandated 20% permanent reduction in nitrogen losses. In addition to purchasing and converting land, LTPT purchases and permanently retires allowances available for sale, thus indirectly helping farmers gain a benefit from their nitrogen-reducing management changes.

RPV5 does not explicitly outline the infrastructure of the nitrogen trading market. The Waikato Regional Council has established certain guidelines to enable trading to take place. An online guide for farmers outlines how the trading process should take place and what conditions would help a farmer gain from trade (Environment Waikato, 2009).

Nitrogen trading and leasing has been active in the catchment. Most trading has occurred between landowners and the Lake Taupō Protection Trust resulting in the permanent removal of nitrogen from the catchment (131 T). These deals have often included a plantation forestry component such that 5,800 ha of land in the catchment has been retired into production forestry since 2007.

In addition to the nitrogen trading that has occurred through agreements with LTPT, 17,000 kg of nitrogen has been purchased from seven farming operations by one dairy farming entity operating in the catchment.

The overall compliance strategy for the Taupō Catchment includes monitoring all consented farms and monitoring the high risk permitted activity farms in year 1. This is to ensure all landowners understand the requirements of their resource consents and the regulations. After this time, the monitoring programme for the catchment is likely to follow general annual plan compliance monitoring requirements (100% of Priority 1 sites, 75% of Priority 2 sites and 25% of Priority 3 sites are monitored annually).

Case Study 3 – Bay of Plenty Regional Council Rule 11 Trading Scheme

Rule 11 of the Regional Water and Land Plan requires that a nutrient benchmark level will be set for all properties in five lakes catchments² that fall under set criteria of being not reticulated, not a small rural property with low nitrogen losses.

A resource consent is required when a land use change or land management practice increases the average export of nitrogen or phosphorus from the property above its nutrient benchmark, and no nutrient management options are available on that property.

Resource consent applicants must identify what nutrient management measures will be used to fully offset the proposed increase within the same lake catchment.

² The catchments of lakes Rotorua, Rotoiti, Rotoehu, Ōkaro and Ōkāreka

Where a resource consent applicant wishes to use nutrient management measures on land within the same lake catchment (i.e. on land owned by another person), consent conditions will ensure agreements with other parties are implemented.

Where a landowner has multiple properties within the same lake catchment they may be jointly managed within a resource consent. This would allow a landowner to increase production on one property and apply offset measures on their other property.

Where there is a land use change or land management practice that increases the average export of nitrogen or phosphorus from the property, AND the resource consent applicant has not identified measures to fully offset the increase in nitrogen or phosphorus, Bay of Plenty Regional Council may decline the resource consent application. Consents may be granted if other nutrient mitigation measures are available in the same lake catchment, for example engineering or lake treatment options, or land retirement. Financial contributions are required as part of a consent to pay for such measures.