

Annex 2

Ministerial direction to the Registrar of the New Zealand Emission Unit Register: Issuance of New Zealand units into the Crown holding account in the New Zealand Emissions Unit Register

Having consulted the Minister of Finance and having had regard to all the relevant matters pursuant to section 68 of the Climate Change Response Act 2002, I direct the Registrar of the New Zealand Emission Unit Register to issue 86 million New Zealand units into the Crown holding account in the New Zealand Emission Unit Registry on 1 July 2010.

I direct the Registrar to identify and 'tag' 17 million New Zealand Units as non-exportable, and 'tag' 69 million New Zealand Units as suitable for conversion and exportable.

Dated at Wellington this 27th day of May 2010



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Hon Dr Nick Smith
Minister for Climate Change Issues

Annex 3

Ministerial Statement to accompany Direction to the Registrar of the New Zealand Emission Unit Register

In making the above direction to the Registrar I have consulted with the Minister of Finance and I have had regard to the following matters specified in section 68 of the Climate Change Response Act 2002:

Section 68(2)(b)(i) *The number of units that New Zealand has received, or that the Minister expects New Zealand to receive, under any international agreement*

New Zealand has received 309,564,733 Assigned Amount Units (AAUs) under the Kyoto Protocol. New Zealand has elected to receive removal units for net increases in forest sinks (RMUs) at the end of commitment period one (CP1). It is estimated New Zealand will receive 79.9 million RMUs.

Section 68(2)(b)(ii) *New Zealand's international obligations, including any obligation to retire units equal to the number of tonnes of emissions that are emitted in New Zealand*

Under the United Nations Framework Convention on Climate Change, New Zealand has a commitment to adopt policies and measures to mitigate climate change.

New Zealand also has obligations under the Convention's Kyoto Protocol, whereby it must retire sufficient Kyoto units to cover its total emissions during CP1 or face non-compliance consequences. The most recent Net Position Report (published in April 2010) projected New Zealand's total emissions of greenhouse gases for the first commitment period to be 370.9 million tonnes of CO₂-e. New Zealand has received 309,564,733 AAUs and expects to receive 79.9 million RMUs.

In other words, New Zealand is currently projected to have more units than emissions. The current projected surplus is 11.4 Mt CO₂-e although this will be updated in May 2010. A provision for the Kyoto liability is reported in the Financial Statements of the Crown.

Section 68(2)(b)(iii) *The proper functioning of the greenhouse gas emissions trading scheme established under this Act*

The proper functioning of the NZ ETS requires the issuance of sufficient NZUs to meet entitlements of post-1989 forestry participants; any entitlements under an allocation plan; and any auctions of NZUs the Crown undertakes.

Officials estimate that in CP1, 60 million NZUs will be allocated to post-1989 forest land owners (based on the mid range projection of 67 percent uptake); 17 million NZUs will be issued to pre-1990 forest land owners; 11 million NZUs will be issued to emissions intensive, trade exposed industry; 700,000 NZUs will be allocated to the fishing sector; 4 million will be issued to those carrying out removal activities, or other non-forestry related activities; and 1 million units will be granted to parties to meet the Crown's obligations under the two Negotiated Greenhouse Gas Agreements.

Officials will monitor the balance of units closely to ensure a further issuance, or cancellation of units in 2012 can occur to maintain the proper functioning of the NZ ETS.

Section 68(2)(b)(iv) *Any other matters that the Minister considers relevant*

Under section 86F of the Climate Change Response Act, by the end of the true-up period under the Kyoto Protocol (which will be in 2015 for CP1), the Crown holds a number of Kyoto units equal to the number of NZUs issued into a Crown holding account during CP1, subject to specified exemptions. The projected net flow of units to the Government under the scheme is such that obligation to back issued NZUs with Kyoto units means the Crown will have a deficit of approximately 30 million units.

In addition, careful monitoring of the Commitment Period Reserve between now and 2012, and the Crown's position in 2012 to ensure that the governments obligations are met at least cost is required.