

### **EMISSIONS TRADING SCHEME\***

With much fanfare the New Zealand Government has confirmed that an emissions trading scheme, as opposed to the previously proposed carbon tax, will be its central platform for implementing New Zealand's commitments under the Kyoto Protocol and more generally reducing New Zealand's greenhouse gas emissions. It is proposed that the scheme will be phased in from 1 January 2008, beginning with the forestry industry, and including all other sectors over a five-year period, with stationary energy (including coal, natural gas and geothermal) coming on line in 2010.

Much like the European model, the emissions trading scheme will be a 'cap and trade' scheme whereby the amount of greenhouse gases that can be emitted will be capped and those going over the cap will be required to either reduce their emissions or buy 'carbon credits'. The idea is that by putting a price on greenhouse gas emissions, producers, consumers and investors will be influenced to reduce emissions and invest in environmentally friendly alternatives.

The scheme will apply to all parts of the economy that emit greenhouse gases (namely, carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride), including electricity generation, transport, industrial processes, forestry, agriculture and waste. There will be a range of exceptions, principally relating to those activities that involve minimal emissions, but precise details have yet to emerge.

In conjunction with the emissions trading scheme, the Government has also announced a variety of other initiatives aimed at reducing New Zealand's greenhouse gas emissions. These include goals to increase renewable electricity generation and to implement measures to encourage forestry and environmentally friendly land use and generally help New Zealand progress towards a 'more sustainable nation'.

Draft legislation is expected within weeks to introduce the scheme and ensure that the obligations under it can be effectively enforced. The two main parties have indicated that they generally support the framework.

It will be vitally important for all interested and affected parties to ensure that their views are conveyed in the lead up to, and during the forthcoming legislative process. At the same time, adjustments will need to start being made to some operations to ensure alignment with the proposed scheme.

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