



Regulatory Analysis Summary: 2026 Emissions Trading Scheme limits and price control settings for units

Decision sought	<i>Minister of Climate Change approval for the 2026 annual update to Emissions Trading Scheme limits and price control settings for units</i>	
Agency responsible	<i>Ministry for Cities, Environment, Regions and Transport</i>	
Portfolio Minister(s)	<i>Hon. Simon Watts, Minister of Climate Change</i>	
Date finalised	<i>3 August 2026</i>	
Ministry for Regulation ID number	REG-2290	

Brief description of the Minister's regulatory proposal (preferred option)

The Minister of Climate Change (the Minister) proposes to amend the limits and price control settings for units in the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 as part of the annual review of New Zealand Emissions Trading Scheme (ETS) settings required under the Climate Change Response Act 2002 (the Act).

The preferred option is to maintain status quo auction volumes between 2027-30 and set new 2031 auction volumes, for a total of 12.8 million New Zealand units (NZUs or units) between 2027-31. The preferred option maintains status quo price controls, adjusted for inflation.

Summary of the problem definition

The Act requires the overall ETS unit limits, including the number of units auctioned by the Government, and the price controls at which those units will be sold, to be updated annually and for the next five-year rolling window. This is known as 'ETS settings'.

ETS settings need to be regularly reviewed to ensure they continue to assist New Zealand in meeting its emissions budgets and 2050 emissions reduction target. ETS settings are legally required under Section 30GC of the Act to accord (ie, align) with New Zealand's 2050 emissions reduction target and emissions budgets which are 'stepping stones' to meeting the 2050 target.

Summary of options considered for addressing the problem

When assessing ETS settings against the accordance requirements, options need be considered as packages composed of choices for unit limits and price control settings. All packages considered must meet the accordance requirements.

Consistent with the accordance requirements, we have considered three options for unit limits:

- Option one (14.7 million units) is the Climate Change Commission's (the Commission) recommended unit limits. This maintains status quo settings between 2027-30 and sets higher volumes (3 million units) for 2031, compared with Option 2.
- Option two (12.8 million units) which maintains status quo unit limits between 2027-30 and auctions 1.1 million units in 2031.

- Option three (7.5 million units) is a lower auction volumes option. It reduces auction volumes relative to the status quo across 2027-30 and auctions 0.7m units in 2031.

All options propose extending status quo price controls to 2031, with adjustments for inflation.

Key secondary policy decisions and judgements that inform the options above include:

- the estimate used for the 'surplus' stockpile
- the ETS 'cap' for the second and third emissions budgets.

All options are assessed as similarly incentivising emissions reductions to meet New Zealand's emissions budgets and targets. However, Option three increases the risk of undersupply, potentially impacting the proper functioning of the market, compared with Options one and two. We view Option two as best supporting budget and target accordance as it takes a more conservative approach to meeting the third emissions budget (EB3), compared with Option one.

The Minister's preferred option is Option two.

Is the Minister's preferred option the same as the preferred option in the RAS?

Yes

Summary of the main benefits of the Minister's preferred option

The Minister's preferred option maintains status quo ETS settings for the four years where volumes have been set previously and there is no baseline to compare the new 2031 settings to. As such, there are no additional quantifiable costs and benefits compared with the status quo.

Benefits over 2027-31 of the preferred option (Option two) relative to Options one and three (see above) include:

- Emissions: Similar emissions reductions outcomes under all options – the second emissions budget (EB2) is projected to be met; however, projections show that there remains a material gap to meeting EB3.
- Fiscal impacts: ~\$1 billion in cash receipts over 2027-31 under Option one, compared to ~1.2 billion under Option one and ~\$0.6 billion under Option three (if all auctions clear at the auction floor price).

Summary of the main costs of the Minister's preferred option

As above, there are no additional quantifiable costs compared with the status quo.

Relative to Option three and Option one, costs over 2027-31 include:

- Household costs:
 - Preferred option and Option one: ETS cost to an average household is estimated to increase from about \$450 annually in 2026 (0.3% of gross household income) to about \$650 in 2030 (0.5% of gross household income)¹.
 - Option three: ETS cost to an average household is estimated to increase from about \$450 annually in 2026 (0.3% of gross household income) to about \$890 in 2030 (0.7% of gross household income).
- Inflation: all options add ~0.1 percent per year to inflation.

Does the RAS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

The Minister's preferred option matches the status quo between 2027-30 and only sets new volumes and price controls for 2031 where there were previously no settings. As such, we have not assessed any additional quantifiable costs compared to the status quo.

¹ 2030 is chosen as the reference year as the modelled ETS price peaks under all options in this year, representing the highest household cost impacts across the ETS settings period.

There are benefits to maintaining status quo ETS settings in the first four years as it provides stability to the ETS market. This supports market confidence to invest in the emissions reductions required to meet our emissions budgets and targets.

Have any potential inconsistencies with the principles of responsible regulation in the Regulatory Standards Act been identified in relation to the Minister's preferred option?

No

Limitations and constraints on analysis

Condensed timeframes	No	Constrained option set	No
Legislative constraints	No	Data and evidence gaps	Yes
Ministerial direction	No	Other	No
Limited public consultation	No		

Summary of limitations and constraints on analysis

The analysis used to inform ETS settings decisions incorporate the most up-to-date information available to inform calculations and key assumptions. Forecasting and modelling are inherently uncertain, and the ETS settings analysis is considered alongside a broader range of evidence when informing final decisions. There are key uncertainties within the analysis, generally driven by limited empirical evidence and include the size of the surplus, the timing of forestry units entering the market, and stockpile liquidity. These uncertainties are typically addressed with sensitivity testing and the use of wider ranges to reflect the limitations of the modelling.

What are the implications of these limitations and constraints, and what has been done – or will be done – to mitigate and manage them?

There is a risk that the estimates and assumptions behind them are inaccurate. As with any modelling, this risk cannot be completely eliminated. ETS settings are reviewed regularly to ensure the most up to date information is used to mitigate this risk as much as possible.

I am satisfied that, given the available evidence, this RAS represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature:



James Coombes
Manager, ETS settings
03/08/2026

Quality Assurance Statement

Reviewing agency: Ministry for Cities, Environment, Regions and Transport

QA rating: Meets

Panel Comment:

A quality assurance panel with members from the Ministry of Cities, Environment, Regions and Transport has reviewed the RAS. The panel considers that it meets the Quality Assurance criteria for the purpose of informing Cabinet/Ministers decisions.

Section 1: Diagnosing the policy problem

1. The Emissions Trading Scheme (ETS) is the Government's primary tool for reducing emissions. Participants must surrender one New Zealand Unit (NZU) for every tonne of emissions they are liable for.
2. The Government mainly introduces NZUs into the market through quarterly auctions. Auction unit limits and price controls are set in regulations and must be reviewed annually to ensure they align with emissions budgets and targets. Each review updates the next four years of ETS settings and adds a fifth year (2031 in this review).
3. ETS settings affect the supply and price of NZUs, influencing carbon prices and wider economic outcomes, such as fuel costs. They also signal the Government's commitment to meeting emissions budgets and targets.

In 2025, the Government continued status quo settings for the first four years and set new 2030 volumes

4. Last year, the Government retained existing ETS price controls and unit volumes for 2026–29 and set new 2030 volumes, using updated data and assumptions. This reflected market signals indicating a well-supplied market, including prices below the auction price floor and auctions not clearing. The Government also chose lower volumes than those implied by a strict application of the analytical approach and central surplus estimate, highlighting the need to consider market conditions alongside modelling results.

The core objective of this annual process is to ensure ETS settings remain in accordance with emissions budgets and the 2050 target (target)

5. This year's ETS settings cover the Second Emissions Budget (EB2) and extend into the first year of the Third Emissions Budget (EB3). 2025 official projections indicate a material shortfall of 9–19 Mt CO₂e against EB3 (8.7Mt CO₂-e based on central assumptions). A key consideration in this RAS is ensuring the ETS contributes as much as possible to closing the gap, while recognising that additional policy measures will also be required. This issue is referenced throughout the RAS and examined in detail in a separate accordance assessment.
6. Within the review process are two key factors that have significant impacts on auction volumes and price controls. Decisions on these are considered 'secondary policy decisions', discussed further in this RAS, and include:
 - The surplus stockpile estimate: A large quantity of NZUs are banked in private accounts. Some of the banked NZUs are held to meet future surrender liabilities, or for other reasons, known as the non-surplus stockpile. Others are held as investments and may be sold when price expectations change. These surplus units pose a risk to meeting emissions reduction targets because emitters can surrender them instead of reducing emissions, limiting the Government's ability to achieve a particular emissions budget. In 2024 and 2025, auction volumes were set to reduce the surplus stockpile to zero by 2030. This approach continues in 2026. Uncertainty in the surplus estimate is explained later in this RAS.
 - The ETS 'cap': total level of net emissions allowed under the ETS for the settings period. This is determined based on emissions budgets and accounts for emissions outside the ETS (primarily agriculture).

The market appears to be signalling it is well supplied in the short-term

7. Following Government announcements in November 2025 of proposed changes to the Act, NZU prices fell significantly and became volatile. Market commentators linked this to reduced confidence in climate policy settings, particularly changes to the 2050 biogenic methane target, the decision not to price agricultural emissions, and the removal of the requirement for ETS settings to align with New Zealand's nationally determined contributions. Although prices have since recovered somewhat, they remain below the auction price floor.
8. The current gap between NZU price and the auction price floor, and the fact that no 2025 ETS auctions, or 2026 auctions to date, have cleared, suggests that the market remains well supplied in the short-term. That is, there are sufficient units available from the secondary market and stockpile to meet demand, without government auctioned units.

The Climate Change Commission (Commission) is legally required to give annual advice on ETS unit settings

9. The Minister of Climate Change (Minister) must consider the Commission's advice when recommending updates to settings. Its major recommendations this year are to:
 - extend current price control settings to 2031, with inflation adjustments from 2029
 - maintain the current auction volumes through to 2030, and set 2031 auction volumes on the basis that the surplus of units in the market has been depleted by then
10. The Commission advised that, while auction volumes could be increased to align with emissions budgets, doing so in a period of low market confidence could further weaken market sentiment. It also highlighted the risk of an NZU undersupply later in the 2020s, which could lead to sharp and volatile price increases. If this occurred, emissions reductions could be driven by plant closures and reduced production rather than investment in lower-emissions technologies. This risk is considered further in this RAS.

What is the policy problem?

11. The Climate Change Response Act 2002 (the Act) requires the overall New Zealand ETS unit limits, including the number of New Zealand units (NZUs or units) auctioned by the Government, and the price controls at which those units will be sold, to be updated annually and for the next five-year rolling window. This is known as 'ETS settings'.
12. ETS settings need to be regularly reviewed to ensure they continue to assist New Zealand in meeting its emissions budgets and 2050 emissions reduction target. The Government must set ETS settings that accord with emissions reduction targets, while balancing the impacts of emissions pricing on businesses and New Zealanders more generally. It must also support a transparent, durable and proper functioning ETS market.

What objectives are sought in relation to the policy problem?

There is a legal requirement for ETS settings to accord with emissions budgets and targets. The primary objective is to ensure this legal requirement is met. There are also secondary considerations which need to be balanced against this primary objective.

Objective one: Accordance with emissions reduction targets

13. The primary objective is prescribed by the Act, which requires that unit settings must accord with New Zealand's:
 - 2050 target, which is:

- net zero of all greenhouse gas emissions other than biogenic methane by 2050
 - 14 to 24 per cent reduction below 2017 biogenic methane emissions by 2050, and 10 per cent reduction below 2017 biogenic methane emissions by 2030.
 - emissions budgets, which are ‘stepping stones’ along the path to the 2050 target
14. ETS settings must strictly accord with New Zealand’s 2050 target, meaning there is a very high probability that settings constrain ETS-covered emissions to levels necessary to remain within their allocation of the target. ETS settings do not have to strictly accord with emissions budgets if the discrepancy is justified after considering matters prescribed in the Act. If deviating from strict accordance, the settings must still accord, meaning there is a good probability that ETS settings play their role in meeting emissions budgets. We refer to this as the ‘accordance test’.

Objective two: Proper functioning of the ETS

15. There are two major concepts that support the proper functioning of the ETS and are essential for the ETS to play its role in meeting emissions reduction targets:
- Transparent and durable decision making: Support investment confidence by taking a consistent approach to new information and clearly explaining decisions.
 - Ability for participants to meet ETS obligations: Participants can obtain and surrender the necessary NZUs, reducing price volatility and uncertainty.

Objective three: Price control settings that support NZU prices consistent with the level and trajectory of international emissions prices

16. International emissions prices provide a way of comparing New Zealand’s contribution with that of other countries in the global effort towards addressing climate change, notwithstanding fundamental differences between individual emissions pricing schemes. Price controls should support New Zealand to align with the level/trajectory of international prices to ensure New Zealand is appropriately contributing to the global effort towards addressing climate change.

Objective four: Price control settings that manage overall costs to the economy and households

17. The ETS impacts the economy and household costs. Price controls should manage these impacts.

What external consultation has been undertaken?

18. Consultation on ETS settings ran from 12 June to 12 July 2026. Consultation was in the form of a public consultation document and online webinars. In total, 27 unique submissions were received. Feedback from consultation is referred to throughout this RAS.
19. Feedback was primarily from businesses, such as foresters (10 submitters), as well as academics (4), industry bodies (4), non-government organisations (4). Representatives from local government, iwi/hapū and individuals also submitted

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options with the status quo?

20. The criteria used to assess the options align with each of the objectives described above. They also broadly align with the main matters the Minister must consider as part of ETS settings in section 30GC of the Act.

21. The first two criteria, ‘likelihood of incentivising net emissions reductions’ and the ‘proper functioning of the ETS’, apply to unit limit and price control settings. The third ‘support for NZU prices consistent with the level and trajectory of international emissions prices’ and fourth ‘management of overall costs to the economy and households’ criteria apply to price control settings only. We have put more weighting on the criterion ‘likelihood of incentivising net emissions reductions’ as it relates most closely with the primary objective.

Relationship between the criteria

22. A key judgement for ETS settings is ensuring the likelihood of incentivising net emissions is balanced with the proper functioning of the market. Constraining market supply may increase the likelihood of incentivising emissions reductions, but increases the risk of unit shortages. However, market confidence also depends on participants expecting unit supply to be sufficiently constrained to support emissions budgets and targets while remaining adequate for market needs.
23. Options that strengthen emissions reduction incentives are also more likely to increase NZU prices, with corresponding impacts on economic activity and household costs.

What scope will options be considered within?

Auction volume options scope

24. Auction volumes limit the number of units available at auction. The limits for units that are prescribed in regulations are:
- a limit on the units available by auction: base auction volumes + volume available within the cost containment reserve
 - a limit on approved overseas units
 - an overall limit on units: which consists of units available by auction and by other means, as well as approved overseas units.

Price control settings scope

25. Auction price controls are a tool for the Government to manage the supply of units at auction. Auction price controls include:
- auction price floor (price floor): The price below which the Government will not sell units at auction. Set annually in regulations, it reduces the risk of auction prices falling below levels consistent with emissions targets. While it forms the lower bound of the auction price corridor, it is not binding as secondary market prices can fall below it
 - cost containment reserve (CCR) trigger price(s): the price(s) at which additional units will be released if an auction’s interim clearing price reaches or exceeds this level
 - CCR volume(s): the number of units that will be released if the trigger price is reached.
26. The CCR limits the risk of excessively high ETS prices due to shocks or unforeseen events by releasing reserve units when trigger prices are reached. Its volume must be sufficient to mitigate high prices and trigger levels must be set high enough to avoid undermining emissions reduction goals.

Deregulation has been considered as out of scope of this proposal

27. Setting ETS unit limits and price controls forms part of a broader regulatory framework. Deregulation requires legislative change, as the Minister is required to review ETS settings for the next four years and set values for a fifth year. Such changes are outside the scope of

this proposal and would be inconsistent with the Government's Second Emissions Reduction Plan (ERP2) commitment to provide regulatory predictability through the ETS.

Only options that accord with emissions budgets and targets are considered in scope

28. Accordance with emissions budgets and targets is the key parameter of ETS settings options (more detail is provided in the objectives section above). When assessing ETS settings against the accordance requirements, options need be considered as packages, including unit limits and price control settings to understand the combined impact on emissions. All packages considered should meet the accordance requirements.

The scope is also driven by the analytical models used to develop the options

29. **The analytical approach:** estimates the maximum number of units that could be auctioned while meeting our emissions reduction targets. The approach includes a series of steps, consisting of assumptions about, or estimates of, current circumstances and other sources of units (see appendix 1 of the [2026 ETS settings consultation document](#) for more detail). The two factors that have the largest impact on auction volume options are the ETS 'cap' and surplus stockpile, detailed in the following section. Other factors that are estimated include forecast forestry emissions and removals and industrial allocation volumes.

30. **ETS market model:** estimates supply and demand for NZUs under different conditions and can generate price projections based on supply and demand. It determines demand for NZUs in response to the projected price and allows for a broader spectrum of liquidity across units in the stockpile (see the [Technical Annex of the 2026 ETS settings consultation document](#) for more detail). The market model explores potential implications of different unit and price control settings options, informing our judgements on undersupply risk and underpinning the impact analysis.

31. We use both the analytical approach and the market model to inform our settings options as they each provide different insights into the ETS.

The Minister of Climate Change must consider the recommendations from the Climate Change Commission

32. Section 30GC of the Act requires the Minister of Climate Change to consider the Commission's recommendations on ETS settings. The Commission's advice is a mandatory consideration, but the Minister is not required to adopt it and may depart from the advice where satisfied that the statutory requirements of the Act are met.

What options are being considered?

33. We consider options as packages of auction volumes and price control settings to assess overall impacts and accordance with emissions reduction targets. All options are assessed as strictly according with EB2 and the 2050 target and generally according with EB3. The deviation from strict accordance with EB3 is justified based on consideration of relevant matters under section 30GC of the Act, including the proper functioning of the ETS. The separate accordance assessment provides further details on this.

Price controls

One price controls settings option has been presented – status quo, adjusted for inflation

34. We are presenting one price controls option, which is to maintain the status quo (adjusted for inflation) for consideration alongside the auction volume options. We consider the status quo price floor, and CCR trigger price settings are fit-for-purpose.

35. The Commission advises that prices at or above the current auction price floor are needed to meet emissions budgets. It recommends extending the price floor by one year,

continuing the 3% annual increase and adjusting for inflation. As with last year, it has advised maintaining current CCR trigger prices (adjusted for inflation) and volumes until it is clearer whether current trigger prices are too low to allow the NZU prices needed to meet EB3. We agree with the Commission's findings.

Table 1: Proposed price control settings for the next five years, 2027-31

	2027	2028	2029	2030	2031 (new)
Auction price floor	\$75	\$78	\$84	\$89	\$93
CCR tier 1	\$213	\$224	\$241	\$253	\$266
CCR tier 2	\$267	\$280	\$301	\$316	\$332
Tier 1 volume (million NZUs)*	2.1	1.9	1.7	1.4	1.2
Tier 2 volume (million NZUs)*	3.8	3.4	3.0	2.5	2.3
Total CCR volume (million NZUs)*	5.9	5.3	4.7	3.9	3.5

*If, under option two or three, the Government chose to shift the 2027 volumes to later years, Tier 1, Tier 2 and total CCR volumes for 2027 would be 0.

Consultation feedback on price control settings

1. Of submitters who referenced price controls, the majority supported the proposed price controls and agreed with the Government's rationale.

Auction volumes

2. We considered three auction volumes options, alongside status quo price controls (as above). Table 2 below sets out annual auction volumes for each option.

Option one – Commission-recommended – status quo volumes 2027-30 and 3 million units in new 2031 year (14.7 million units)

3. Option one maintains status quo auction volumes for 2027-30 of 11.7 million units. This recommendation is based on the surplus stockpile being depleted by 2030 and balances managing the risk of undersupply with supporting market confidence.
4. 2031 auction volumes (3 million units) are based on a provisional ETS cap for EB3 of 28.9 Mt CO₂e.

Option two – Government preferred (Minister and agency) – status quo volumes 2027-30 and 1.1 million units in new 2031 year (12.8 million units)

5. Option two maintains status quo auction volumes for 2027-30 of 11.7 million units. This reflects a balance between continuing to strengthen our position to meet EB2 and managing the risk of undersupply later in the EB2 period (further discussed in paras. 46-49).
6. 2031 auction volumes (1.1 million units) are set based on a provisional ETS cap for EB3 of 24.8 Mt CO₂e. This is the key difference with Option one.
7. Note some minor and technical updates to volumes have been made since consultation. These are set out in detail in appendix 1.

Option three – Lower volumes (7.5 million units)

8. Option three auctions 7.5 million units over 2027-31 and includes new auction volumes for each year. This option uses the same ETS caps as Option 1, however, reflects a larger stockpile drawdown, based on our maximum surplus stockpile estimate of 48.4m NZUs.
9. This option is designed to strengthen the likelihood of achieving EB2 and EB3 – but by restricting auction volumes further could increase the risk of undersupply.

Table 2: Auction volume options

Option	Year					
	2027	2028	2029	2030	2031	2027–31
Option one: Commission-recommended auction volumes	4.3	3.3	2.4	1.7	3.0	14.7
Option two: Government-recommended auction volumes	4.3	3.3	2.4	1.7	1.1	12.8
Option three: Lower auction volumes	2.2	1.8	1.5	1.3	0.7	7.5

We considered but did not proceed with one further auction volume option

10. We considered a higher volumes option of 21.4 million units across 2027-31, based on drawing down the central estimate of the surplus stockpile. However, increasing auction volumes may signal weakened climate ambition, posing risks to the proper functioning of the market through price volatility and reduced confidence. This risk is heightened following the sharp NZU price decline and volatility after the November 2025 CCRA announcements. For these reasons, we did not proceed with this option.

Risk of undersupply in the later 2020s under the options

11. The Commission has advised of a potential undersupply of units in the later 2020s, which could lead to price volatility and emissions reductions through plant closures or reduced production. This is a key factor when considering the proper functioning of the market criterion. The Government accepts that this risk exists under some assumptions; in particular, the assumption of low liquidity in the stockpile.
12. At a high level, the Government views the undersupply risk as manageable under all the options in this RAS, primarily because we think there is some liquidity in the non-surplus stockpile. In addition, that there is sufficient time to respond if undersupply does eventuate. That is, in a scenario where signs of undersupply (such as rapid price increases) were present, some participants would choose to use or sell banked units held against future liabilities. This is on the assumption they can be bought back at a lower price later. Despite this, there are differences in the level of risk under each option.
13. Both the Government and Commission agree that this risk is conditional on future market developments and that the Government should continue to monitor this risk.
14. Submitters who referenced undersupply either thought it is unlikely (6) or uncertain (3).

Consultation feedback on auction volume options

15. Of the submitters who referenced auction volumes, 1 supported option one, 7 supported option two and 9 supported option three. Key rationale included:
- **Option one:** Supports regulatory continuity and value in following independent advice. Submitters cited similar reasons as option two for not supporting this option.
 - **Option two:** Supports market stability and investor confidence, continues to reduce the risk to meeting emissions budgets and targets by drawing down the surplus stockpile and is a balanced response to undersupply risk, given the uncertainties in modelling. Some submitters thought this option prioritises market stability too heavily compared to incentivising emissions reductions.
 - Support for this option tended to be from businesses, including foresters and financial services and industry bodies.

- **Option three:** Supports a stronger climate change response, including signalling to the economy that further emissions reductions are required compared to the status quo. There were mixed views about the risk of undersupply under this option, some believed it is manageable while others thought this option increased the risk.
 - Support for this option was more mixed and tended to be from non-government organisations, businesses and industry bodies.

There is a choice about the timing of auction volume for each option

16. The Government can choose, within some parameters, how it phases auction volume across the period.² Recent market signals suggest the market is well supplied and does not require auction volumes in the short term. At the same time, several market commentators and the Commission note potential undersupply in the late 2020s. To address both concerns, one option would be to shift proposed 2027 auction volumes into 2028–30 (the remaining years of EB2) when they are more likely to be needed.
17. Of submitters who commented on shifting 2027 volumes into the later 2020s, 4 supported the proposal and 6 opposed it. Supporters' key rationale was that it acknowledges that the market is well supplied in the short-term, there may be a need for volumes in the later 2020s and it sends a signal to the market of diminishing supply.
18. Opponents were concerned it could undermine market stability. We agree. In our view, the price floor provides a mechanism to withhold units when they are not needed. We also consider that this approach could be interpreted as increased appetite for Government market intervention, reducing market certainty and predictability.

Secondary policy decisions

19. Within the analytical approach are two key factors that have significant impacts on auction volumes and price controls which we consider 'secondary' policy decisions.

Estimating the surplus stockpile range and deciding on the drawdown

20. A large quantity of units – around 136 million as at December 2025 – is banked in private accounts. These provide liquidity to the market and help to reduce price volatility. Surplus units are considered to be held for investment purposes and can be readily sold when market price expectations change. Emitters could use surplus units to emit more greenhouse gases than would otherwise be permitted under the ETS cap. This could cause challenges in meeting emissions budgets. To manage this risk, the Government is aiming to reduce the surplus to zero by 2030.
21. The surplus estimate has a significant impact on auction volumes as it is part of overall market supply and a higher surplus estimate means fewer units able to be auctioned by the government. In addition, a higher surplus estimate also increases the likelihood of incentivising emissions reductions and meeting emissions budgets and targets.
22. The surplus is estimated by starting with the total stockpile as of 31 December 2025 and subtracting components of the stockpile that are considered 'non-surplus'. These include units held for hedging purposes, held against future surrender liabilities and units held for emissions that have already occurred (holding volume). There are uncertainties in each of these non-surplus components as estimates are based on modelled values and assumptions as opposed to known data. The estimates include assumptions about the

² Sections 30GB(5) and 30GC(5)(b) of the CCRA only allows years 1 and 2 to be changed in certain circumstances. We consider that changes to the years 1 and 2 could be justified based on the recent price volatility impacting on the proper functioning of the ETS.

behaviour of many different market participants which is inherently unobservable. This makes the surplus itself uncertain.

23. Until last year, the central estimate of the surplus (the estimate the Government thinks is most likely) was a key factor in determining auction volumes. The decision in 2025 to retain the then status quo auction volumes for 2026-29 implied a larger drawdown of the surplus than the central estimate. This year, we explicitly use a range of plausible surplus estimates, resulting in a range of plausible auction volumes (see Table 3). This reflects the uncertainty in the surplus stockpile.
24. Table 4 explainer: the surplus range is between 16.7 to 48.4 NZUs (see row 2). The surplus drawdown is how many units are expected to be surrendered from the surplus, which has also been presented as a percentage of the total range (see row 3). Auction volumes are then determined based on the surplus drawdown (see row 4).

Table 3: Range of surplus estimates and resulting auction volumes

Surplus estimate	Low (not considered)	Central (not considered)	Implied SQ (Option two)	High (Option three)
Surplus drawdown	16.7 NZUs	34.1 NZUs	42.1 NZUs	48.4 NZUs
% of total range	0%	55%	80%	100%
Auction volumes	n/a	21.4 NZUs	12.8 NZUs	7.5 NZUs

Note: Option one is excluded above as it is based on the Climate Change Commission's estimate of the surplus. More information on this can be found [here](#).

Setting the Second Emissions Budget ETS cap and provisional Third Emissions budget cap

25. As part of ETS settings decisions, the Government also sets an 'ETS cap' for each emissions budget period. The 'ETS cap' is the total level of net emissions allowed under the ETS for the settings period, aligned with our emissions budgets and accounting for emissions in non-ETS sectors. It informs both auction volumes and price controls.
26. As part of the 2025 ETS settings decisions, the Government agreed an EB2 cap of 89.4 Mt CO₂e based on ERP2 projections. Updated 2025 projections show higher net emissions outside the ETS and lower net emissions within the ETS over the EB2 period. To strengthen alignment with meeting EB2, we propose reducing the cap to 81.9 Mt CO₂e, consistent with the Commission's Option one approach.
27. As part of 2025 ETS settings decisions, the Government agreed a provisional EB3 cap of 40.7 Mt CO₂e. As with EB2 emissions, 2025 projections showed higher net emissions outside the ETS and lower net emissions within the ETS during the EB3 period when compared with ERP2 projections. Reflecting updated projections and to ensure budget alignment within the analytical approach, we propose a provisional EB3 cap of 24.8 Mt CO₂e, used in options two and three.
28. This figure is based on the 'with existing measures' (WEM) agricultural projections (including estimated impacts from the ERP2 afforestation on Crown land policy) and 'with additional measures' (WAM) projections for other non-ETS sectors. This differs from Option one, which uses the 'with added measures' agriculture scenario B (WAM B), based on its presentation as the central projection in the amended ERP2. This is a key reason for the difference in auction volumes in 2031 between Options one and two.

How do the options compare?

This table compares Options one and three with the preferred option. A status quo baseline is not available because the regulations do not currently specify settings for the fifth ETS settings year (2031). However, legislative requirements mean the regulations must be amended. Accordingly, options are assessed relative to the preferred option to facilitate comparison against the assessment criteria.

	Preferred - Option two – status quo volumes 2027-30 and 1.1 million units in 2031 and price controls extended to 2031 (12.8 million units)*	Option one – status quo volumes 2027-30 and 3 million units in 2031 and price controls extended to 2031 (14.7 million units)	Option three – lower auction volumes (7.5 million units) and price controls extended to 2031
Likelihood of incentivising (net) emissions reductions	0 This option maintains status quo incentives for reducing emissions and is assessed as aligning with emission budgets and the 2050 target Modelling indicates the surplus stockpile will be drawn down by 2030, managing the risk to meeting emissions budgets Compared with Option one, Option two has slightly lower auction volumes in 2031. However, this difference is not expected to materially impact prices or emissions	0 Compared with Option two, Option one has slightly higher auction volumes in the EB3 period. However, this difference is not expected to materially impact prices or emissions. Therefore, the likelihood of incentivising emissions reductions is similar to Option two	0 Compared with Option two, Option three has reduced auction volumes during the EB2 period. This increases the likelihood of the surplus being fully drawn down by 2030 and could increase prices. However, modelling suggests there will be limited impact on emissions, compared with Options one and two, due to the large stockpile of NZUs. This is why this option does not rate positively on this criterion compared with Option two
Proper functioning of the ETS	0 We assess the risk of undersupply in late 2020s under this option as manageable and within the bounds of the proper functioning of the market Maintaining status quo settings for the next four years supports market	0 Same as Option two	- Compared with Option two, Option three comes with a higher risk of undersupply during the EB2 period, which could risk the proper functioning of the ETS if it eventuates. However, we still expect this risk to be manageable

	predictability and provides consistent signals to support investment decisions. Responds to market signals of being well supplied in the short term The difference in EB3 volumes between Option two is not expected to materially impact the proper functioning of the ETS		Changing settings for the first two years of the period also reduces predictability.
Support for NZU prices consistent with the level and trajectory of international emissions prices*	0 It has been assessed that existing price control settings are within the range of international emissions prices and comparable to the efforts of developed country peers	0 It has been assessed that existing price control settings are within the range of international emissions prices and comparable to the efforts of developed country peers	0 It has been assessed that existing price control settings are within the range of international emissions prices and comparable to the efforts of developed country peers
Management of the overall costs to the economy and households**	0 Existing price control settings are expected to have a modest impact on households and inflation Under this option, ETS cost to an average household is estimated to increase from about \$450 annually in 2026 (0.3% of gross household income) to about \$650 in 2030 (0.5% of gross household income). Adds ~0.1% per year to inflation	0 Existing price control settings are expected to have a modest impact on households and inflation This option has the same household and inflation impacts as Option two	0 Existing price control settings are expected to have a modest impact on households and inflation Under this option, the ETS cost to an average household is estimated to increase from about \$450 annually in 2026 (0.3% of gross household income) to about \$890 in 2030 (0.7% of gross household income) Same inflation impacts as Option two
Overall assessment	0	0	-

**This assessment criterion only applies to price controls.*

*** This assessment criterion only applies to price controls. Note while there are differences in impacts across options, this is not driven by differences in price control settings.*

Section 3: Cost-benefit analysis

What are the additional costs and benefits of the Minister's preferred option?

We do not assess any additional quantifiable costs or benefits compared with the status quo

29. The Minister's preferred option maintains status quo ETS settings for the four years where volumes have been set previously. Therefore, across these years, there are no additional quantifiable costs and benefits compared with the status quo.
30. While all options, including the Minister's preferred, set new volumes and price controls for 2031, this does not necessarily drive changes in costs and benefits. This is because the ETS price pathway drives changes in economic and household costs, as well as environmental impacts (emissions reductions). ETS settings, through influencing supply, can impact the ETS price pathway. While our analysis notes some changes in the ETS price pathway since 2025 official emissions projections were completed, these are not driven by the preferred option.

Costs and benefits differ in some respects across the options considered

There is a higher estimated ETS price pathway under Option three, compared with Options one and two

31. Based on the central estimates, under Options one and two, prices are modelled at around \$80 in 2030, before gradually declining to around \$50 (around the long-term marginal cost of forestry). Option three follows a similar path but could reach around \$110 in 2030. More information on possible price pathways can be found in appendix 3 of the [2026 ETS settings consultation document](#).

Despite the differences in ETS price pathways, all options are estimated to meet EB2, however, there is a material gap to meeting EB3

32. The market model estimates net emissions covered by the ETS rather than total net emissions. However, when combined with other information, it can inform high-level projections of total net emissions. This analysis suggests all modelled auction volume options are likely to keep central projections of total net emissions within the EB2 target.
33. For EB3, 2025 official projections model emissions to exceed the target by 9-19 Mt CO₂e (8.7Mt CO₂e based on central assumptions). As EB3 is further into the future than EB2, there is greater uncertainty around total emissions. Accordingly, we have used emissions ranges, along with a central emissions estimate from the ETS market model. Emissions over EB3 are projected to range from approximately 234 to 261Mt CO₂e, with a central projection of 254Mt CO₂e. This compares with the 240Mt CO₂e budget. The lower range of projections would meet EB3, but based on central projections within our modelling, the gap is 14Mt CO₂e. For more information on this modelling, including limitations, see [2026 ETS settings consultation document](#) and [Technical Annex](#).
34. While the proposed unit volumes and price controls are mechanically aligned with emissions budgets within the analytical approach, there remains a risk of exceeding EB3 if participants draw on the existing unit stockpile instead of reducing emissions. Even if no units were auctioned and participants relied on the stockpile to meet obligations, the stockpile would remain at 2.5 times annual demand in 2030 (see the [Technical Annex](#)).
35. This means that while ETS settings can be aligned with meeting emissions budgets, they alone cannot eliminate this risk, and additional measures will be needed to achieve emissions budgets. The Government has agreed to explore complementary emissions reduction and removals policies and therefore considers the proposed settings consistent

with emissions budgets and targets. This RAS does not explore these policies, however, without tangible policies to support the ETS, the risk to EB3 remains.

The differences in ETS price pathways have impacts on household costs, as shown in Table 4.

Table 4: Estimated ETS cost to households (2026-dollars and as a percentage of gross income)

Actual / projected NZU price		Modelling scenario broadly consistent with:	Household by income		
			Lowest (Decile 1/2)	Average	Highest (Decile 9/10)
Lower Price Pathway					
At current prices	~\$50	Prices constant at current secondary market price. Consistent with a ‘no auction’ scenario and is also consistent with the long run marginal cost of forestry.	230–280 (0.8%)	450 (0.3%)	640–780 (0.4%)
Mid-range Price Pathway					
In 2030 at modelled price	~\$80	Options 1-2 or option 3 with a higher surplus estimate. (The lower end of the range in Figure 5).	340–400 (1.2%)	650 (0.5%)	920–1,130 (0.6%)
Upper Price Pathway					
In 2030 at modelled price	~\$110	Option 3 with a central surplus estimate. (The upper end of the range in Figure 5).	460-540 (1.6%)	890 (0.7%)	1,260–1,540 (0.8%)

Note: The future estimated impacts on households have been scaled by the ratio of modelled gross ETS emissions in 2030 to 2023 levels (the base year for the household impacts modelling). This is to proxy the reduction in household emissions footprints that is expected to occur over time.

Source: Ministry for Cities, Environment, Regions and Transport modelling

Fiscal benefits to the Crown

36. Under the preferred option, if all auctions clear at the auction floor price, cash receipts are estimated at ~\$1 billion over 2027-31, compared to ~\$0.6 billion under Option three and ~\$1.2 billion under the Commission's recommendation. There is some uncertainty as to how quickly prices will recover to equal the floor price. If prices take longer to recover and no auctions clear in 2027, cash receipts are estimated at ~\$0.7m over 2028-31 under the preferred option, compared to ~\$0.4m under Option three and ~\$0.9m under the Commission's recommendation. While auctions generate a cash inflow for the Crown and reduce net debt, they are fiscally neutral from an OBEGAL perspective because the revenue is offset by an increase in NZU liabilities for the Crown.

Marginal impacts on inflation

37. The impacts on consumer inflation are expected to be modest under all unit volume options, adding about 0.1 percent per year to inflation.

Are the benefits of the Minister's preferred option expected to exceed the costs?

38. As the Minister's preferred option maintains status quo settings for the next four years and sets new settings for the fifth (for which there is no baseline), there are no additional quantifiable costs compared with the status quo. However, while we assess the preferred option continues to accord with emissions budgets and targets, there are further benefits to stable ETS settings. Stability and predictability promote market confidence to invest in the emissions reductions needed to meet our emissions budgets and targets. This aligns with a key pillar under the Government's ERP2 to maintain a credible ETS market.

What are the impacts on different groups of the preferred option?

39.

40. Table 5 assesses the estimated impacts of the preferred option on different groups by 2030 relative to today's NZU prices. As the preferred option maintains status quo settings for 2027-30 and only sets new volumes and price controls for 2031, it is expected to have minimal impact on NZU prices compared with the status quo. However, because NZU prices are projected to rise over time, impacts will change over time. Given limited quantitative evidence on ETS impacts on households and the wider economy, many of the assessments are qualitative.

41. We publicly consulted on our analysis of distributional impacts. Of those who referenced the analysis, 3 agreed, while 8 disagreed. One submitter thought it should place higher importance on the cost of policy instability while another believed that economic factors should not be considered.

Table 5: Distributional analysis

Affected groups	How they are affected	Description of level of impact(s)	Source of evidence
Landowners (eg, foresters and farmers), including Māori	NZU prices are projected to remain at levels that keep afforestation financially attractive relative to sheep and beef farming. For existing forests, prices are likely to support investment returns, while other landowners may benefit from increased land-use options. Returns for foresters may increase as the NZU price increases over the period. Similarly, the costs of deforestation may increase, including for pre-1990 forests. Incentives to replace exotics with native plantings are also reduced in the medium term. Higher returns on forestry land may incentivise afforestation. The long-term increase in availability of units through forestry will put downward pressure on future NZU prices in the longer term. May increase forestry incentives for other purposes, such as erosion control (more than 60% of whenua Māori is in high, steep and hilly country, making it susceptible to intense storm events and erosion.)	Low-to-medium, as ETS prices impact income, business viability and decisions about land use change.	For ETS price pathway projections: Ministry for the Environment. 2026. Annual Updates to New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2026: Technical Annex to the Consultation document. Accessed 29 June 2026. Manaaki Whenua – Landcare Research Group. 2026. He Ngahere, He Korowai: Resilient land use strategies for whenua Māori. Accessed 8 May 2026.
Emitting firms subject to ETS obligations	The cost for firms to meet surrender obligations may increase over the period. This may be mitigated by the extent to which: - firms invest in transitioning to lower-emissions alternatives - firms have hedged their forward obligations. These additional costs can be passed on to households (see 'Households' row below).	Low-to-medium, dependent on emissions intensity and ability to pass on costs	For ETS price pathway projections: See above.

Other ETS participants, including Māori businesses that rely on NZU earnings	Out to 2031, NZU prices are modelled to increase the financial value of stockpiled units, both those held for hedging and the liquid stockpile.	Low-to-medium, as ETS prices impact income and business viability.	For ETS price pathway projections: See above.
Households, including Māori households and whānau	Under Options one and two, annual costs for lower-income households are projected to increase from today's range of about \$230–280 to about \$340–400 by 2030. Rising prices disproportionately affect lower-income households, with single-adult households, including sole-parent families, experiencing the greatest relative impacts. Māori households are over-represented among lower-income households and are therefore likely to be more affected on average. Businesses may adjust the type or number of jobs they offer in response to cost changes. However, we expect these impacts to be negligible. Māori make up a large portion of the forestry workforce and also higher emitting sectors (eg, 10% of the Māori workforce are in the manufacturing sector). Higher prices can have impacts that are both positive (ie, increase forestry jobs or wages) or negative (ie, less jobs in higher emitting sectors).	Low – costs are marginal compared with wider economic factors	For ETS price pathway projections: See above. Hillmare S, Reid A, Dixon H, McIndoe C, Wiradika S. 2024. Te Ōhanga: The Māori Economy 2023. Wellington: BERL.
Wider economy	Increasing ETS prices in the settings period are likely to marginally increase inflationary pressures. However, we judge this highly unlikely to influence the trajectory of monetary policy. Forestry plays a large role in the wider Māori economy. The increase in value of NZUs now and in the future impacts on businesses' asset base and capacity as an employer.	Low – costs are marginal compared with wider economic factors	For ETS price pathway projections: See above.

Conclusion

Which option is the most effective, efficient, and proportionate response to the problem?

42. We assess Option two as the most effective, efficient and proportionate response to the problem.

43. All options are assessed as according with emissions budgets and targets, which is the core objective of ETS settings. While many submitters supported Option three to maximise emissions reductions, our modelling suggests little difference between the options in incentivising emissions reductions and achieving this objective. As noted in paragraphs 68–69, this is due to the large stockpile of units likely preventing further emissions reductions without complementary policies. Simply reducing government auctioned NZUs does not mitigate this risk.

44. The use of the highest surplus range in Option three also increases the risk of undersupply. This is a key consideration in the proper functioning of the market criterion. Options one and two, compared with Option three, however, strike the appropriate balance between achieving this objective and managing the risk of undersupply in the later 2020s.

45. Both Options one and two reflect signals that the market remains well supplied through the secondary market, supporting maintaining relatively tight auction volumes. Maintaining status quo settings between 2027-30 also supports a key Government objective in ERP2 - providing market predictability and stability to support market confidence and investment decisions.
46. We assess Option two as more effective than Option one because it takes a more conservative approach to estimating emissions over the third emissions budget as it uses a lower ETS cap. There is currently a material gap estimated over this period. As such, Option two reduces the risk of overshooting EB3 compared with Option one.
47. Options one and two are equally efficient. As explained, Option two does not drive changes to the ETS price pathway, compared with the status quo, and therefore no additional costs and benefits have been identified. Option three results in a higher ETS price pathway and larger impacts on the economy and households, with minimal additional abatement.
48. All options are equally proportionate as they deliver an update to regulations that is part of a regular process and expected by the ETS market. The options all accord with emissions budgets and targets but differ in weighting against the proper functioning of the market.

Section 4: Delivering an option

What are the next steps for implementing the legislation?

49. Updates to ETS unit settings will be made under the existing regulatory framework. Schedule 3 of the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020 will be updated to reflect the new settings. The amendment regulations will be published in the New Zealand Gazette in September 2026, to take effect from 1 January 2027.

How will the proposal be monitored, evaluated, and reviewed?

50. Agencies will closely monitor the impacts of ETS unit settings. The Ministry of Cities, Environment, Regions and Transport routinely tracks and informs the Minister of the price of units as well as the flow of units within the secondary market. It also measures and reports domestic emissions annually which is used to assess the impact of the ETS.
51. Agencies will update emissions projections to inform future emissions budgets and unit limit and price control settings. Broader economic impacts will be monitored and assessed across government, public, and private organisations.
52. The Act's coordinated decision-making process provides for reviews of ETS settings in certain cases. The Government must review settings if price controls are used (eg, if the CCR is triggered).
53. The Commission will continue to monitor and review unit limits and price controls. Under section 5ZOA of the Act, it must regularly recommend updated limits, price control settings, and any appropriate emissions price path to the Minister.

Appendix 1: 2026 ETS Settings – Updates since consultation

[Consultation on ETS settings](#) proposed the below auction volumes and price controls for Option two and three, outlined in Table 7 and 8. Since consultation, four minor changes were further incorporated to the ETS settings and are outlined below.

- Industrial allocation: 2025 actual industrial allocation figures were incorporated into our analysis in addition to accounting for a delay in expected installation of the NZ Steel electric arc furnace. This results in increased industrial allocation of about 0.8m units over 2026-2031 and about 0.5m units over EB3, compared to consultation figures.
- Ongoing surplus reductions post 2030: consultation feedback recommended incorporating ongoing surplus amounts post 2030, which is also consistent with the Commission's approach. We have incorporated additional ongoing surplus reductions in our analysis to account for pre-1990 forestry units entering the market post 2030. This results in small ongoing surplus reductions at about 0.3m per annum from 2031.
- Phasing: due to the above changes further reducing volumes, additional phasing is required to smooth low and negative volumes over EB2 and EB3 for both options. This results in auctions ending one year sooner under Option two and two years sooner under Option three.
- Status quo implied drawdown: the implied surplus drawdown under the status quo reduced from about 82% to about 80%, due to higher industrial allocation estimates offsetting some of the surplus drawdown that would have otherwise occurred.
- Price controls: price controls were updated to incorporate inflation forecasts from the Budget Economic and Fiscal Update May 2026. This resulted in marginally higher auction floor prices and CCR trigger prices from 2029.

The below tables outline the consulted auction volumes compared to the final auction volumes across Options 2 and 3.

Table 6: Option 2 consulted and final auction volumes

Option 2	2027	2028	2029	2030	2031	2032	2033	2034	2035	2027-2031 Totals
Consulted auction volumes	4.3	3.3	2.4	1.7	1.3	1.8	1.0	0.0	0.0	13.0
Final auction volumes	4.3	3.3	2.4	1.7	1.1	1.0	0.0	0.0	0.0	12.8

Table 7: Option 3 consulted and final auction volumes

Option 3	2027	2028	2029	2030	2031	2032	2033	2034	2035	2027-2031 Totals
Consulted auction volumes	2.1	1.8	1.5	1.2	1.1	1.4	1.2	0.0	0.0	7.7
Final auction volumes	2.2	1.8	1.5	1.3	0.7	0.0	0.0	0.0	0.0	7.5