

CarbonCrop

Kia ora ,

Welcome to CarbonCopy, where we keep you up to date on carbon-y things that are relevant to you.

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Key takeaways from CarbonCrop's submission to the Second Emissions Resource Plan Consultation

New Zealand is working towards net-zero emissions by 2050. As the country moves closer to this ambitious goal, the Second Emissions Reduction Plan (ERP2) consultation has highlighted key areas for action.

While the Emissions Trading Scheme (ETS) has been successful in putting a price on greenhouse gases and supporting increased action across multiple sectors, there are still challenges to overcome. Below we've highlighted a couple of key parts of CarbonCrop's response to the consultation we think may be of interest to you.

The Strengths of New Zealand's ETS

One of the biggest strengths of the ETS is how broad its reach is, covering most sectors and gases, and applying a meaningful price to emissions. The

scheme's neutrality, for the most part its avoidance of favouring any specific industry or technology (with the significant exception of Agriculture, and some caveats for heavy emitting export industries), helps New Zealand focus on achieving reductions in the most cost-effective way.

Overall, the ETS is a powerful, though sometimes under-appreciated, tool. With a few adjustments, it could be even more effective in supporting New Zealand's shift to a low-emissions future.

A Net-Based Approach to Emissions Reduction

The government's net-based approach to emissions reduction supports both reducing emissions and removing them from the atmosphere.

Key benefits of this approach include:

- It provides incentives for greenhouse gas removals, which are essential to global climate goals. Atmospheric greenhouse gas concentrations are already too high, and some ongoing emissions are likely unavoidable. Removals need to scale up quickly to cover those gaps.
- It offers a cost-effective way to reduce emissions, helping New Zealand make progress while providing flexibility around management of economic impacts.

The net-based approach does come with challenges:

- It can lead to over-reliance on a limited number of approaches, like forestry, which can concentrate risk economically and environmentally.
- If sequestered carbon is disrupted, such as through forest fires, the carbon is re-released into the atmosphere, undoing any gains.
- It might delay action on reducing gross emissions if too much focus is placed on removals, which may have unpredictable long term economic and environmental impacts.
- Removal technologies can have long-term environmental and social impacts, especially when deployed at large scale, hence need careful regulation.

Well considered regulatory frameworks are needed to limit the unintended consequences of a net-based emissions reduction incentive framework.

Strengthening the New Zealand ETS

To ensure the long-term integrity and credibility of the ETS, and its effectiveness in driving progress towards national and international goals. It's appropriate that the government continue to refine the scheme - we cannot expect to predict every consequence or need in advance. Significant value needs to be placed on maintaining a predictable environment for market actors and not penalising early movers - any dramatic and unexpected changes risk damaging market sentiment, which both delays and reduces action.

Maintaining market confidence

Market confidence is one of the factors underpinning the success of the ETS. It's important that the accounting mechanisms and emissions unit flows are consistent with the overall emissions budget. Avoiding unnecessary segmentation or fragmentation within the ETS will also help prevent inefficiencies and keep pricing stable.

Ensuring fairness

The government should aim to treat existing and future technologies and industries consistently and transparently. Incentives should support market mechanisms, not give unfair advantages to certain sectors or actors. Our view is that some past interventions and grants were unnecessary given the incentives already provided through the ETS.

Managing the 'unit stockpile'

Managing the stockpile of emissions units (NZU's), each essentially an 'entitlement to emit', remains crucial. There's still a large volume of units available to the market from past allocations, and we're concerned that some of the assumptions around the liquidity of this stockpile are conservative. More may come to market over the emissions budget two/three, and we expect this to be determined by the market dynamics (especially unit and forestry prices) over that period.

We applaud the government's decision to largely align with the climate change commission guidance in reducing the auction volumes over the second emissions budget (EB2) period to help reduce the stockpile. We also encourage ongoing assessment of the liquid fraction of the stockpile to inform future unit supply decisions.

Scaling Private Investment for Climate Mitigation

Private investment is critical to driving innovation and scaling up climate mitigation efforts. We see two main barriers limiting investment at present:

- **Regulatory uncertainty**
Frequent discussions about changes to pricing frameworks or market access can create uncertainty around investment risk and returns, discouraging and delaying investment.
- **Lack of incentives**
In sectors not covered by the ETS, such as agriculture, there aren't always clear price signals or incentives to encourage and enable businesses to invest in emissions reductions.

To overcome these barriers, the government needs to maintain consistent market and regulatory policies in both word and action, and continuously assess gaps in the market where incentives are unavailable or ineffective. In particular, we continue to encourage review of how regenerating native bush is recognised under the ETS, to better enable it as a national asset. It would also help to introduce incentives for industries currently outside the ETS, like agriculture, so these sectors also have access to market mechanisms to support reducing emissions.

In the long run, implementing a Carbon Border Adjustment Mechanism (CBAM) and exploring opportunities to export high-integrity carbon removals could position New Zealand as a leader in carbon removal technologies. This would not only help the country meet its own targets but also support global climate mitigation efforts.

Expanding Non-Forestry Removals

Forestry is a major part of New Zealand's carbon sequestration strategy, but there's also untapped potential in what the ERP2 consultation terms "non-forestry removals" (some of which are pretty forestry-like!).

We see particular opportunities in relation to the following activities:

- **Regenerating indigenous scrub and restoring mature forests**
These offer significant carbon removal opportunities but aren't always fully recognised under current policies. Expanding support for these activities could unlock new carbon sinks and also help meet biodiversity goals.
- **Emerging technologies**
Emerging technologies like ocean alkalinity enhancement and enhanced rock weathering are still in the early stages of development but have the potential to scale up significantly in the future.

The Emissions Trading Scheme offers a solid foundation for climate action. With careful management, it can continue to drive real progress. By tackling challenges in key sectors, encouraging private investment, and looking into additional removal incentivisation opportunities, New Zealand can meet its 2050 net-zero target and contribute to global climate mitigation efforts.

Want to dive deeper?

Check out CarbonCrop's response to the questions [in this post](#) and watch our [July CarbonCurious discussion on the ERP2](#).



Market Update



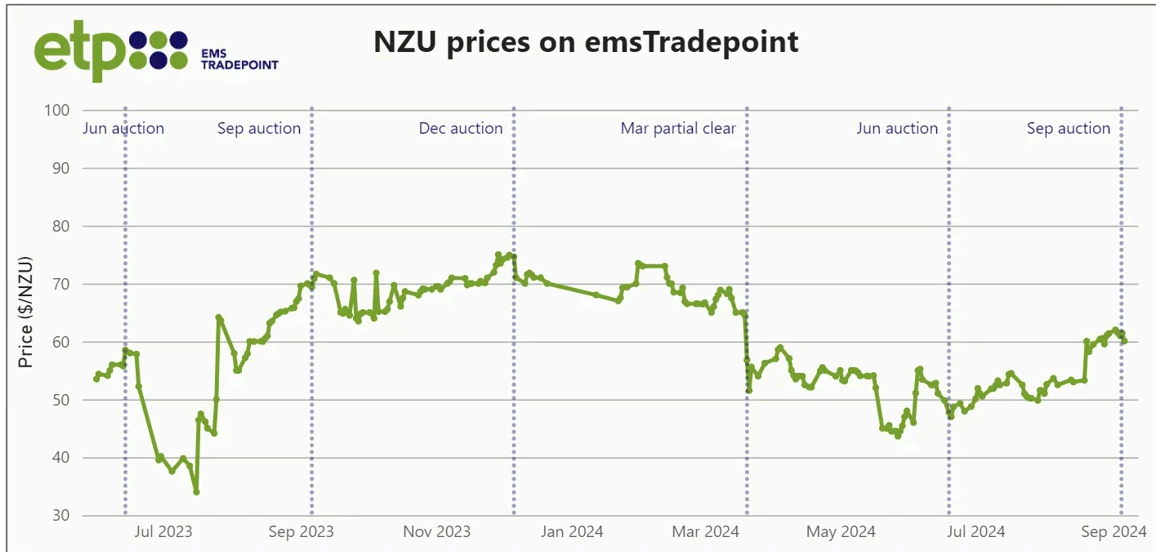
Carbon Market Commentary

emsTradePoint

- Over the last quarter, carbon prices have increased from around \$45 per NZU, up to \$60.
- The bulk of this move came on the back of a Government announcement on August 20th, when they released their updated settings for the ETS auction volumes and price floor settings for 2025-2029.
- The Government retained the current auction floor price, the cost containment reserve price, and current reserve volumes of New Zealand units in the Emissions Trading Scheme, the Government also decided to reduce the number of units available through auction between 2025 and 2029, from 45 million to 21 million, in line with the advice received from the Climate change Commission.
- We continue to see small to medium sized forestry owners selling units to generate cash.
- We have one final Carbon auction this year, on 4th December 2024, this one looks very interesting as the total base units on offer for the full 2025 Auction schedule is 6 million units, Dec '24 has just over 11 million

units on offer, at a base of \$64, somewhat cheaper than the \$68 floor for 2025.

Want to learn more about what's happening in the Carbon Markets? [Check out our June CarbonCurious session for an update](#)



*These prices are emsTradepoint Daily Volume Weighted Average Prices (VWAP). Please see the indices calculation methodology on the [emsTradepoint website](#) for more information.



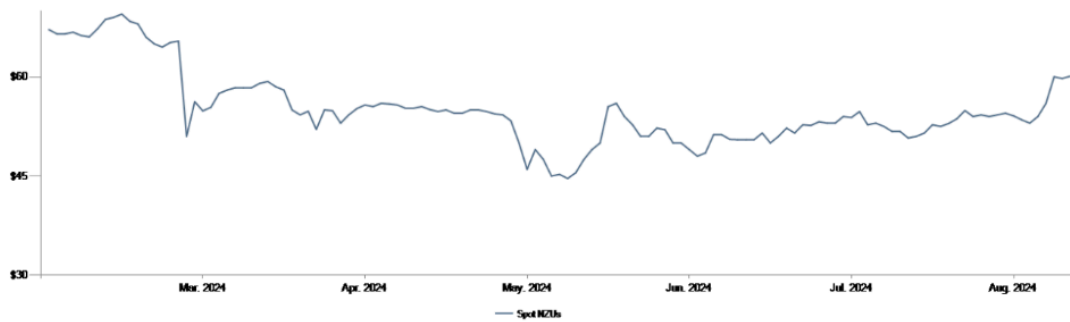
August 2024: Government Announces ETS Settings

The Government recently announced how many ETS units will be available for auction and price controls for the next five years.

1. Reduced numbers of NZUs will be available for auction from 2025 to 2029
2. Auction floor prices, cost containment reserve prices and volumes will largely stay the same, with slight adjustments for inflation.
3. Changes will take effect from 2025, so the last two auctions of 2024 will not be impacted.

ETS spot prices have responded favourably.

Price History



emsTradePoint platform update

In late May, emsTradePoint announced it would close on 1st September. After expressions of interest, Transpower is now exploring selling. As the potential sales process is being worked through, emsTradePoint will continue operations through September and October, honouring all existing trades. They expect to announce a decision around the end-September.

Forestry Advisor legislation repeal

The legislation to repeal the compulsory registration of log traders and forestry advisers has been passed. This means that log traders and forestry advisers are no longer regulated by, or required to be registered with, the Ministry for Primary Industries (MPI). Self-regulation and voluntary registration with industry bodies will continue to ensure high professional standards across the forestry and wood processing supply chain.



4th December 2024 - Next ETS Auction

Although forestry NZUs are not sold in these auctions, the results of the auction can affect NZU prices on the secondary market.



CarbonCurious

Unlocking the Power of Evidence in Carbon Forestry Projects

In today's carbon markets, evidence collection is the key to success. Whether you're in the early stages of assessing land potential or managing ongoing monitoring, having accurate, verifiable data is essential for securing carbon credits and ensuring long-term project success. But what type of evidence should you be collecting, and how can new technologies like satellite imagery and drone footage help streamline the process?

Our latest blog breaks down the critical stages where evidence is most important, the types of data you'll need, and practical tips for gathering high-quality proof of your project's impact. With insights on best practices and emerging trends like 3D modelling, this guide will help you ensure your carbon project is on the right track from start to finish.

[Read the full blog post >>>](#)



Carbon Forestry Conference 2024

Some of the key discussions this year circled around key ETS auction allocations and price controls, with optimism that New Zealand's strategies will help reduce carbon credit stockpiles. A notable sentiment is relief that the government hasn't lowered the price thresholds, showing a clear intent to keep pressure on emissions reductions.

One of the bigger uncertainties surrounds the future of exotic forestry in the ETS, especially on LUC6 and lower land classes. This will directly impact how farmers and landowners plan forest projects. CarbonCrop is working on tools

and resources to support landowners, helping them navigate these upcoming changes smoothly.

New Zealand's NDC1 (Nationally Determined Contribution) liability also came up, with many suggesting we need bolder action to address our obligations. A bright spot in these conversations was the growing consensus that New Zealand's expertise in carbon forestry could be a powerful tool. With the right focus, we could scale up to be a global leader in carbon removals, exporting this valuable capability while aligning with domestic land-use goals.



Things You Might Have Missed

External

- [Annual updates to emission unit limits and price control settings](#)
- [Forestry groups welcome Emissions Trading Scheme reset](#)
- [Hopes high for more ETS certainty](#)
- [Getting the ETS right will be critical to investment](#)
- [No bidders turn up for latest carbon auction](#)
- [Website] [Climate Action Tracker Aotearoa](#)
- [Case Study - powered by CarbonCrop] [A Long History Of Doing What's Best For The Land](#)
- [Case Study - powered by CarbonCrop] [A Love Of The Land](#)
- [PODCAST] [credits for planting native bush rather than pine trees on farms](#)

Internal

- [Keeping control of your carbon: How NZ farmers can get a fair deal in carbon removals programs](#)
- [Understanding the 2024 ETS consultation: Implications for forestry](#)
- [Understanding NZ's ERP2](#)
- [What is Carbon Accounting? A look at the supply side](#)
- [What counts as a removal?](#)
- [How does CarbonCrop's technology help you?](#)

- [What is a carbon inset?](#)
- [CarbonCrop Platform Updates](#)

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