

CarbonCopy

Kia ora ,

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

This time round:

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The image shows the CarbonCopy logo in a serif font, centered over a background of a dense forest with tall trees and a clear sky. The text "CarbonCopy" is written in a dark, elegant serif typeface.

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CarbonCopy Editorial

The landscape of New Zealand's carbon markets has changed quite a bit lately, probably far more than anyone anticipated. With so much change, staying informed is tough so we will unpack recent developments that could impact both forest landholders and other carbon market stakeholders.

1. The ETS Amendments: What Lies Ahead

Recent proposed changes to the Emissions Trading Scheme (ETS) are drawing attention, which we believe could have the following potential implications for forest landholders:

Fairness and Clarity: It's crucial that any changes to the ETS don't discriminate against landholders who've made past decisions in good faith. These individuals are currently faced with a shifting landscape that could alter the game rules they once knew.

Confidence is Key: There's been a noted crisis of confidence due to the proposed changes, visible in recent price curves. Abrupt changes can disrupt market stability, and those looking at registering are understandably feeling uncertain. If you're baking a cake and the ingredients change on you half way, you'd probably wait a beat and reassess too.

Effectiveness and Positive Incentives: Changes need to be fair *and* effective. Overlooking this in the past has led to unintended consequences, like the conversion of native forests to farmlands or exotic forests.

2. Potential Impact on Carbon Forestry Returns

When considering the return on investment for registering in the ETS, three potential factors could play a decisive role:

- A drop in carbon price for various reasons, including policy changes.
- A rise in participation costs, exact fees still unannounced but may come into effect as soon as 1st October.
- Permanent category registrants with no options to exit, even if the conditions become unfavourable.

Changing regulations and market dynamics will affect your returns (up or down) and your long-term financial strategy.

3. Exotic Forests and the Permanent Category Redesign

Exotic forests are not exempt from the uncertainties and changes in the carbon market. Three key areas to watch in the redesign of the permanent category are:

Eligibility Criteria: Which forests should be allowed to join this category? Will exotic forests need to transition to indigenous ones over time?

Transition Management: How will forests transitioning from mostly exotic to mostly native be managed? How might a [carbon accounting method](#) evolve for transition forests?

Management Plan Requirements: What future guidelines might be needed for a structured management plan for forests within the permanent category?

Think of this as deciding to build a house on a particular type of land. Over time, local council regulations might change, affecting how and

what you can build. Being informed helps you make the right decisions from the start.

How to Plan for the Future

This evolving carbon market landscape requires you to be informed and prepared. For landholders, whether you possess exotic or native forests, consider current *and potential changes* before making decisions.

If you are uncertain, speak to experts who can offer personalised insights for your specific forest. No one can predict exactly what will happen, but in this changing environment, knowledge is your best ally.



Market Update



Carbon Market Commentary

Cathy Lawless, emsTradePoint

The NZU carbon market has experienced a significant fall in price since the end of last year, and particularly since the end of February 2023.

There have been two key contributors to this very recent price drop:

1. The Mar-23 Emissions Trading Scheme Government auction.
2. MfE's announcement that they will be reviewing the role of the Emissions Trading Scheme in New Zealand's climate change response.

These follow an already uncertain market caused by MfE's announcement of their auction settings for price and volume for 2023. The price announcement in particular was significantly lower than the Climate Change Commission's recommendations put forward to the Government in the middle of last year.

Here are some key statistics:

1. In mid-December 2022, price fell overnight from \$84.50 to \$77

2. End of February 2023 prices fell below \$70
3. The last time the price was below \$70 was January 2022
4. The lowest price traded on emsTradePoint since the recent announcement has been \$50
5. The last time price was below \$50 was August 2021

Watch our recent carbon market discussion [here](#).



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



Summary of Recent Announcements

Application Progress

MPI has said they will soon start processing applications. Keep in mind that there is a backlog of up to 12 months.

New credit system?

The Government also recently announced a public consultation on a [**Biodiversity Credit System**](#). This system could complement native forests registered in the ETS and incentivise more forest restoration. *Submissions are due by 3 November.*



Important ETS Dates

1st October - New ETS Fees in Effect

Although not yet confirmed, here's [**what the proposed pricing could mean for you.**](#)

6th September - 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.



Recent Policy Submissions

There's been a lot of action in the submission space recently. Below is a summary of a few other submissions we've done recently:

ETS Redesign

We support Option 2 - the structure of the ETS isn't broken but the settings need improving. Limiting NZU supply will drive both emissions reductions and carbon removals, all within the existing ETS framework. Removals with co-benefits should be prioritised with limits on exotic forestry in permanent, no fees for indigenous, a premium price for indigenous NZUs.

[Read more here.](#)

Permanent Category Redesign

Indigenous forests should be the primary type of forest allowed in the permanent category. We need to proceed with caution on transition forests. A specific new carbon accounting method, a management plan with ongoing verification and incentives to ensure transition are required. Native forests already face significant barriers to registration - they do not need management plans that add more.

[Read more here.](#)

Climate Change Commission's Draft Advice on the Second Emissions Reduction Plan

1. We must combine ambitious emissions reductions with scaled-up, high-quality carbon removals.
2. With the right settings, the NZ ETS can drive decarbonisation efforts with scarcity of NZUs and incentivising emissions reductions.
3. Afforestation should be supported, especially biodiverse native forest, but other carbon removal methods should be explored.
4. With a better ETS, New Zealand can make significant progress towards achieving its emissions reduction targets *and* addressing the urgent challenges of climate change.

Read more [here](#)

Price Control Settings

Adjustments in auction volumes and limits are needed to align with forestry emissions and reduce stockpiles. The proposed price controls and Cost Containment Reserve (CCR) settings can improve market stability and incentivise emissions reductions, but care should be taken to avoid arbitrary price fluctuations and consider redistributive mechanisms to manage impacts.

New Zealand voluntary carbon and biodiversity market research

Biodiversity markets and carbon markets can be complementary and work together. The ETS has proven that incentive markets work - this type of market mechanism could work well for biodiversity too.



Legal Challenge Shakes ETS Settings

Following a dramatic decrease in carbon prices, the New Zealand government found itself amidst a legal wrangle over Emissions Trading Scheme (ETS) settings. Last year, the Climate Change Commission's (CCC) [recommendation](#) to tighten these settings was sidelined due to concerns about inflation. This decision led to carbon prices spiralling down from a high of nearly \$90 to below \$35. However, a July High Court directive has thrown a curveball, ordering the Climate Change Minister, James Shaw, to reevaluate this decision. The court stated that the initial settings did not align with New Zealand's carbon budgets or its obligations under the Paris Agreement.

Government Reacts to Court's Directive

In a swift response, Minister Shaw announced the government's intention to adopt the CCC's original advice, which will come into effect during the NZ Units (NZUs) auction in December. This decision entails a significant reduction in NZUs auctioned from 2023-2028, promoting the utilisation of previously stockpiled emission units. Furthermore, the government is set to implement advice on adjusting the auction floor and the cost-containment reserve (CCR) trigger prices, aiming to stabilise carbon prices and cultivate a sophisticated market operation. Amidst these shifts, uncertainties linger, particularly concerning a forthcoming ETS review and its potential impact on the forestry sector.

Read more [here](#)



Things You Might Have Missed

External

- [Climate Change Commissions advice for ETS review](#)
- [Legal challenge on ETS settings forces change](#)
- [New Zealand's first biodiversity credit launched by Carbonz](#)

Internal

- [Tracing the threads of sustainability for Allbird's M0.0nshot net-zero shoe](#)
 - [Near-real-time carbon monitoring is now possible](#)
 - [Using our expertise in carbon on the biodiversity mission with Toha and the East Coast Exchange](#)
 - [CarbonCurious ETS, WTF!? Webinar](#)
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The CarbonCrop Team

www.carboncrop.nz



CarbonCrop, 322 Hardy St, Nelson, Nelson Tasman 7010, New Zealand

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