

CarbonCrop

Kia ora ,

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

This time round:

1. Editorial
2. Carbon market commentary
3. Important dates
4. Recent policy submissions
5. National Party's policy directions impacting carbon markets
6. Things you might have missed



The Value of Mature Forests in Our Carbon Equation

In carbon markets and environmental conservation, we often find ourselves at the intersection of climate action and economic viability. Mature native forests are unsung heroes (we're trying to change this!) and the introduction of biodiversity credits could be a real

opportunity to take the preservation and restoration of mature native forests beyond philanthropy.

The role of mature native forests has been undervalued. Globally, associated credits are deemed almost worthless due to a number of dubious projects but mature native forests are not only carbon sinks but also reservoirs of biodiversity.

We must preserve them.

The Potential of Biodiversity Credits

Biodiversity credits emerge as a new potential avenue to direct incentives to pre-90 native forests.

- *Reward early initiatives*: The current landscape tends to be punitive rather than rewarding those who act early. If a landholder restores native bush, they often face restrictions rather than rewards. Biodiversity credits could change this. Those who take early action should not be disadvantaged.
- *Not without controversy*: A biodiversity credit could potentially justify a negative impact as well as a positive one. Does a significant benefit for a population of incredibly rare native earthworms justify a backward step for a smaller population of kiwi? How many Hector's Dolphins is a long-tailed bat worth?
- *Clarity is key*: From a market standpoint, clarity is key and there are many unanswered questions. Will this market be a voluntary contribution to biodiversity or a regulated, compulsory part of our environmental responsibility?
- *Interaction with Emissions Trading Schemes (ETS)*: Biodiversity is not carbon, carbon is not biodiversity, but there's a correlation that can't be ignored. For example, alpine tussock land might not sequester much carbon but is rich in biodiversity. Our policies must reflect this value and provide incentives for its protection.

A Glimpse at Policy Directions

Given we now know the three-part shape of our new Government, we summarise the National Party's key points of view related to climate below.

They cover:

- Commitment to climate targets
- Forestry and land use
- Farming and forestry balance
- Enhancing on-farm sequestration

Preparing for Periodic Emissions Returns (PERs)

If you are a CarbonCrop customer, we are getting ready to prepare your next PER. In early January we will be in touch about any changes that might have occurred in 2023 to your ETS-registered forest areas.

Remember you can see your Registered Area Report via the platform now. You should have received login information via email.

Please [get in touch](#) if you do not have this.

The ETS and Applications Processing backlog

MPI is making progress on the registration backlog. Applications from 2022 are being processed, and although delays are frustrating, *they won't lead to lost entitlements.*

As we all continue this dance between carbon markets, biodiversity, and land management policies, we will continue to keep things clear and as free from jargon as possible. We're committed to supporting our forests and farmers and pulling as much carbon out of the atmosphere as possible.



Market Update

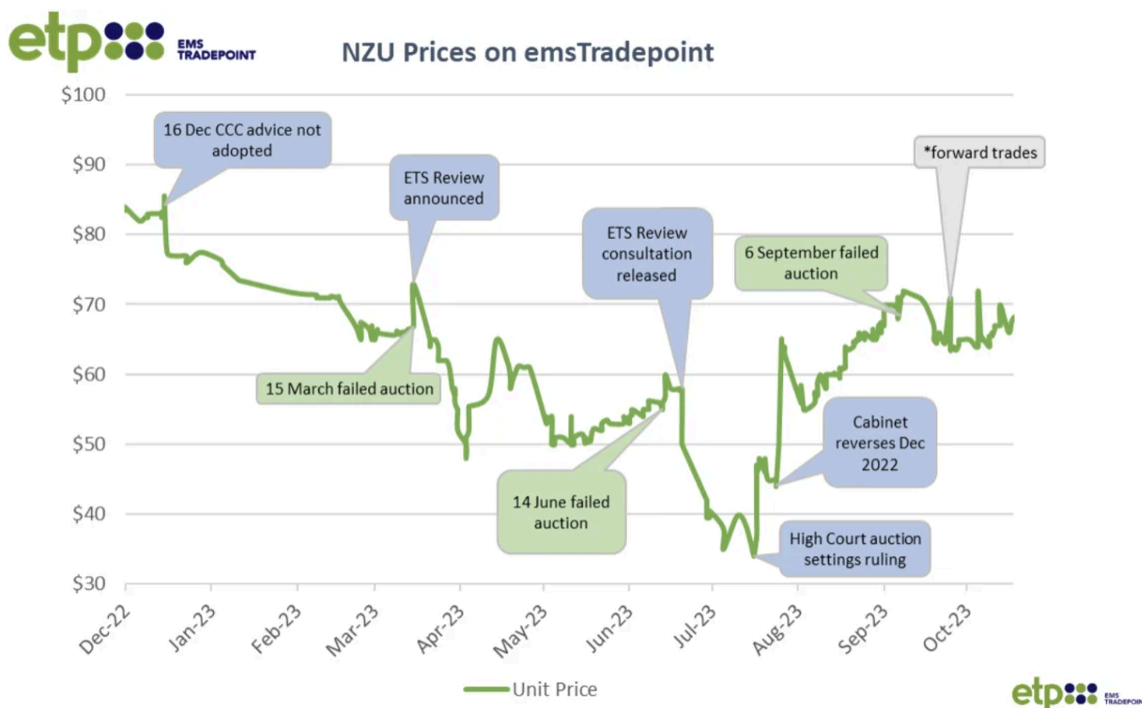


Carbon Market Commentary

emsTradePoint

- Prior to December 2022, carbon prices had reasonably steady growth, peaking in November at around \$88 per NZU.
- You can see that the biggest impact on price has been policy decisions, not the oversupply of forestry units.
- From 16th December, Cabinet decided to ignore the advice of the Climate Change Commission on auction settings, and subsequent decisions and announcements (for example the ETS Review) have continued to impact the price downwards.
- All ETS auctions this year have failed to clear.
- The High Court's decision to reverse Cabinet's decision and adopt the Climate Change Commission's recommendations had an immediate reaction from the market. Price increased quickly.
- Prices are now hovering around the \$70 mark - a welcome change from the lows that were hit in July of \$34.
- The December auction is widely also expected to fail to clear. If this happens, the approximately 14 million NZUs fabricated by the Government (non-forestry NZUs) will disappear. This should help prices by decreasing the supply of NZUs available, but there is an unknown quantity of NZUs have been stockpiled (bought and squirrelled away for a rainy day) by the companies obligated to buy them.

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.



19th October - New ETS Fees in Effect

Here's [what the proposed pricing could mean for you.](#)

6th December - 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.



Biodiversity Credit System

A consultation recently closed on the forming of a Biodiversity Credit System (BCS). We thought it was important to make a submission because:

1. There is huge potential for overlap in the biodiversity and carbon markets.
2. A BCS could help direct more incentives for the protection and restoration of native forests, which are currently under-served

by carbon markets.

3. A lot of [what we have learned over the last two years in carbon markets](#) (both ETS and the Voluntary Carbon Markets) could be valuable lessons for a BCS.

If you are interested in our view, you can [read more about it on our blog here](#).



The shape of our new Government is becoming clearer. Here are some National Party policies that may impact carbon markets:

Commitment to Climate Targets

- The National Party's support for the Climate Change Response Act signals a commitment to meeting established climate goals.
- Our national emissions reduction targets remain our targets.

Forestry and Land Use

- Moratorium on whole-farm conversions to forestry for high-quality agricultural land (LUC categories one to five) to preserve prime farmland.
- Limitation of 15,000 hectares per year for whole-farm conversions in LUC six category, steering reforestation efforts towards less productive lands.
- No restrictions on forestry conversions for LUC categories seven and eight, encouraging afforestation of marginal lands.

Farming and Forestry Balance

- Proposal to allow up to 25% of a farm to be converted into forest, even in higher quality LUC categories (one to six), to promote climate resilience and carbon sequestration without compromising agricultural productivity.
- Special provisions for native trees, to encourage the planting of natives without the constraints applied to exotic forestry.

Enhancing On-Farm Sequestration

- Plans to broaden the scope of recognized on-farm carbon sequestration, potentially including soil carbon and pre-1990 native vegetation.
- The intention to incentivise carbon removals in smaller patches of vegetation.

As these policy directions unfold, we will keep you up to date on where we see implications for you and the broader carbon market landscape.



Things You Might Have Missed

External

- [Climate Change Commission's advice for ETS review](#)
- [Legal challenge on ETS settings forces change](#)
- [New Zealand's first biodiversity credit launched by Carbonz](#)
- [Big companies are increasingly distancing themselves from carbon offsets](#)

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](#)
- [\[VIDEO\] Update on carbon-y things in our CarbonCurious webinar](#)

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