

Changes to the ETS

Opportunities for Carbon Farming



Carbon Forest Services

www.carbonforestservices.co.nz

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1) Key ETS Changes

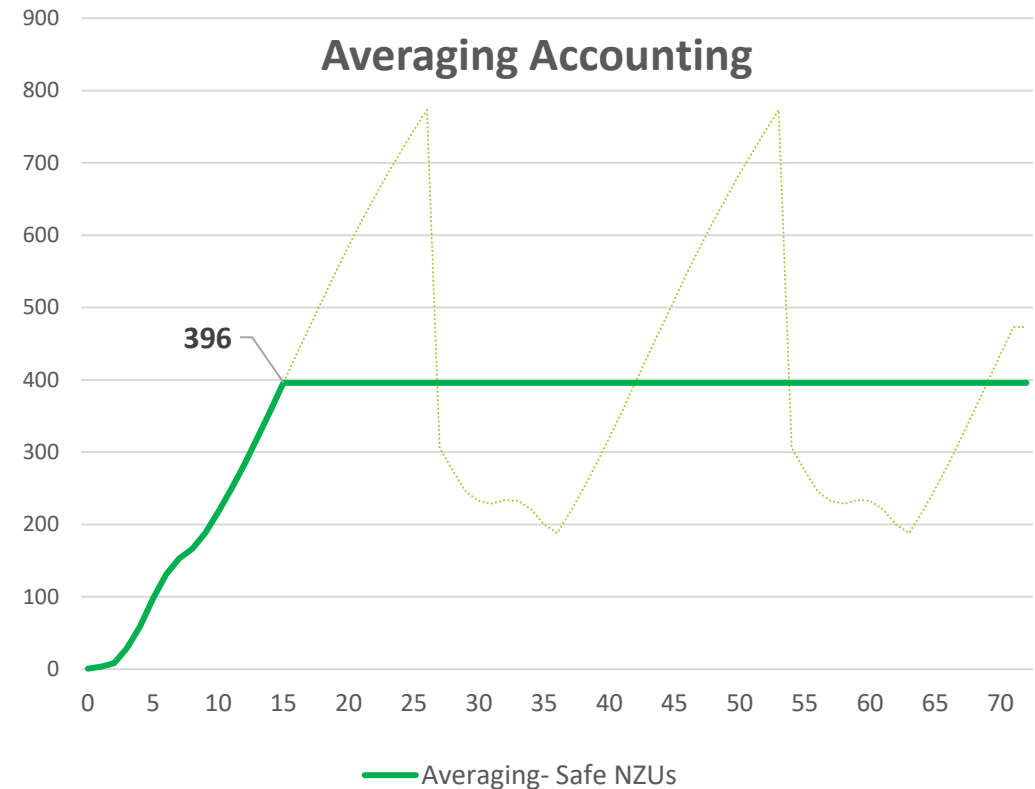
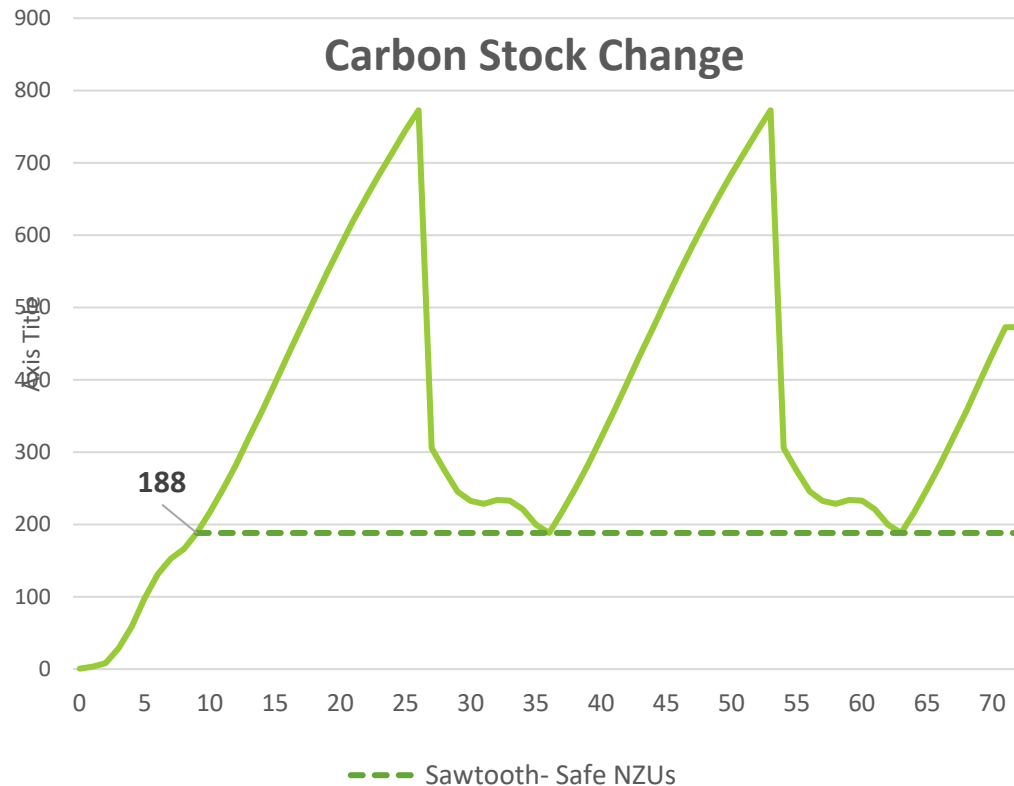
- *Averaging Accounting*
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2) ETS Market Update

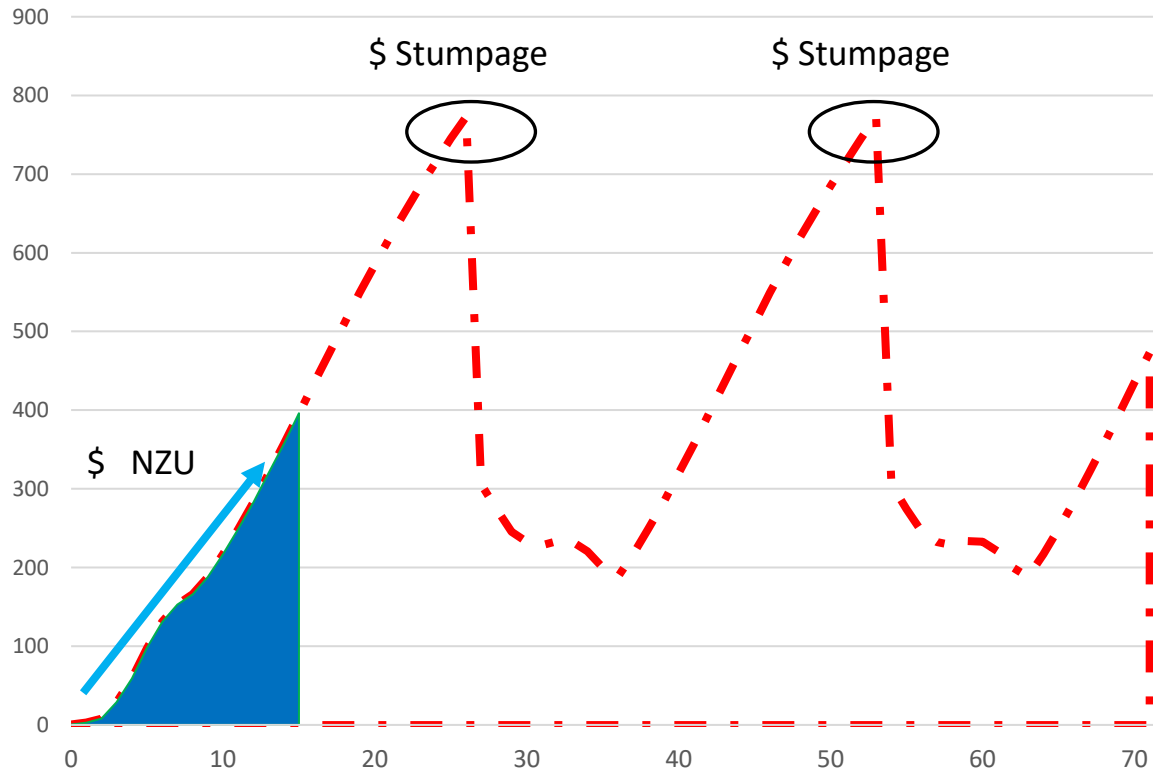
3) Issues for Forest Sector



Averaging Accounting - 01 January 2023



Averaging Accounting - Benefits for Timber Forest



- Front end carbon income
- Increase 'safe NZUs' x ~2.1
- Lift IRR by 4 – 6%

Land @ \$6.5k/ha	IRR %
Timber Only	4.3%
Timber + Carbon	8.6%

- No surrender at harvest
- Simplified accounting
- Land-use change offsetting

Averaging Accounting - Who can use it?

Register in the ETS before
1 January 2019



Must use 'stock change'
accounting

Register in the ETS
between
1 January 2019 and 31
December 2022



You can choose to
transition from stock
change to averaging in
2023

Register in the ETS from 1
January 2023 onwards



Averaging accounting is
mandatory

Source:



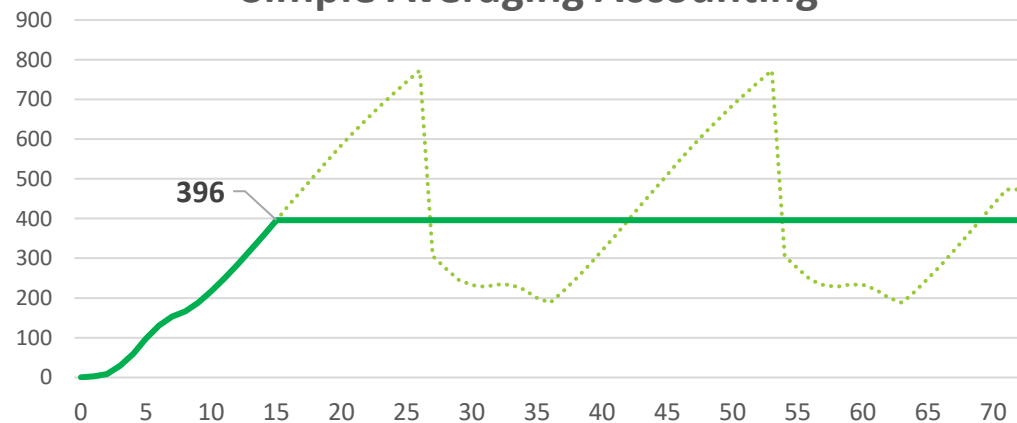
Te Uru Rākau
Forestry New Zealand

Averaging Accounting - Consultation

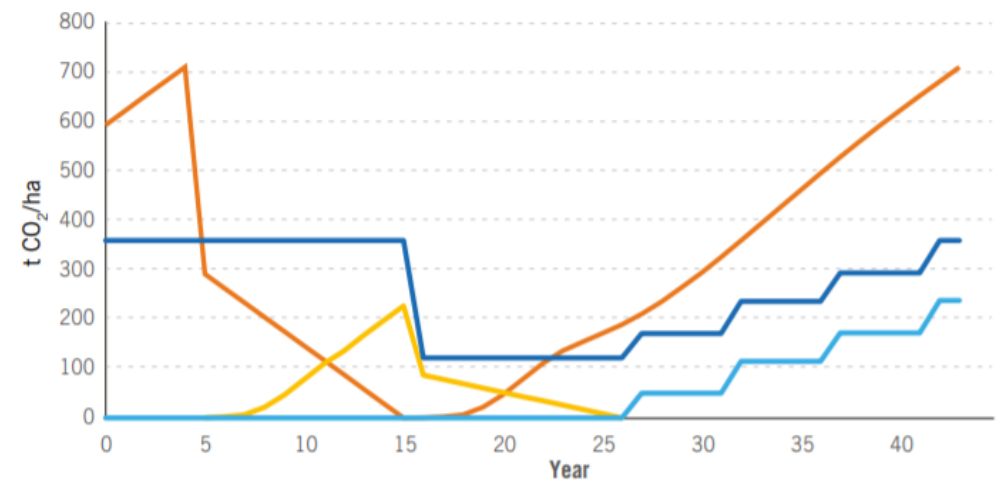
Submissions due on Friday 9 April 2021

1. Age Bands - 3 options: one age band, four age bands, or age bands every 5 years.
2. 2nd Rotation Accounting - 2 options: detailed accounting or simple accounting.

Simple Averaging Accounting



Complex Averaging Accounting



Source:  Te Uru Rākau
Forestry New Zealand

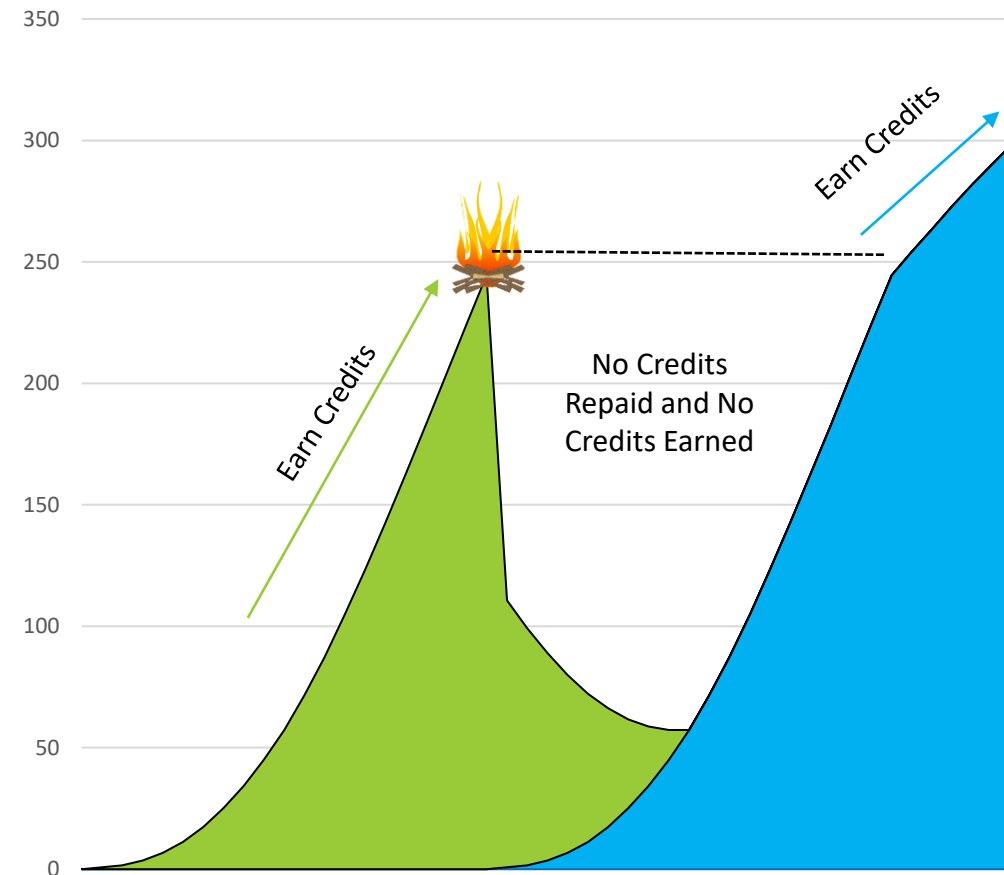
Temporary Adverse Events - 01 January 2023

Current Rules: NZU liability for decrease in CO₂ stocks, e.g. fire.

- Liability capped at number of units issued.
- Carbon insurance available but expensive.

New Rules: No carbon liability if adverse event but:

- Forest must be re-established.
- No credits earned until the forest recovers to pre-adverse event carbon stocks.
- Carbon loss insurance not as important.
- May want future carbon insurance.
- Will Apply to both Carbon Stock Change and Averaging.



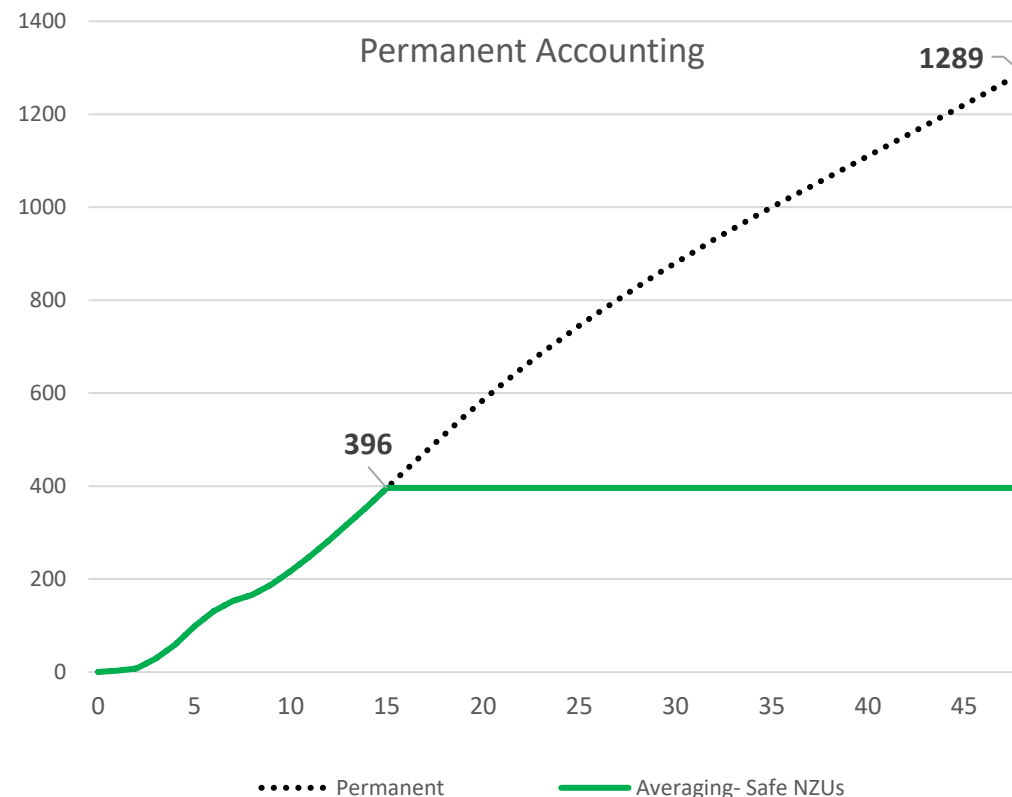
Permanent Forest Activity - 01 January 2023

Currently, the Permanent Forest Sink Initiative (PFSI) covers around 15,000 hectares.

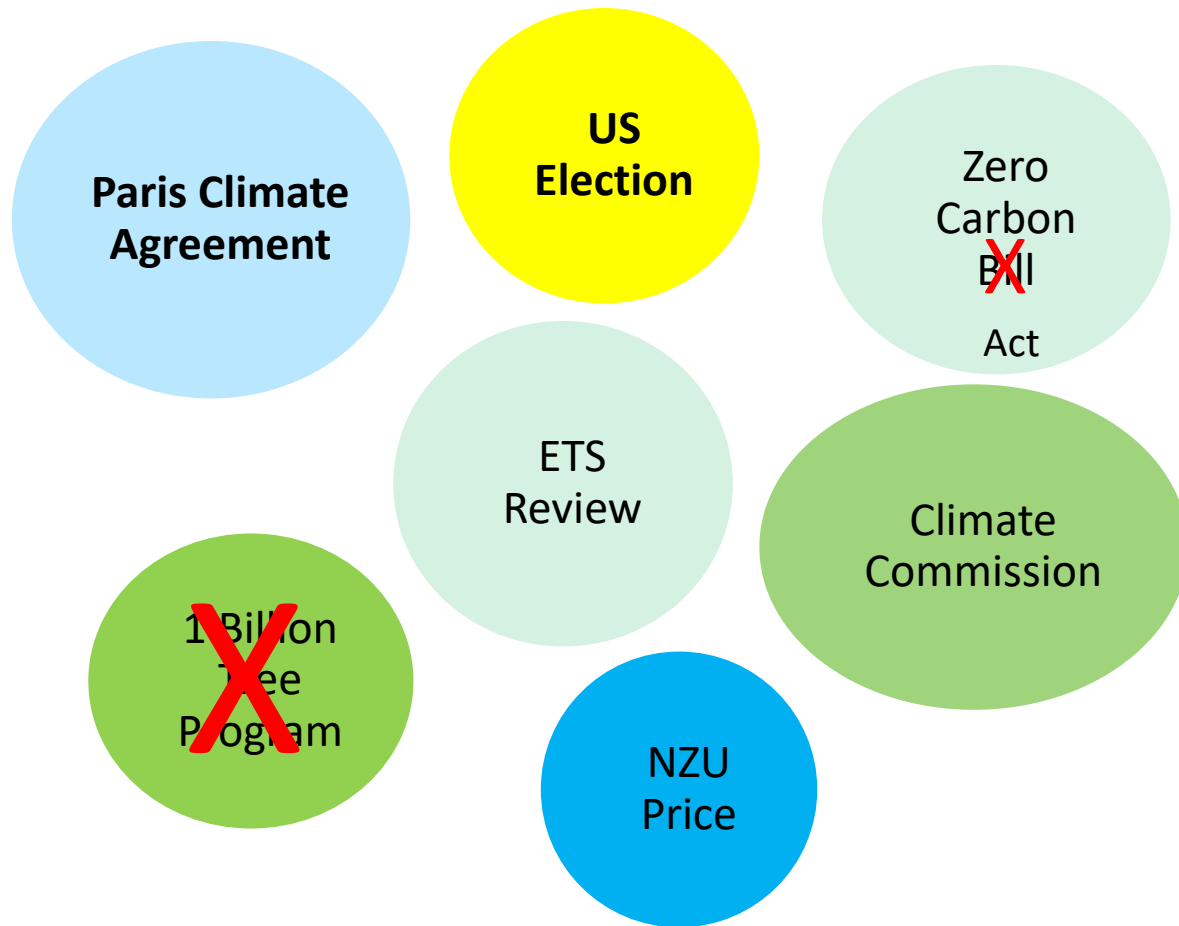
PFSI will switch to the new ETS permanent post-1989 forest activity (PP-1989 forest activity).

Key Features

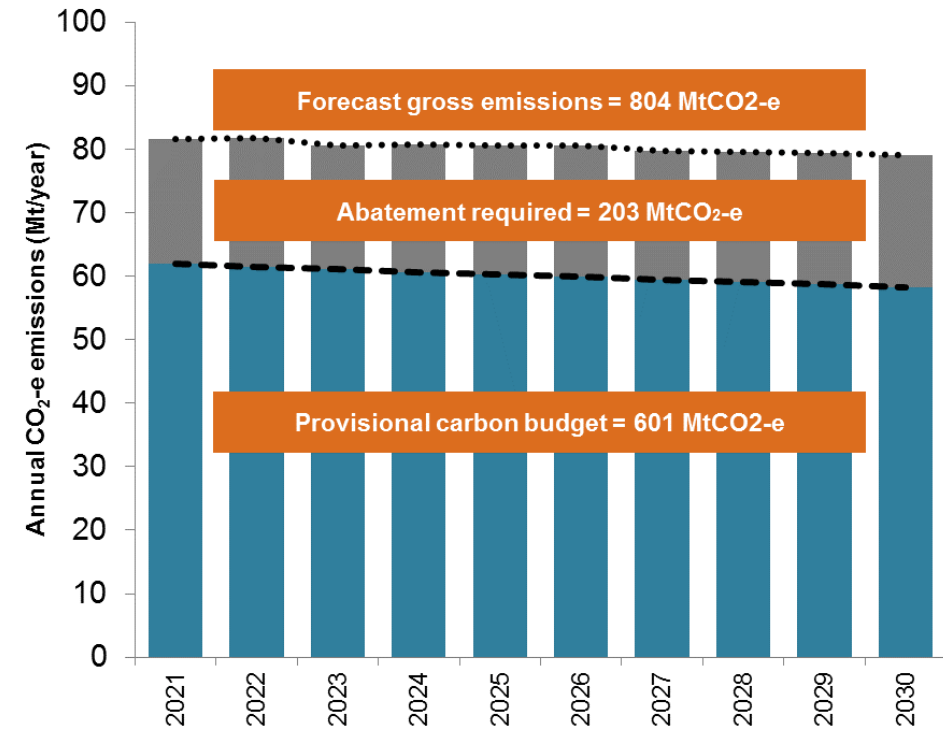
- Carbon stock change accounting
- 50-year permanence period
- Earn PP-1989 NZUs
- Can likely opt-in at any time
- Benefit from new temporary adverse rules
- Some harvesting allowed



Carbon Pricing Update - 2019 to 2021



The NZ ETS and New Zealand's provisional carbon budget for 2021-2030



Source: Ministry for the Environment

Carbon Pricing Update - 2019 to 2021

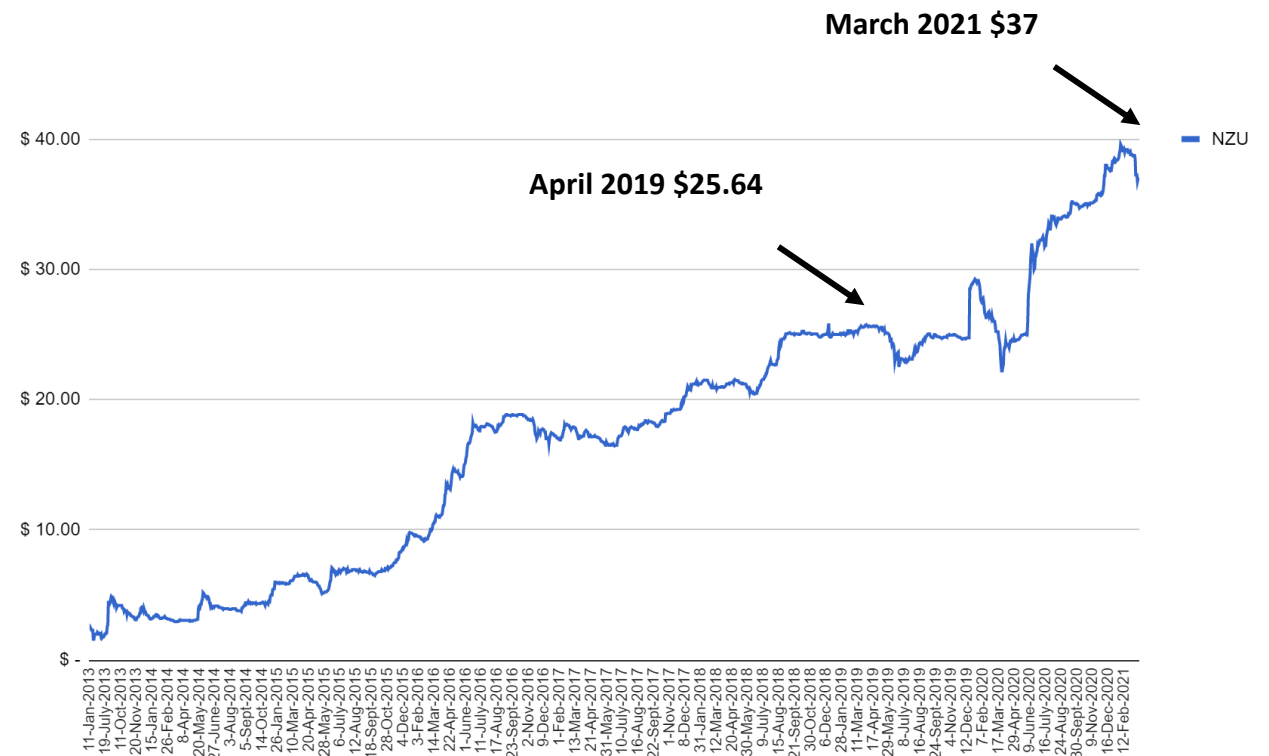
2-for-1 subsidy gone in 2019. NZU demand doubled to ~40 M / year.

Fixed Price Option (FPO)

- \$25 - \$35 in 2020
- Removed in 2021

Auctioning

- 19M NZUs per year.
- First auction (March 2021) sold 4.75M NZUs.
- Clearing Price was \$36 per NZU.



Source: Carbon Forest Services

Carbon Pricing Update - The Future?

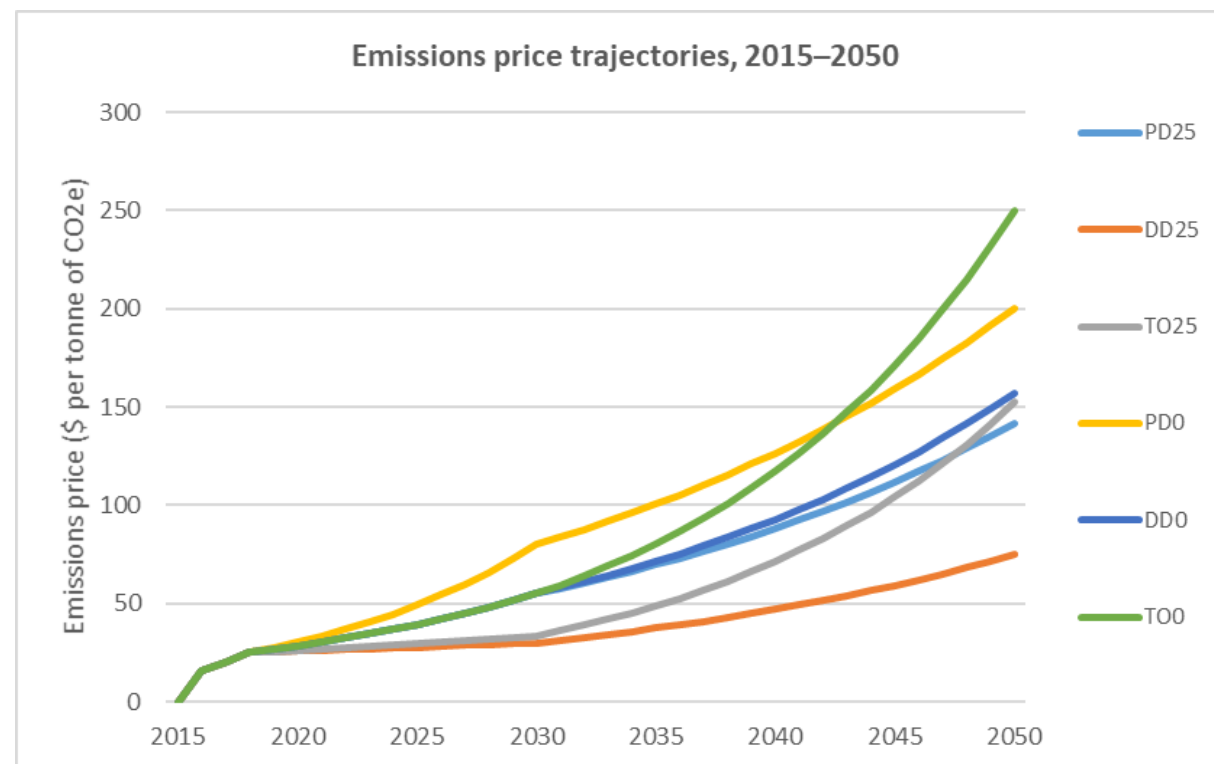
Productivity Commission models \$75 - \$250 by 2050 to meet Paris Target.

Climate Commission recommends auction CCR (currently \$50) should

- Increase to \$70 ASAP
- Reach \$140 by 2030

High prices likely there are many uncertainties:

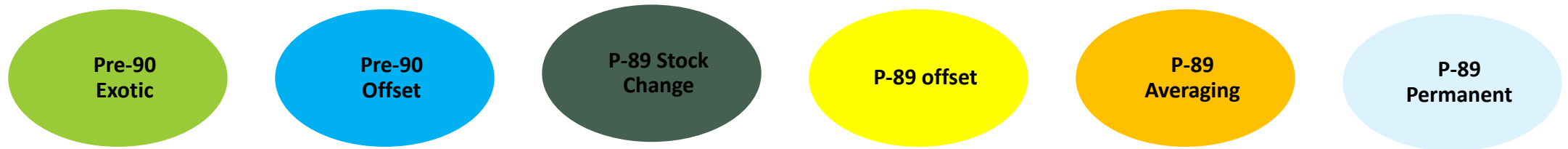
- Auctioning?
- International Units?
- Recession
- Future Governments
- Rule change
- Technology improvements



Source: New Zealand Productivity Commission. (2018). *Low-emissions economy: Final report.*

Issues for the Future

ETS changes intend to simplify but could increase complexity e.g. more ETS forest types



Stranded forest Carbon for older post-1989 Forests

Register in the ETS from 1 January 2023 onwards



Averaging accounting is mandatory

Increasing penalties for ETS non-compliance

Issues for the Future

- Increasing NZU Price benefit is offset by increasing land cost- but existing landowners already have land resource.
- Increasing NZU Price → Increasing Harvest Liability for Carbon Stock Change Forests.
- Emergence of Factory “ Pine Carbon” Farming - *Dryland Carbon, NZ Carbon Farming.*
- Polarising Public/Rural Opinion - *50 Shades of Green.*
- Forest role in ETS market will diminish over time. Why?
 - Under averaging only short-term.
 - Government’s NZU auction is double the annual forest NZUs issuance.

THANK YOU

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