

Q1 2023



Agri Intel

Quarterly Carbon Newsletter

www.agriintel.co.nz



Kia Ora Team,

We're coming to the end of Q1 2023. So, it's time to update you on the latest Agri Intel carbon news.

Update on Agri Intel's ETS Successes and Challenges

We've now officially hit 9 months of trading as a business, and we want to share with you some of our successes and challenges with our ETS applications to MPI.

Application success rate:

To date, we have:

- Submitted 2,670ha of Post-1989 forestland.
- 1,021ha is still in process with MPI.
- 1,470ha has been accepted.
- 150ha has been rejected and we've appealed MPI's decision for 130ha of this.
- We have had an overall 90% success rate for forestland submitted.
- 95% of the total submitted area is naturally regenerating native forestlands.



Figure 1: Crossing the Mathias River in Canterbury, 2023.

Post-1989 forestland rejections:

- All rejected for the same reason: "questioned if met forestland at 31/12/1989"
- No other reasoning or evidence has been provided by MPI. We understand this is so they can reduce their processing time.
- Lack of consistency in their rejection of forestland (some clearly Post-1989). There are several issues contributing to this problem - their primary method is looking at historic satellite imagery only to determine land status around 1990, they're severely under-resourced, and some analysts lack farming/forestry knowledge.

Reducing Post-1989 forestland rejection rate going forward:

- We need high-quality evidence.
- We are constantly improving our approach, and our latest method uses primarily remote sensing and botanical field survey to assess native forestlands.
- We need accurate, data-driven evidence that cannot be disputed by a desktop assessment from MPI. Using this new method, we've started achieving a higher success rate in recent ETS applications while obtaining actual forest growth data, and a lower average forest age. This means more NZUs earned for the landowner.

Recent ETS News as of March 2023.

End of the Mandatory Emissions Return Period (MERP) (2018-2022) – now called 'Final Emissions Return Period (FERP)

A few weeks ago, we finally heard from MPI regarding which clients have or have not been accepted for the FERP period ending 31 December 2022. Those registered before that date will earn NZUs for their forests for the period of 2018-2022. Those 'in progress' applications as of 31 December will start earning credits in 2023, regardless of whether they applied in 2022.

MPI originally stated that applications received by April 2022 would guarantee securement of the 2018-2022 FERP recognition and anything submitted after that would be dependent on how quickly they can process them. Then in October, they released a statement saying that any applications submitted before October 25th would also likely be processed prior to 31 December 2022, but anything following that date would have a very low chance of being processed. In other words, total confusion and frustration for advisers like us trying to get the best outcomes for clients with only limited resources and time to do this. We've also been at the mercy of MPI's excruciatingly slow response and processing times for ETS applications. For many farmers, this has been a stressful experience, waiting up to 10 months for MPI to process their application. Several of our clients didn't get 2018-2022 FERP recognition for their forestland, even though their applications were submitted as early as winter 2022 – an eye-watering experience for many!



Figure 2: Mountain beech forest near Springs Junction, Westland.

A reminder to all - you have until June 30th to complete your 2018 – 2022 FERP submissions to MPI. Please get in touch with us if you have not already signed up for our Care & Compliance Service so we can schedule your FERP compliance work in a timely manner.

The new Tupu Ake ETS online platform is live and the new ETS changes¹ we addressed in last year's Q4 newsletter have now come into force.

Recent Carbon Prices and Trends

The secondary market price (spot price) of NZU carbon has softened recently to \$62/NZU after starting to trend downwards in late December 2022. Prior to this, the trend had been strongly upward, peaking at a high of \$88.50/NZU in mid-December 2022. No one can confidently predict the short-term price of the NZU but we do know some of the key variables which influence the supply and demand for the NZU – and therefore the price. Government auction settings are one of those key variables. We must remember that the NZU market was set up as a Govt climate change policy instrument and is therefore subject to Govt intervention to achieve these policy goals.

The first Govt auction for 2023 took place on March 15th, where no NZUs were traded because the bids failed to come up to the auction trigger price which the Govt set at \$80.64/NZU. The recent downward trend in NZU prices appeared to follow immediately from the Govt’s new announcement of auction settings that differed from those recommended by the Climate Change Commission (CCC). These have been summarised in Table 1 below. Although the Govt price controls only relate to the Govt auctions and they do not directly affect the secondary market settings, their settings do influence trading behaviours in the secondary market and therefore matter.

Table 1: Govt price control settings determined for the next five years, 2023.
<https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/ets/nz-ets-market/emission-unit-prices-and-controls/>

Calendar Year	Minimum price below which <u>NZUs</u> must not be sold by auction (\$)	Trigger price for the sale of reserve amount of <u>NZUs</u> (\$)
2022	30.00	70.00
2023	33.06	80.64
2024	35.90	91.61
2025	38.67	103.24
2026	41.45	115.84
2027	44.35	129.97

Last year the CCC suggested that the trigger price, for NZUs be released from the Cost Contaminant Reserve (CCR), using an initial tier priced at \$171/NZU. However, the Government decided to lift the CCR trigger price only marginally to \$80.64 (from \$78.40) for 2023. The lower-than-expected reserve price increased the likelihood of additional units being released to the Govt market. The potential for increased supply from the CCR put downward pressure on prices.



Figure 3: Regenerating kanuka on pasture in the Coromandel, 2023

Our Agri Intel Carbon Forecast model is based purely on the embedded information contained in the historic carbon prices and trends. For our quarterly carbon newsletters, we've decided a 12-month outlook would be most helpful to clients contemplating the sale of NZUs as follows:

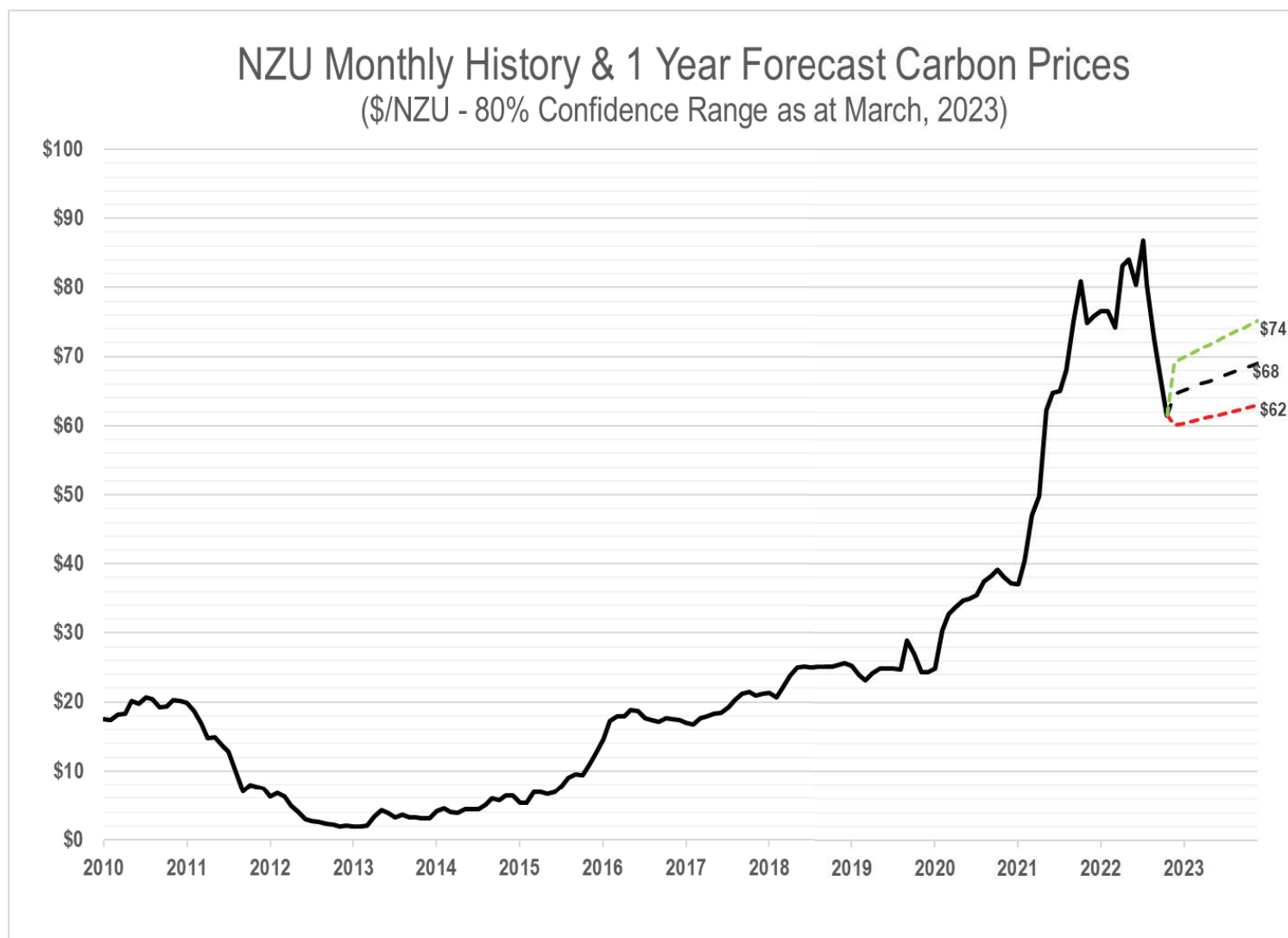


Figure 4: Agri Intel NZU 1-year forecast carbon price model, 2023.

Figure 4 shows the historical prices for NZUs. Over the last quarter, prices have risen from the mid-\$70's up to \$80-\$85, before dropping to the current \$62. Despite the overall upward trend, NZU prices experienced a downward price correction in the past few weeks. However, it's essential to note that such short-term fluctuations can be typical of the carbon market and should not overshadow the long-term trend. Currently, although it appears short-term volatility is expected, we maintain our outlook for an upward trend over the medium to long term. The Ministry for the Environment's recent forecast is still predicting high demand versus supply for NZUs, and therefore, higher future carbon prices in the long term. They have also recently released a statement² that they will be reviewing the ETS to find more ways for it to incentivise carbon reductions and fewer offsets.

Any forecast needs to come with a 'health warning' but our model suggests that in 12 months' time, there is:

- An 80% chance that the NZU price will be in the range of \$74 - \$62.
- A 10% chance it will be more than \$74 and a 10% chance it will be less than \$62.

Please let us know if you have any further questions. The secondary carbon market is still providing our clients with an incredibly exciting space to earn additional, high-yielding incomes through forestland on farm.

Kind Regards,
Sam & Charlotte



Agri Intel
sustainable farming initiatives

¹<https://www.mpi.govt.nz/forestry/forestry-in-the-emissions-trading-scheme/news-and-changes-to-the-ets/>

²<https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/ets/nz-ets-market/emission-unit-prices-and-controls/>