Q4 2022

Agri Intel

Quarterly Carbon Newsletter

www.agriintel.co.nz

Dear Reader,

Welcome to our Q4 newsletter of 2022 covering matters of interest to our clients who are involved in carbon farming. It's been an interesting time and we have a number of important items to discuss.

RECENT ETS NEWS

MPI ETS Application Processing Changes & Challenges:

MPI took the industry by surprise when they announced out of the blue on 18th October, that any ETS applications that clients wanted processed before the 2023 year commenced, had to be submitted before 25th October if they were to have any chance of being processed by year end.

In other words, we only had 5 working days' notice of this truncated application period! The significance of this is that forest land not registered by the end of 2022 will be subject to the new rules that apply from 1 January, 2023 (see below), but mostly, because forests registered before the end of 2022 can claim carbon credits for the mandatory emissions return period (MERP) from 2018-2022. Forests registered as of 2023 will start earning units at the start of the new MERP period; 2023-2027. It was all hands on deck with a lot of midnight oil burnt to get as many client applications submitted by the new deadline as possible. It's been hugely frustrating to face a situation like this where we are at the mercy of the regulator and the decisions they make to solve their problems with seemingly no regard for how it impacts on others. We've also had a complete lack of response from MPI regarding processing post-1989 claims and they are no longer taking phone calls making it impossible to get answers on case updates, some being in submission as long as 12 months.

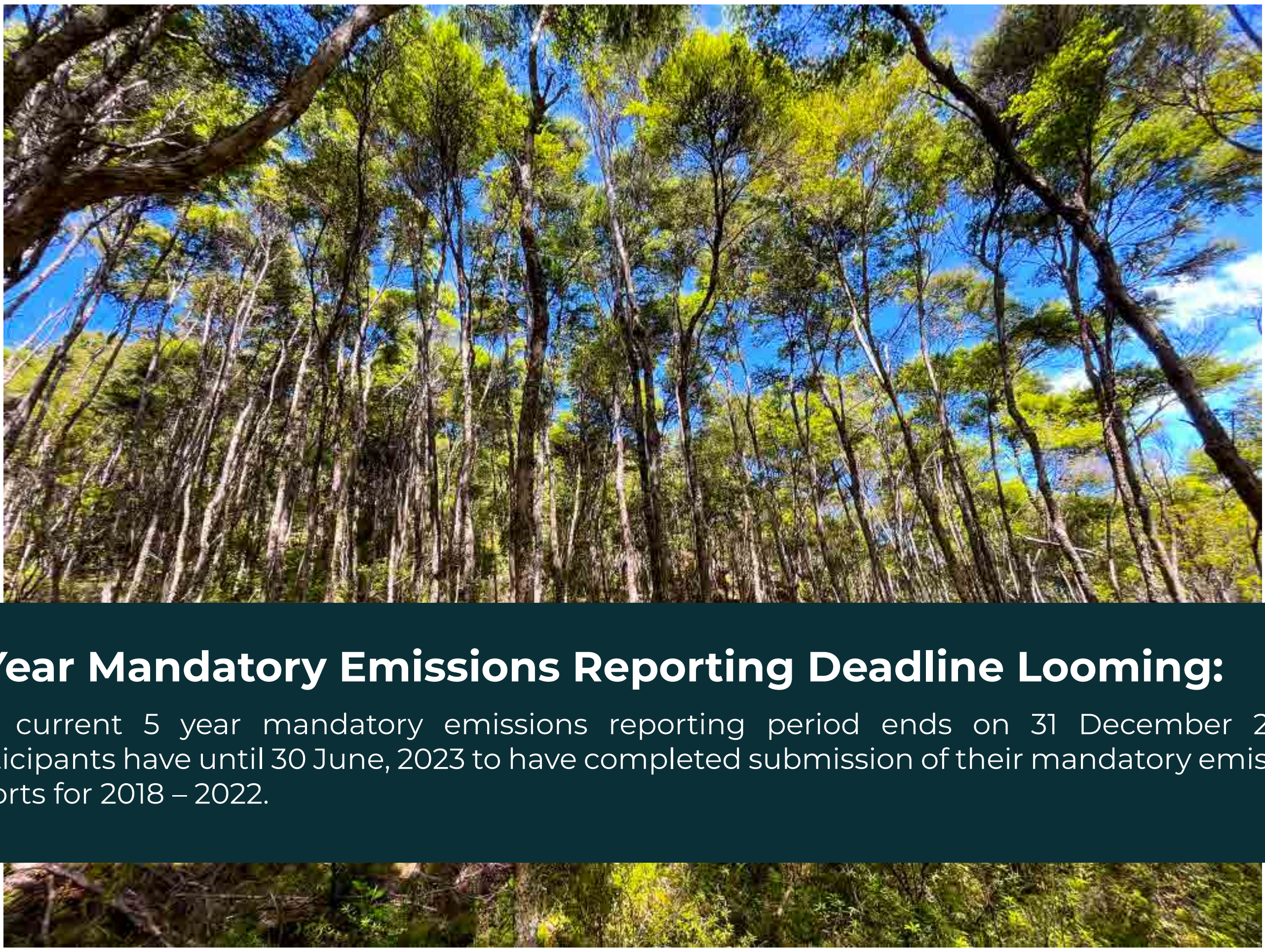
MPI have clearly been overwhelmed by applications, with over double the volume in the last 6 months. They claim to have added more staff and streamlined processes – for example, no longer issuing detailed final assessment maps and notifications to applicants. Only time will tell if this is enough to provide a timely ETS application processing process going forward.

New ETS Regulations Have Been Approved:

The new Climate Change (Forestry) Regulations 2022 were passed in late September and have now been published. These regulations will come into effect on 1 January 2023 - at the same time as most of the changes relating to forestry in the Climate Change Response (Emissions Trading Reform) Amendment Act 2020. Until 2023, the existing 2008 Regulations will continue to apply.

The main changes of interest to clients are as follows:

- From 1 January 2023, there will only be two categories of post-1989 forests for land newly registered in the ETS - "standard" forests subject to the new 'averaging accounting' method or, "permanent" forests subject to the current "stock change accounting" method. Permanent forests are not able to be clear-felled for 50 years after it is registered.
- Forest land where the application occurred after 1 January, 2019 and the land was registered before 31 December, 2022, has the option of being moved to 'averaging accounting'. If you do not apply to move to 'averaging accounting', this forest land will remain on 'stock change accounting'.
- There is a new ability to offset liabilities for planted 'averaging accounting' forests which are older than the average age if you intend to deregister or deforest. Rather than surrender units to settle a deforestation liability, you can also elect to establish an equivalent forest elsewhere.
- A new exemption from carbon liabilities is available for those with forests that have been partly or fully cleared by a temporary adverse event, such as a fire or a landslide.



5 Year Mandatory Emissions Reporting Deadline Looming:

The current 5 year mandatory emissions reporting period ends on 31 December 2022. participants have until 30 June, 2023 to have completed submission of their mandatory emission reports for 2018 – 2022.

The New Agricultural Emissions Proposals

Earlier this month, the Govt released its long-awaited proposed pricing of agricultural emissions. These are open for consultation until 18th November, with ministerial approval now expected in early 2023. Many, but not all, of the proposals put forward by He Waka Eke Noa (HWEN - the Govt and farming industry partnership) are included in the Govt proposals.

These proposals have had extensive media coverage and elicited a strong negative response from the farming community. Given the extensive recent coverage, we will only very briefly summarise the main points in the proposals below:

- A split-gas approach is to be taken which means the price of methane will not be linked to the carbon price.
- With some caveats, emissions are most likely to be priced at a farm (rather than a processor) level.
- Pricing of methane emissions will be revised periodically based on advice from the Climate Change Commission (CCC). The CCC lacks practical agricultural knowledge so will need to consult closely with farmers on the impact of pricing decisions.
- There is no commitment to put a ceiling on emissions pricing as recommended by HWEN.
- There is still no method proposed to price fertiliser emissions at either a farm or processor level.
- Incentive payments will be made to farmers for taking approved actions to improve emissions.
- Of great interest to our carbon farming clients is how on-farm sequestration is to be treated. The Govt proposal includes some reward for riparian plantings and sequestration that occurs due to stock exclusion. However, the range of types of vegetation included is much narrower than was proposed by HWEN, and the Govt is wanting this to be only a short-term solution, with all rewards for sequestration eventually occurring through the ETS.

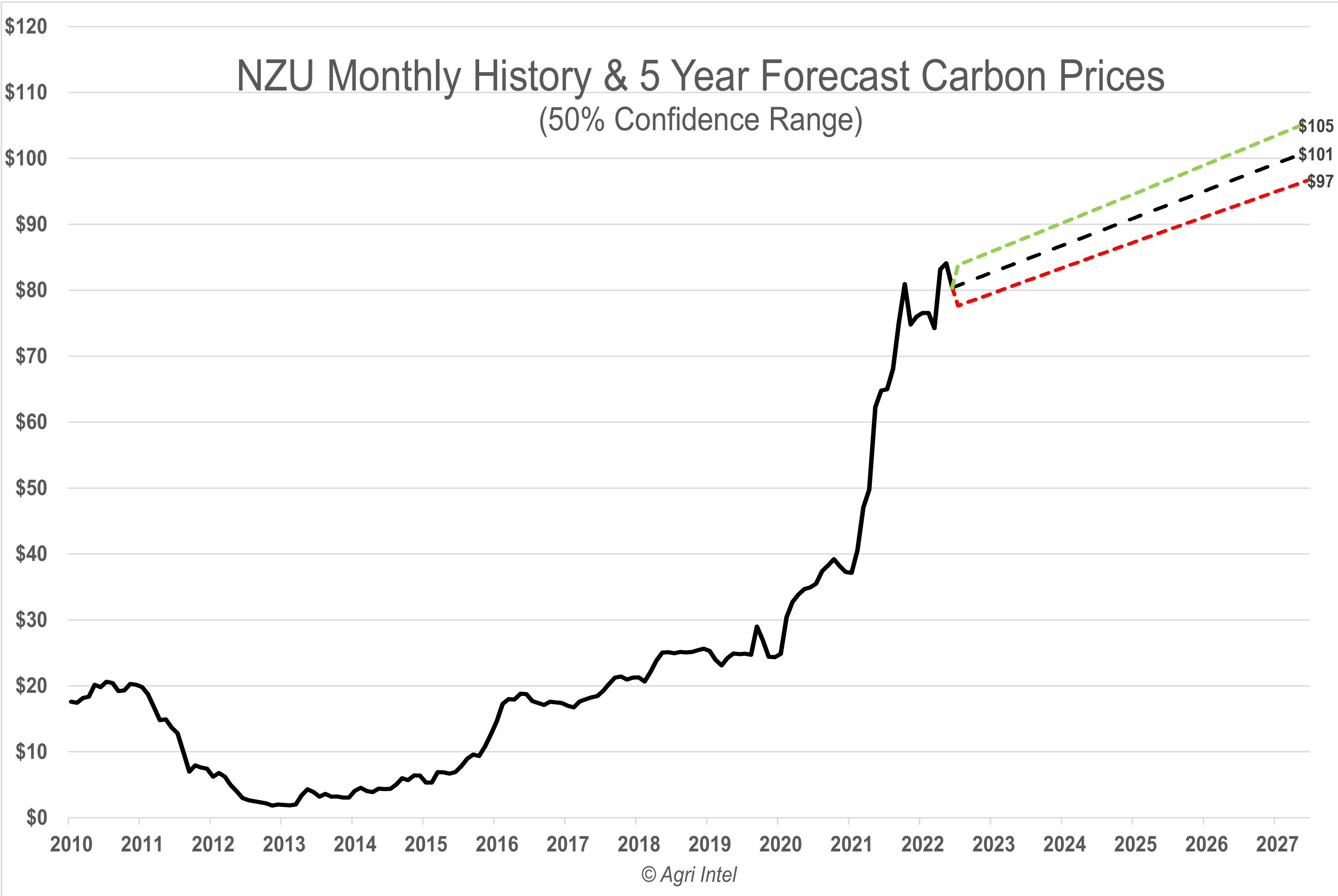
In summary, the Govt proposals whilst largely as expected, still had enough changes to come as something of a surprise to farmers. They are less favourable to agriculture than the proposals put forward by HWEN, with less certainty for emissions price levels and less rewards for on-farm carbon sequestration. Sheep and beef farms appear likely to bear the biggest impact as they generate greater methane emissions relative to the value of the production than the dairy industry. They also would have gained the most from HWEN proposals to reward a wider range of on-farm sequestration. These factors, combined with a high carbon price, will continue to incentivise land-use change towards plantation forestry or retiring land to regenerating natives.

Watch this space to see the outcome of the consultation process and what eventually emerges from this!

Recent Carbon Prices and Trends

The following graph shows the historical prices for NZU carbon credits.
Over the last quarter, prices have risen from the mid-$70's up to $80-$85. For now, NZU prices appear to be range bound at around this level at the moment but the trend remains firmly upwards over the medium to long term. Prices for forward contracts range from $97 (4/2023) up to $107 (4/2027) which is very consistent with the 5-year forecast price levels from our own Agri Intel statistical forecast model.

This model is also shown on the graph and is based purely on the embedded information contained in the historical prices and trend.



Any forecast needs to come with 'health warning" but this model suggests that there is:

- A 50% chance that the NZU price in 5 years' time will be in the range of $97 - $105
- A 25% chance it will be more than $105 and a 25% chance it will be less than $97

Finally, we'd like to take the opportunity to wish you and your family's a very Merry Xmas and we hope that you find time this summer to relax and enjoy a bit of a break! As always, we are here to answer any questions and provide support to you in this space, so please reach out if you have any questions.

Many thanks,

Sam & Charlotte

Agri Intel
sustainable farming initiatives