



# Q3 2023



# Agri Intel

Quarterly Carbon Newsletter

[www.agriintel.co.nz](http://www.agriintel.co.nz)

Kia Ora Folks,

Our apologies for the delay in receiving this Q3 2023 newsletter. However, we have had “all hands on deck” over the last two weeks to register as many new ETS clients as possible to avoid the substantial new MPI ETS registration fees that came into effect this week. More on those later along with lots of other important updates for you - this quarter’s newsletter is a big edition!

## Introducing Matt Hall

Firstly, we’d like to introduce our newest staff member to the team, Matt Hall.

Matt has come to us from the local government sector with a strong background in biodiversity and biosecurity in the Canterbury Region.

*“I am incredibly excited to join the team at Agri Intel. When I saw the job vacancy, I knew I wanted to be a part of Sam and Charlotte’s vision. I have a passion for native biodiversity and its integration with farming systems so immediately saw an opportunity to pursue this. The ETS is not only an opportunity for farmers and landowners to make a supplementary income but also an incentive to increase on-farm biodiversity. Biodiversity credits are set to become the next buzzword in the agricultural sector, and I am excited to work alongside farmers to identify any opportunities that these credits could pose to them”*

- Matt.



Matt Hall



## NZU Monthly History & Forecast Prices - October 2023

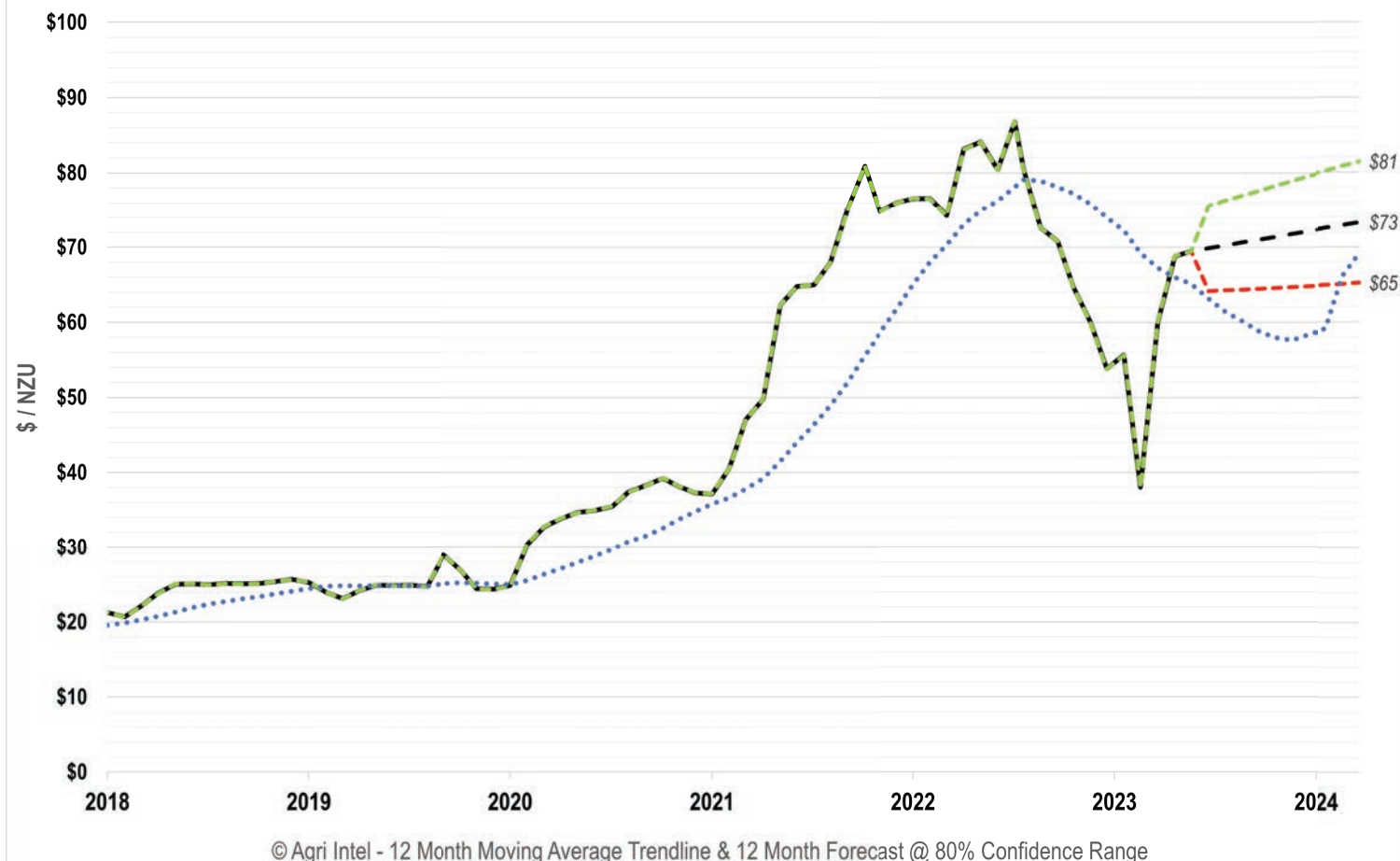
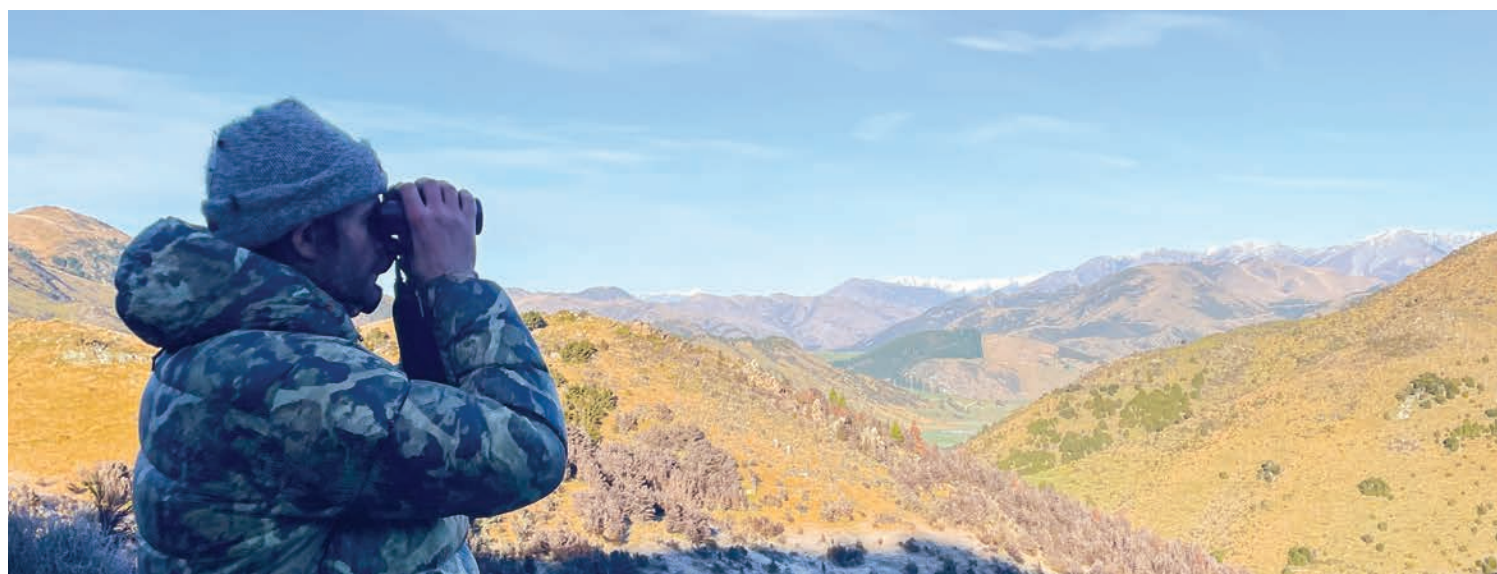


Figure 1: NZU price analysis – price history and Agri Intel 1-year forecast model October, 2023.

The current NZU price in the secondary market is \$69.50/NZU as this is written (October 18 th , 2023). We provide some commentary below on the price of carbon over the last quarter. Our usual Agri Intel NZU Price Analysis Chart above summarises the actual price figures (green line) and the smoothed 12 month moving average of these prices (blue line). As always, the 12 month price forecast needs to come with a 'health warning' but our price model in Figure 1 suggests that in 12 months' time, there is:

- An 80% chance that the NZU price will be in the range of \$65-\$81.
- A 10% chance it will be more than \$81 and a 10% chance it will be less than \$65.



The September quarter began with ongoing weakness in NZU prices, primarily because of the earlier failure of the Government to follow the recommendations of the Climate Change Commission (CCC) in December 2022. But higher interest rates (increasing the cost of holding trading positions), and the June announcement of a review of the design of the Emissions Trading Scheme (ETS) were also significant factors overhanging the market.

In July, there was some positive news when the High Court ordered the government to review its decision following a judicial review. The market was then expecting the Government to announce its review closer to the September deadline so was surprised when the new ETS settings were so promptly announced at the end of July. We have discussed these new settings in a previous newsletter, but to recap, they included a reduction in the number of units available at auction, a significant rise in the auction floor price and a very large increase in the price at which any cost containment reserve units would become available. The market has since responded positively with the NZU price steadily recovering from ~\$40 at the start of the quarter up to ~\$66 where it finished the quarter. The early September ETS auction held under the old settings was unsuccessful. The Government has previously indicated that if there is no auction demand, it means that the secondary market is operating effectively, and emitters are able to acquire what they need without the Government intervening with more NZU supply.

The next auction on 6 th December will be held under the new settings, with 15.0m NZUs available with a minimum floor price of \$60.00. The cost containment reserve units are only available if the bidding climbs above \$173.00 per NZU. With the current secondary market price (to which the secret reserve price is linked) around \$69.00, there is the potential for the December auction to result in no NZUs being auctioned. This would mean that the Government does not sell any NZUs in 2023 and the market for NZUs will not have had the forecast additional supply of 15 million new NZUs. This would be a positive development for the NZU market as it will help reduce the “surplus” NZUs that have already been issued. The CCC has previously estimated that this surplus is circa 49 million NZUs. The CCC expects this surplus of NZUs will be consumed by demand in the ETS by 2030. If there are no units sold at auction in 2023 the surplus reduction will be brought forward by 15 million NZUs which is positive for market prices.

There is still the uncertainty created by the review of the ETS in progress with its four options and the separate consultation on permanent forestry. The consultation is now closed, and it remains to be seen what the new National led Government will do, but the market appears to be taking the view that a radical restructuring of the ETS is now unlikely.

Deciding when to sell? Well, as any good investment advisor will tell you, it's time in the market, not timing the market.

The beauty about most carbon investments is you're earning NZUs each year, therefore, you'll have plenty of time 'in' the market to choose how you want to sell. We work with accredited financial advisors, so please, chat with us if you're feeling like you need to learn more regarding when to sell and use our price model as a guide to what the likely range of prices could be over the next 12 months.





## Certified Forestry Advisors Policy

MPI have now made it policy that to be a forestry advisor/consultant in NZ, you must be accredited under their Certified Forestry Advisor policy. In essence, you must be able to prove to them your competency and experience working in the industry, particularly for forest submissions into the ETS.



We agree with this policy as it will get rid of the “cowboys” in the industry which have undermined the advisory industry’s reputation and wasted MPI’s resources.

We are pleased to say that Agri Intel has been certified and is a registered Forestry Advisor with MPI.

## New MPI ETS Participant Fees

We covered these extensively in our special client newsletter last month but we’ve summarised it again below with a key update.

In late September 2023, MPI introduced a new administration fee policy that completely shocked the industry. Major industry players filed for a judicial review against MPI – read more **here**. With the pending change of Government, there’s the real possibility that industry will win, and these fees will be removed or reduced. Whilst we can all accept the “user pays” principle behind these fees and the need for the ETS to be a largely self-funding scheme for taxpayers, in our view it’s also important that a monopoly provider of services like MPI can demonstrate their fees are fair and reasonable. Agri Intel, along with other industry stakeholders, is deeply concerned about the sudden and substantial nature of these fee impositions by MPI.



Here are their main fees of concern:

### Main Fees and Charges:

**Annual (Per Ha) ETS Participant Fee:** MPI has introduced an annual fee of \$30.25/ha for all registered forestland. The first invoice to be issued in November 2023 will be for the 256-day pro-rata period ending 30 June, 2024, with subsequent fees invoiced annually from 1 July 2024 onwards. Note that there is a limited exemption for indigenous permanent forestland from these annual fees while it is age 6 years or less.

We will be working with our clients to help you understand these changes and will be updating our investment analysis/cash flow models to incorporate them. For some clients it may mean having to sell NZUs to fund these new costs. If you are considering this option, we encourage you to discuss it with us to ensure smooth cash flow management.



## Updates on Exotic Hardwood Look-Up Tables for Space Planted Trees (e.g. Poplar/Willow)

The ability to plant poplar and willow at low densities in an agroforestry model and use the MPI exotic hardwood category of the look-up tables appears to be coming to an end.

As it stands participants are able to plant low-density forests (as low as 40 stems per hectare), and still meet the MPI 'forest land definition' requirements to register into the ETS on the look-up tables. The exotic hardwood look-up tables have been calculated using a Eucalyptus forest planted at 1,000 stem per hectare, therefore, CO2 sequestration for the low-density forests are significantly overstated using this look-up table. MPI has just released a consultation paper on how they plan to close this loophole (, likely by 2026), with new for poplar space planted models and carbon sequestration rates based on new research.



### Here's what MPI have said, October 2023:

- The unique characteristics of space plantings are not recognised by the NZ ETS.
- We are over-crediting space planted poplars and willows by somewhere between 5.8 to 83% depending on stocking.
- MPI is proposing a new forest type for the first time for poplar and willow.
- Stocking rate would become a new attribute used to determine space-planted Poplar and Willow sub-areas (under 220 stems/ha).
- Existing participants with this forest type will earn fewer units from the fifth mandatory emissions return period (2026-2030).
- This will avoid surrendering units claimed between 2023 and 2025 and MPI will manage implementation carefully.
- MPI is proposing an extension of 10 years to the Exotic Hardwoods default carbon table to age 45 from the existing 35 years.

If implemented, our agroforestry clients on the exotic hardwood table will likely see significant reduction in NZUs earned unless forest owners are willing to increase the stems per hectare.





# National's Action Plan with the ETS and Pricing Agricultural Emissions

National will be leading our new coalition Government with ACT and possibly NZ First. We won't know until after 3<sup>rd</sup> November what the final deal between the coalition partners is but National's carbon and farming policies should form the backbone of any new Government policies.

These can be summarised as follows:

## ETS and Carbon:

- Restore stability and confidence in the ETS and a gradually increasing ETS price by committing to no major ETS reforms, including Labour's irresponsible proposals.
- Reverse the regressive changes introduced by Labour to require council consents for all new forestry plantings, rather than simply being clear about areas where planting should not happen.
- Review the extra levies announced by the Government to identify opportunities for efficiencies and cost savings.

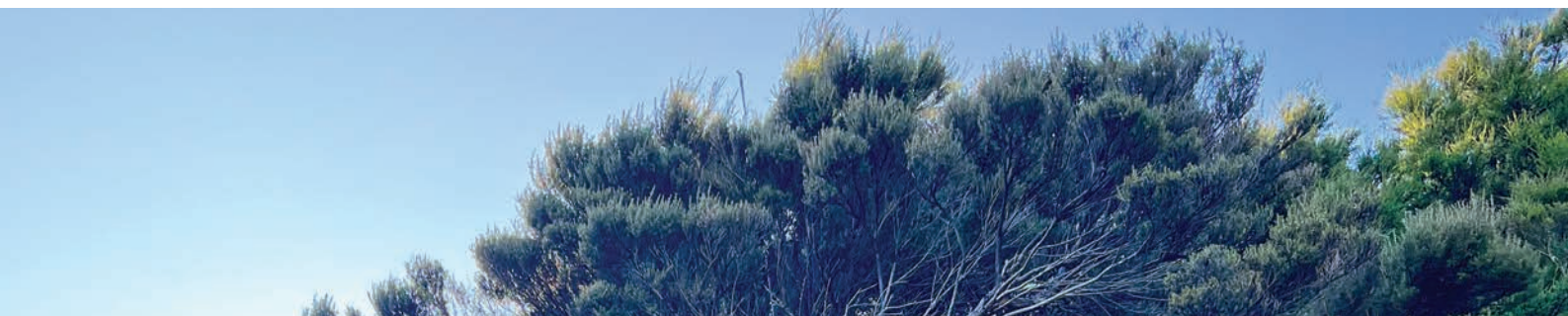
## Agricultural Emissions:

- Farm-level emissions measurement from 2024 and pricing of emissions implemented by 2030.
- Split gas approach to keep agriculture out of the ETS.
- Prices set to reduce emissions without sending agricultural production overseas.
- Review science and methane targets for consistency with no additional warming from agriculture.
- 100 per cent recognition of on-farm sequestration on a robust, scientific basis.
- End the effective ban on GE and GM technologies so farmers can access gene-edited crops, feed, and livestock to raise productivity and reduce emissions.
- Sector-led investment in R&D to reduce on-farm greenhouse gases.



## Our Recent Projects

**Controlling wilding pines at a profit using the ETS** – We've been involved in the development of projects that eradicate wilding pine issues by registering trees into the ETS and recycling the revenue into controlling them. This is a very exciting method of control that works out to be a financially attractive proposition for the land owner. Read more **[here](#)**.





## Our Recent Projects

### Native ETS Assessments

So far this summer, we have a couple of thousand hectares of naturally regenerating native forestland to assess for new clients nationwide. Our assessment method now includes the identification of on-farm biodiversity and advises farmers what they can do to manage and enhance it for the ETS registered native forestlands. This helps forestowners to transition from just early stage successional forests (e.g. manuka and kanuka), to climax succession in full biodiversity (e.g. podocarp, broadleaf, beech). Previously submitted applications are starting to be processed by MPI. We are pleased to have been able to maintain our status of having a 95% success rate of hectares processed versus hectares accepted. All of this comes down to the method we use:

- Preliminary assessments on satellite imagery.
- Field plot work – Species identification, and sampling tree age.
- Drone mapping and/or aerial survey.
- = Successful registration, lower forest ages, more NZUs, stronger investment, ensured compliance, and biodiversity identification.



### ANZCO FAP + National Workshops

We've just finished delivering 12 nationwide workshops in conjunction with ANZCO as part of our partnership with them to assist farmers with Farm Assurance Programme Plus (FAP Plus). The FAP Plus offering by ANZCO or other meat suppliers is an integral part of securing the future of the red meat sector in response to global market expectations, not to mention a premium now available to suppliers signed up per Kg! Find out more about FAP Plus **[here](#)**



## Summary

As concerning as the imposition of these new MPI fees and ETS changes are to participants, they just take some of the “cream off the top” of the carbon farming financial opportunity rather than fundamentally change it. Registering eligible forestland into the ETS is still a financial no-brainer at current carbon price levels for most forestland owners, there are not many other investments like it in NZ with such high returns.

The fundamental principle underlying the ETS is that, over time, the price of NZUs is expected to increase. This stems from the interplay of supply and demand dynamics: a diminishing supply of carbon credits, driven primarily by a decrease in the number of units offered in government auctions, reflecting New Zealand's commitment to the Paris Climate Accord and its goal of achieving net-zero emissions by 2050. As the cost of NZUs rises, it serves as an incentive for emitters to expedite their transition away from fossil fuels and activities that generate greenhouse gases, thereby averting the need to purchase increasingly expensive NZUs.

Just like any other market, it is imperative that participants have faith and confidence in the market's regulatory framework. In the end, the existential threat of climate change necessitates urgent action and, consequently, a higher carbon price to motivate emitters to shift away from fossil fuels and greenhouse gas emissions.

In other words, stay calm and carry on! We are here to help you with any of the issues mentioned above, so please, get in touch if you have questions.

Best regards,

The Agri Intel Team



**Agri Intel**  
sustainable farming initiatives