



# Q4 2023



# Agri Intel

Quarterly Carbon Newsletter

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Kia Ora Everyone,

It's time to wrap up the year of 2023! It has been a huge year for the ETS and carbon market with exceptional volatility occurring, but things are certainly 'back on track' as far as the carbon market is concerned. We've had some excellent feedback on our quarterly newsletter, thank you to all those who provided that, which has also guided us to now include new regular content topics that tie in with carbon (farming, forestry, and biodiversity).

Let's start with our NZU price and market analysis for Q4.



## NZU Price Analysis & Market Commentary

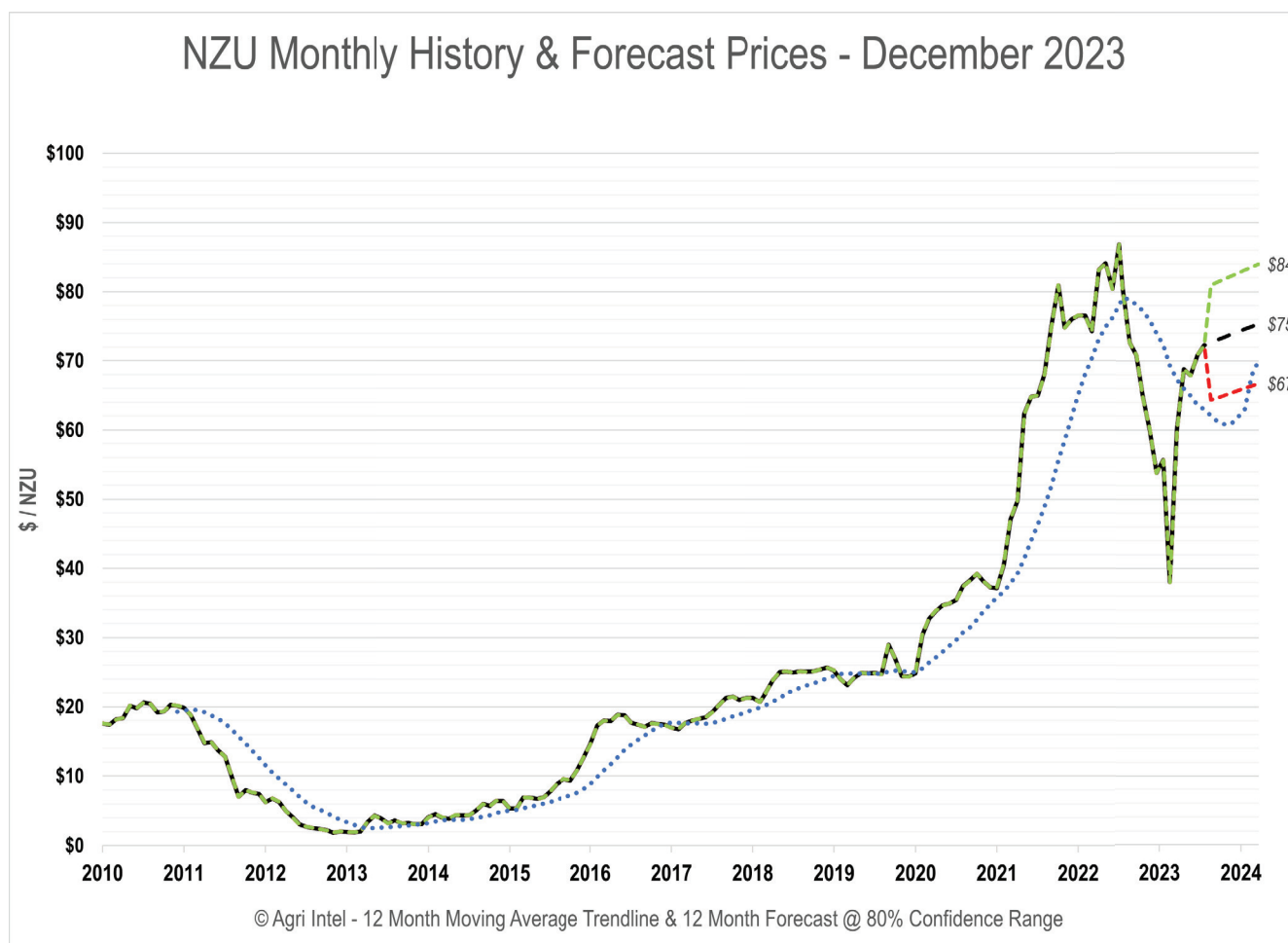


Figure 1: NZU price analysis – price history and Agri Intel 1-year forecast model 17th Dec, 2023.

The current NZU price in the secondary market is \$71.75/NZU as this is written (17 December 2023). Our Agri Intel NZU Price Analysis Chart above summarises the actual historical prices (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 (December 2024), there is:

- An 80% chance that the NZU price will be in the range of \$67-\$84.
- A 10% chance it will be more than \$84 and a 10% chance it will be less than \$67.
- An expected average price of \$75.

Quarter four of 2023 signs off our last update on the NZU market for 2023. Spot NZU prices went as high as \$78, with the lowest prices being traded for the quarter being \$68, and \$70 being a good average price. What has influenced prices this quarter?

The greatest impact on prices this quarter were due to three key events:

- The new National led coalition announced they would revoke the ETS reform implemented by Labour.
- The new ETS auction price settings were announced.
- The final Government ETS auction failed, seeing 15million NZUs be removed from the system.

Firstly, the National Party and its coalition Government swiftly declared their intention to halt the ongoing review of the ETS system, aiming to reinstate confidence and certainty in the carbon market. To re-cap, as summarised in our Q2 newsletter, Labour announced a proposal to reform the ETS, mid 2023, with the main goal to try and control offsets via sequestration and drive gross emissions down, but National has just binned this proposal (more on this below in our ETS updates section). Just as Labour's ETS reform announcement dropped the NZU price at the time, significantly, National's announcement to revoke this had a reverse affect, and drove NZU prices up in Q4. The NZU price has experienced volatility as trading behaviours were pushed and pulled due to future certainty and uncertainty during this time.

Secondly, the recently announced ETS price settings for the next five years have spurred increased activity on the secondary market, fuelled by growing confidence in potential price hikes. Notable adjustments include a substantial increase in auction floor settings, climbing from what was \$33.06 to \$60 in December 2023 and \$64 in 2024. Additionally, a two-tier cost containment reserve (CCR) trigger price will be introduced, reaching \$173 in December 2023, a significant rise from the current \$82. These changes aim to manage risks of high prices in the NZ ETS due to unforeseen events, likely influencing a short-term increase in NZU prices.



For context, as part of the annual auction setting updates, the Minister of Climate Change adjusts unit limits and price controls in the NZ ETS. To maintain stability, a confidential reserve price prevents NZUs from being auctioned significantly below their market value. If the auction price falls below this reserve, no NZUs are sold, and unsold units are carried forward. Importantly, these price controls are exclusive to Government auctions and do not restrict fluctuations in the secondary market where our clients trade, but it certainly affects trader behaviour on what they expect to buy or sell NZUs for.

Thirdly, as expected by many in the industry, bidding in the Q4 Government NZU auction did not reach the confidential auction reserve price, meaning no NZUs were sold, and the auction failed. The removal of 15 million NZUs from the Government's 2023 inventory, though potentially concerning from an emissions standpoint, has intriguing ramifications for ETS participants, emitters, and carbon investors. The interplay of the adjusted ETS price settings and the reduced supply of NZUs due to a fourth failed Government auction implies a forthcoming net reduction in supply relative to demand. This scarcity is likely to render NZU investments particularly attractive in the upcoming year, paving the way for a potentially lucrative market in 2024.

As we gaze into the future, projecting the trajectory of NZU prices in 2024 is impossible, as we've seen in 2023, changes can happen in a volatile manner. However, National have pledged to control this. Given the dynamic nature of the NZU market and the noted influences at play, we believe 2024 is poised to be a year marked for a stronger carbon market playing field.



# ETS & Forestry Related Updates

## New National Led Government Drop ETS Reform

National and its coalition Government were quick to announce that they would repeal the current review of the ETS system to restore confidence and certainty to the carbon market. While this has had a positive effect on restoring faith in the carbon price, driving prices upwards, this may well impact National's other key promises to the rural sector which is to stop productive farmland being planted into exotics, unless of course they find a mechanism to control exotic forestry planting this in a fair and just manner for both the forestry and agriculture sector. Purely from an investment perspective, once the carbon price tips over the mid \$80's, land use for planting fast sequestering exotics can out compete most other land use options in NZ (even dairy), therefore, a high carbon price will inevitably drive an increased mosaic of pine plantings across rural NZ.

Whether we agree or disagree with this, economics are always the main driver of decisions. It will be very interesting to see how National propose to deliver their promise of slowing the rate of pine plantings on farmland following their action to revoke the ETS changes proposed by Labour which were set to curtail this. Until we see other 'allowed' and validated forms of sequestration (e.g. soil carbon and vegetation), we can expect that ETS forestland, such as exotic forests, to be the main land use that erupts from a high carbon price.

## New National Environmental Standards for Commercial Forestry (NES-CF).

On 3 November 2023, the National Environmental Standards for Commercial Forestry (NES-CF) came into effect, ushering in a comprehensive set of regulations. These standards apply to all plantation forests (carbon and timber), specifically those intended for commercial purposes or exceeding one hectare in size, including carbon forests. The implementation of these regulations has significantly heightened the complexity of consenting processes (and costs) for establishing and managing forests. The swift introduction of this policy follows the aftermath of Cyclone Gabrielle and the forestry industry's tarnished public image due to slash-related issues. The NES-CF aims to establish nationally consistent regulations for the management of environmental impacts associated with the eight core activities within the forestry sector.

These are:

- afforestation
- pruning and thinning to waste
- earthworks
- river crossings
- forestry quarrying
- harvesting
- mechanical land preparation
- replanting.





The Ministry for the Environment and councils will work together to implement the changes, while Te Uru Rākau – New Zealand Forest Service is developing risk assessment and management tools for landowners and councils.

While empowering local councils could enhance land management practices and develop greater responsibility, it also poses huge handbrakes for farmers seeking to plant commercial trees on-farm. The additional regulations, compounded by existing challenges, especially in flow-sensitive catchments, could exacerbate the difficulties faced by farmers to get through the hurdles, and cost, of planting trees. As climate change highlights ongoing future challenges in land management for rural New Zealand, we clearly need to find more sustainable land management practices during the likely increasing rate of severe weather events. But it raises the question of whether increasing costs and regulations are the most effective solutions to do this.

[Read more here](#)

## Biodiversity and On-Farm Conservation Updates

Pure Advantage, one of NZ's leading non-profit organisations for biodiversity and conservation, has recently proposed an exciting green initiative, Recloaking Papatūānuku. This proposal aims to restore 2.1 million hectares of healthy indigenous forest over the next decade, establishing a lasting carbon sink to enhance biodiversity and landscape resilience. Announced at COP28 to a global audience, Recloaking Papatūānuku is spearheaded by Pure Advantage and advocates for rewilding various public and private lands, excluding productive farmland or unsuitable areas for native forests. The plan envisions the natural reversion of marginal high country and Crown land, as well as active replanting in areas lacking bush cover but possessing low productivity or existing protection.

This initiative aligns well with our ETS native carbon and biodiversity services, wherein we assist in harnessing the carbon and biodiversity opportunities inherent in naturally regenerating native forestlands for farmers, finding them the restorative and economic opportunities available. We firmly believe that the key to the success of such endeavours lies in leveraging nature as the primary tool (e.g. utilising native seed sources). By safeguarding and promoting the regeneration of native species and being duly recognised through carbon credits, farmers can significantly contribute to the broader goals of carbon sequestration and biodiversity enhancement.

We believe it's only a short matter of time before NZ opens up opportunities for farmers and landowners in NZ to be recognised for the protection and enhancement of their native biodiversity. The well talked about biodiversity credit is certainly a buzz word at the moment that we are feeling hopeful for.



[Read more here](#)



## Summary

Provisional (voluntary) returns are open for all registered ETS participants in January 2024. Please get in touch with us if you wish to submit a provisional emissions return with us in Q1 of 2024 to extract the NZUs you are entitled to for your sequestration in 2023. For our Care and Compliance clients, this is part of your management package. Not signed up to Care and Compliance but want to be? Get in touch!

In overview, the NZU market in 2023 witnessed substantial volatility, primarily driven by political decisions from the Labour Government seeking to reform the ETS by diversifying its reliance on carbon offsets and adjusting price settings. However, with the National-led Government now actively working to restore confidence in the ETS by removing certain policies, the NZU price has stabilised and regained momentum. The combination of National's response and new ETS price settings suggests a robust start for carbon prices in early 2024, barring additional changes. It is key to acknowledge that such shifts may reintroduce land use challenges observed in 2022, where the focus on gross emissions reductions was diverted by the economic appeal of sequestration in response to a rising carbon price. Higher carbon prices also present a lucrative investment opportunity in land use.

Overall, we think that a higher carbon price is going to be a good thing for NZ and Kiwi farmers in the position of being able to capitalise on this commodity, as it promotes business optimisation. The timing of a strengthened NZU market is especially significant for sheep and beef farmers facing low lamb prices, highlighting the importance of business diversity, including both farming and carbon ventures.



The introduction of NES-CF regulations adds complexity to commercial forestry and farmers wanting to pursue farm forestry ventures, while our endorsement of Pure Advantage's Recloaking Papatūānuku initiative reflects our commitment to supporting farmers in navigating carbon and biodiversity opportunities. As we approach 2024, we anticipate a mix of promises and challenges, and we remain steadfast in keeping our audience well-informed and empowered. Wishing everyone a restful holiday season and a Merry Christmas from our team!

Get in touch with us if you have any questions.

The Agri Intel Team



**Agri Intel**  
sustainable farming initiatives

