



CarbonFund

June 2021

Carbon Comment

The Time is Now

Last week the much anticipated final advice from the Climate Change Commission (Commission), The Climate Change Commission report - nāia tonu nei a low emissions future for Aotearoa, was delivered to the Government. The Commission received over 15,000 submissions through the consultation period, and the final 418 page report includes different ideas and perspectives voiced through that process.

It is now over to Government to decide whether to accept the advice and to show how it will shape climate action in Aotearoa. The Government has until 31 December 2021 to set the first three emissions budgets out to 2035 and release the country's first emissions reduction plan detailing the policies it will use to achieve the budgets.

For the most part, the Commission's advice relating to the ETS stayed the same. However, the final advice is more explicit about changing the NZ ETS to manage afforestation. Therefore prioritising stopping emissions at their source and then strategically managing forests to provide a long-term carbon sink for unavoidable emissions.

What stayed the same:

1. Update unit volumes to align with emissions budgets, taking into account the need to reduce the NZU stockpile. The provisional emissions budget will be updated by the end of the year and apply to 2022.
2. Increase the Cost Containment Reserve (CCR) trigger price to \$70 as soon as practical and then at least 10% plus inflation every year,

providing a trajectory that allows for prices of at least \$140 in 2030. A higher CCR mitigates the risk that it will be triggered and additional units added to the stockpile.

3. To maintain continuity with recent prices, immediately increase the auction reserve trigger price to \$30 as soon as practical, followed by annual increases of 5% plus inflation.
4. Except for uncontrollable circumstances, zero offshore mitigation in the first three budgets through to 2035.
5. Establish an effective governance regime for the NZ ETS as soon as possible to mitigate risks to the market.
6. Review other aspects of industrial allocation policy, including overallocation risks and eligibility rules.

What changed:

7. Improve accounting in the future to extend accounting for emissions outside forest-related activities and create sound and transparent methods to account for voluntary mitigation and offsetting claims to encourage voluntary offsetting behaviours without disincentivising emitters in the NZ ETS.
8. ETS should be complemented by other policies to reduce emissions; relying too heavily on the ETS could be counter-productive e.g., if the CCR is triggered, it increases units in supply and subsequent stockpiles. The Commission

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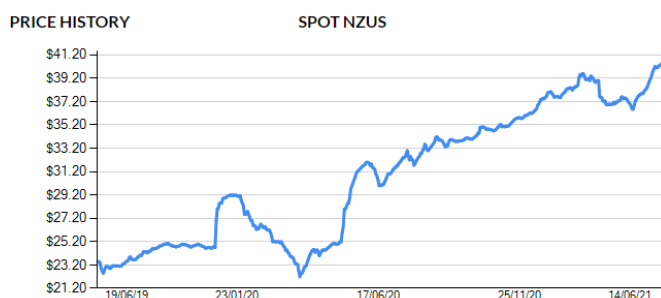
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stated, “the more the Government chooses to complement the ETS with other policies, the more likely the NZU price can be lower while still achieving the same overall emissions reduction.”

The Commission also increased their conviction of some of their original advice to improve the NZ ETS continually. Recommendation 11 explicitly recommends in the first emissions reduction plan the Government commit to:

- Implementing the legislated process for review and phase-out of industrial free allocation and reviewing other aspects of industrial allocation policy to ensure they are fit for purpose.
- Developing and implementing a plan for recycling proceeds from NZ ETS unit auction into emissions reductions, adaption, climate education, equitable transitions and meeting international climate change obligations.

Last week NZUs broke through the \$40 mark closing at \$40.35 on Friday, up 6% in one week.



Source: Commtrade

Other global markets have also continued to climb. Most significantly, Europe’s price for EUA’s has been trading above €50 since 7 May 2021, last close at €52.59 (NZ\$89.40).

EUA (EU ETS) Futures Prices



Source: ICE (Intercontinental Exchange)

The global focus on meeting Paris Agreement targets will only grow, particularly as we get close to COP26 in November. In the past 6 months alone, we have seen significant commitments from other signatories, including the UK increasing its 2030 target to at least 68% below 1990 levels and the United States pledging to reduce emissions 50-52% for the same period. This follows the U.S. rejoining the Paris Agreement in January.

The full report can be viewed at this [link](#).

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