



CarbonFund

January 2021

Carbon Comment

Open for Consultation

On 31st January, the Climate Change Commission (CCC) released its draft advice to the Government on tackling climate change, now open for consultation.

The advice includes recommendations on the level of the first three emissions budgets and increasing New Zealand's 2030 and 2050 Paris Agreement commitments to align with the global goal of limiting global warming to 1.5°C above pre-industrial levels. It also provides advice on the strategic policy direction for meeting the emissions budgets, looking at what is needed across different sectors.

Gross greenhouse gas emissions in New Zealand were about 45.5 Mt CO₂-e of long-lived gases and 1.34 Mt CH₄ of biogenic methane in 2018. If we kept going as we are, New Zealand would fall short of achieving the 2050 net-zero target by 6.3 Mt CO₂-e. Biogenic methane would reduce 12% below 2017 levels and fall short of the current target of 24-47%.

As the report states, "Emissions pricing is a powerful tool, and an essential component of an effective policy package for reducing emissions. In Aoteroa, the main instrument is the NZ Emissions Trading Scheme (NZ ETS)".

The CCC advises that while the architecture is now in place for the NZ ETS, further improvements are needed, including adjusting ETS unit volumes and price control settings to align with budgets. They propose in the next annual update to NZ ETS settings:

- i. Align unit volumes with emissions budgets, taking into account the need to reduce the NZU stockpile.
- ii. 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.
- iii. 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.

Market commentators believe the outlook on carbon pricing from the CCC is bullish. As OMF mentioned in their recent update, "NZUs hit an all-time high of \$39.60 this week post the report. It is a bullish outlook."

The CCC proposes offshore mitigation shouldn't be used for the first three budgets through to 2035 to ensure as much as possible is done domestically to meet NZ's targets, except in exceptional circumstances. Market commentators believe it is unlikely NZ will meet its targets without offshore mitigation.

The ETS will generate income for the Government from selling emission units. The income generated depends on the volume of units sold and the market price for units. It could equate to at least \$3.1 billion over the next five years under current settings. A significant question remaining is how the Government will allocate these funds. As



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the report discusses, offsetting alone will make maintaining net-zero long-lived greenhouse gas emissions after 2050 difficult. Therefore, the question is how the funds can be best used to support emissions reduction and the transition to a low carbon economy.

The report is released at a time where carbon units are trading at all-time highs. Most recently, NZUs closed at NZ\$39.20, ACCUs at AU\$18.50 (NZ\$19.83), and EUAs at €38.76 (NZ\$65.02). With Joe Biden's election as President in the US and his strong words of becoming leaders in the fight against climate change, we have observed Scott Morrison, Australia Prime Minister, somewhat back down from his anti-climate change stance. While his message on climate change and Australia's strategy to meet Paris Agreement targets is still somewhat confusing, we believe the voluntary carbon market in Australia will show the much-needed leadership to mitigate emissions in the near term.

The report is thorough and provides detail on other topics related to climate change and outside the NZ ETS scope. For detailed information, you can access and provide feedback here: [Our advice and evidence » Climate Change Commission \(climatecommission.govt.nz\)](#). Consultation closes 14 March 2021, and final advice presented to the Government in May 2021. The Government then has until 31 December 2021 to respond.

[For more information on the Carbon Fund, visit our website.](#)

Confidential Reserve Price

Earlier this week was the first reading of the Climate Change Response (Auction Price) Bill. The change to legislation addresses the prior omission of a Confidential Reserve Price for quarterly ETS auctions, ensuring the auction price doesn't significantly undercut the secondary market.

The methodology of the CRP will be decided by the Government and calculated by the market operator. We assume it will be some type of calculation of historic prices leading up to each auction. If the auction's final clearing price is below the CRP, the auction will fail, and no NZUs will be sold.

The Amendment Bill is with the Select Committee before moving to the second reading. It is unlikely to be contentious as the proposed change is seen as a technical requirement to get in place before the first Auction on 17 March 2021.

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