NZ ETS: Change of price and volumes settings

26 July 2023



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ETS: settings change following court ruling

The Government has announced changes to the settings for the Emissions Trading Scheme (ETS) that now align with earlier advice provided by the Climate Change Commission (CCC):

- Minimum auction price lifted to \$60.
- Substantial lift in the prices required to trigger the release of extra units.
- Volume of units on offer reduced by 17.6 million units over 2023-2028.

The changes relate to the minimum price settings for release of units at the quarterly auctions of NZUs, as well as the number of units on offer. The amended rules will come into effect prior to the December auction but will not apply to the September auction.

In July 2022 the CCC advised a minimum price of \$60 should be applied to units traded offered at the quarterly auctions in 2023. They also recommended that the total number of units on offer be reduced to 16.3m NZUs in 2023, with further reductions in subsequent years.

However, in December the Government announced ETS settings that differed from those proposed by the CCC, due to cost of living concerns. This made the market question how committed the Government is to reduce emissions to the levels to which New Zealand has previously committed. Subsequently the price of carbon in the secondary market started to trend down and no units were purchased in the two quarterly auctions held this year to date.

The validity of the settings adopted by the Government late last year was questioned in the High Court, which resulted in the Climate Change Minister James Shaw admitting the settings did not align with our Nationally Determined Contribution (ie New Zealand's global commitment to reduce emissions) nor our emissions reductions budgets. This resulted in a High Court order on 14 July that the ETS unit limit and price control settings be reconsidered by the Government before 30 September.

Given that the next auction of NZUs is scheduled for 6 September, it was expected that the revised settings would be announced after this date. However, James Shaw surprised the market by announcing changes to the ETS rules late yesterday.

The main changes to the regulations are:

- increasing the minimum auction price from \$33.06 to \$60 in December 2023;
- an increase in the price required to release units from the Cost Containment Reserve (Tier 1 lifts from \$82 to \$173); and
- a reduction in units available to be auctioned, by 17.6 million over the period from 2023-2028.

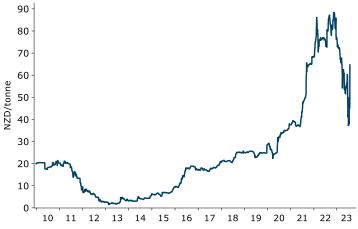
The increase in the minimum price settings will bolster carbon prices, which softened considerably in December when the settings that were announced at that time differed from the CCC advice.

Table 1. Minimum price settings for quarterly auctions (\$ per NZU)

	2023	2024	2025	2026	2027	2028
July 2023	60.00	64.00	68.00	72.00	75.00	79.00
Dec 2022 (previous limit)	33.06	35.90	38.67	41.45	44.45	

Carbon markets responded today with a substantial increase in prices offered when the markets opened. Prior to the announcement, carbon was trading at just over \$51, but shot up to trade at \$64.50 earlier today.

Figure 1. Carbon price (secondary market)



Source: Bloomberg, Macrobond, ANZ Research

The updated ETS settings will come into effect at the December auction. This provides an opportunity for market participants to stock up on units at the September event prior to the new settings being applied.

The total number of units that will be offered to the market via the quarterly auctions has been reduced by 17.6 million units across the period from 2023 to 2028. The 2023 offering is now 23.0 million units, of which 8 million units is in the cost containment reserve (CCR). So far this year no units have traded, which means that 13.4 million units will be available at the 6 September auction. If these units are all sold at that time, that will leave just 1,575,000 units available for the 6 December auction (plus any units left in the CCR). In 2024 the quarterly auction volume is forecast to be 3.55 million with a further 7 million units available via the CCR.

Table 2. NZUs available via auction (million t CO2e)

		-		-		
	2023	2024	2025	2026	2027	2028
Total	23.0	21.9	19.7	17.2	15.0	12.3
CCR	8.0	7.7	7.1	6.5	5.9	5.4
Quarterly auctions	15.0	14.2	12.6	10.7	9.1	6.9

The announcement made yesterday is separate to the Review of the New Zealand Emissions Trading Scheme which is currently being consulted on. This review is focusing on the structure of the market. Options being consulted on include limiting the use of credits from forestry removals by emitters, which would effectively result in a two-tiered market for carbon credits. The current consultation period for this review runs until 11 August, although it is likely to be some time after that before any changes are finalised.



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