

Carbon Market: Emissions Trading Scheme settings

20 August 2024



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Contact

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Data summary

	2024
Prices at recent auctions (NZD/NZU)	
Q2 2024	n/a
Q1 2024	\$64
Q4 2023	n/a
Q3 2023	n/a
Q2 2023	n/a
Q1 2023	n/a
Q4 2022	\$79
% change (q/q)	n/a
2024 Reserve prices	
Price floor	\$64
Tier 1 CCR trigger price	\$184
Tier 2 CCR trigger price	\$230
2024 Volumes	
Traded year to date	3.525m
Total available in 2024	14.1m
Cost Containment Reserve volumes	
CCR Tier 1 available	2.8m
CCR Tier 2 available	4.9m

Government reduces offer volumes

Bottom line

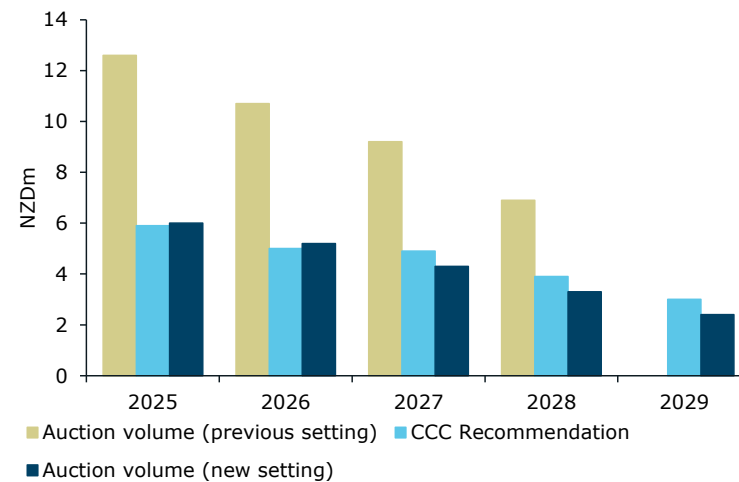
- Today the Government significantly reduced the volume of NZUs that it plans to offer to the market over the next five years.
- The auction floor price, cost containment reserve price and cost containment reserve volume are to stay substantially the same (just adjusted for inflation and extended to 2029).

Key points

Today the Government announced the annual updated settings for the Emissions Trading Scheme.

They have significantly reduced the volume of units that will be offered to the market from next year onwards. The changes are largely aligned with the recommendations from the Climate Change Commission (CCC), and are therefore unlikely to be a surprise to the market. There are slightly more units available than the CCC recommended for 2025 and 2026, but volumes are lower in the later years, reducing the 2025-29 total allocation from 45 million to 21 million.

Figure 1. Auction volumes – total annual offerings



Source: MfE, CCC

The market is currently oversupplied with units and there was no participation in the latest Government quarterly offering to the market, due to the auction floor price being set being well above the general market price.

Reducing the volume of units that the Government offers to the market via the quarterly auctions will potentially help the market to rebalance more quickly. However, units are also given to certain companies each year, and units can also be earned via sequestration (ie forestry). There is therefore still potential for further oversupply of units depending on the area of new forestry plantings that are registered into the ETS. The Government does have plans to limit forestry plantings to less-productive land, but details are still being worked out.

The auction floor price was also updated as part of this review, but it was virtually unchanged from previous settings. As previously foreshadowed, in 2025 the auction floor price will increase to \$68 from its current setting of \$64.

There was virtually no change made to the cost containment reserve (CCR) settings in terms of both prices and volumes. The CCR allows extra units to enter the market when prices are above certain levels. The price that needs to be exceeded to allow these extra units to be released is \$193 for 2025, which is substantially above the current market price.

“The Government will retain the current auction floor price, the cost containment reserve price, and current reserve volumes of New Zealand units in the Emissions Trading Scheme. These settings are doing their job and should be left alone.”

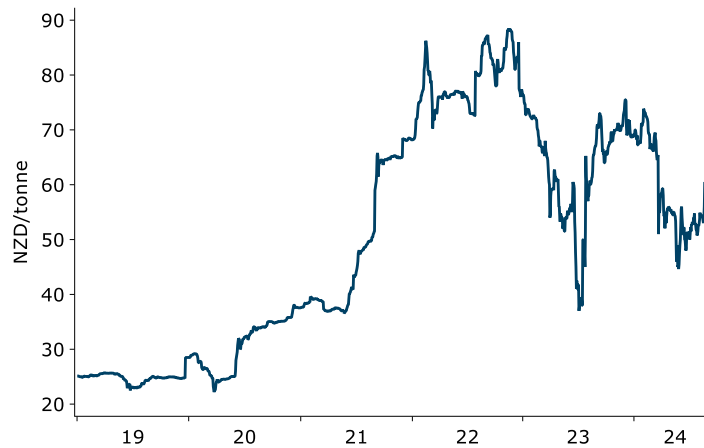
Table 1. ETS floor price and cost containment reserve settings

	2025	2026	2027	2028	2029
Auction floor price	\$68	\$71	\$75	\$78	\$82
CCC recommendation	\$68	\$72	\$76	\$79	\$83
CCR Tier 1	\$193	\$203	\$213	\$224	\$235
CCR Tier 2	\$242	\$254	\$267	\$280	\$294

Source: MfE

Since the announcement was made the spot price for carbon has bounced approximately \$5 to trade above \$60 for the first time since March.

Figure 2. Carbon spot market price



Source: Bloomberg, Macrobond, ANZ Research



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