

Overview of the ETS and market outlook

Developed for the Market Advisory Group

March 2026

NOTE: This presentation was based on publicly available information and provided an overview of the New Zealand Emissions Trading Scheme (ETS).

It covers its current design, operation, and key market dynamics. It also includes modelling and market commentary on potential medium- and long-term outcomes under different market conditions.



The ETS assists New Zealand to meet its climate change targets

The purpose of the ETS is to assist New Zealand to meet its domestic and international obligations:

- The 1992 United Nations Framework **Convention** on Climate Change
- The 1997 **Kyoto Protocol** to the United Nations Framework Convention on Climate Change
- The 2015 **Paris Agreement**
- New Zealand's **2050 target** is net zero for all greenhouse gases (except biogenic methane) and a reduction of 14–24% in biogenic methane levels from 2017 levels by 2050.
- New Zealand's **emissions budgets** which set a total quantity of emissions allowed during an emissions budget period (2022–2025, 2026–2030, 2031–2035). They act as interim targets towards reaching our 2050 targets.

How climate change targets inform ETS auction settings

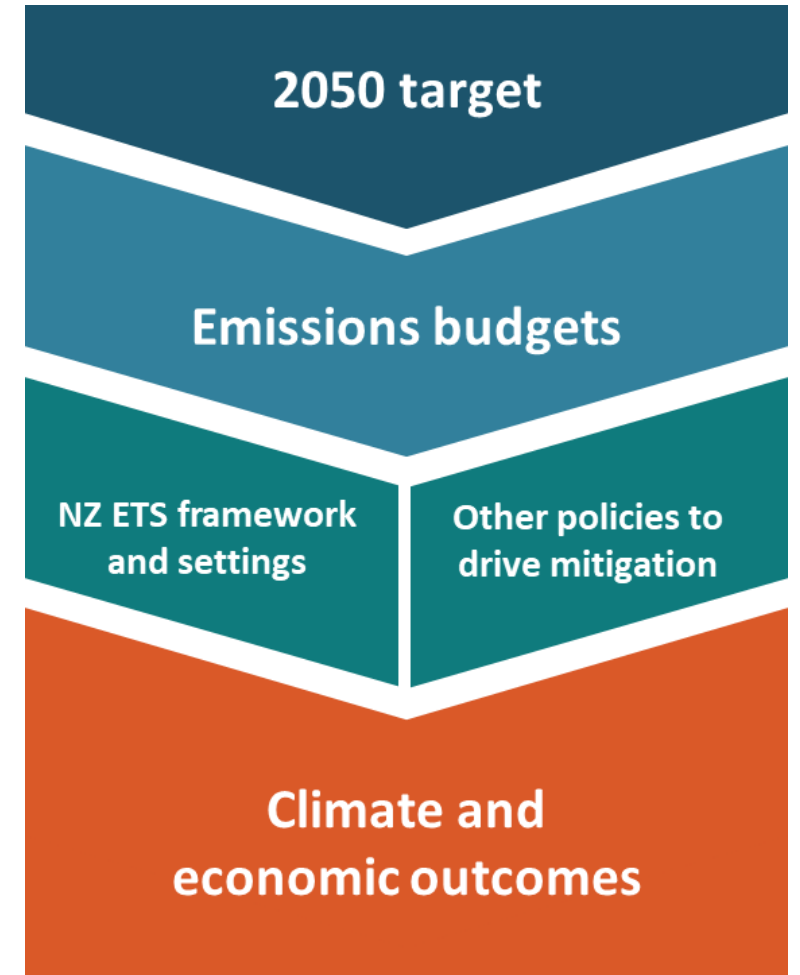
The Government sets a 'cap' on net emissions in the ETS by putting a limit on NZUs supplied by the government. This does not limit the amount of NZUs provided for removal activities, such as forestry. It does not cap emissions outside the ETS.

This ETS limit must align with the 2050 target and emissions budgets and is updated annually via the ETS settings process.

ETS settings include:

- **unit limits** which restrict the overall supply of units into the ETS and determine how many NZUs will be available via auction in each of the next 5 years
- **price control settings** which limit the auctioning of NZUs at unacceptably low or high prices

The ETS settings must be updated annually for the upcoming five years. This is changing to every two years under the CCRA amendment bill changes. Updates for the first two years after the current year can only be made in special circumstances.



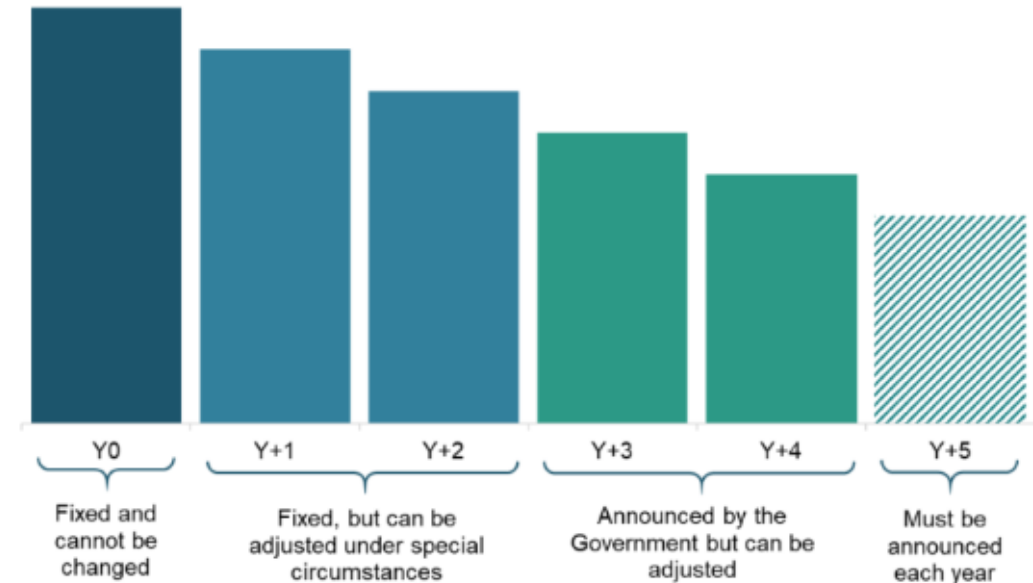
ETS unit limits and price controls process and timeline

- ETS settings are an annual process (soon to be biennial) that follow a relatively uniform timeline throughout the year

Milestone	Date
Climate Change Commission (the Commission) provides independent advice and recommendations to the Minister of Climate Change	Late April
The Minister undertakes public consultation of options, including the Commission's option	May-June
The Minister considers public feedback on the options and makes recommendations to Cabinet	Q3
Regulations are gazetted	By 30 September

2025 ETS unit limits and price controls decisions and upcoming 2026 decisions

- 2025 decisions set unit limits and price controls for 2026-30.
- As indicated on the right hand graph, 2026 settings will include new decisions for 2031 and may include changes to years 2027-30.



	2026	2027	2028	2029	2030	2031
Base auction volumes (millions)	5.2	4.3	3.3	2.4	1.7	To be decided in 2026
Auction price floor	\$71	\$75	\$78	\$82	\$87	As above

About ETS auctions and historic results

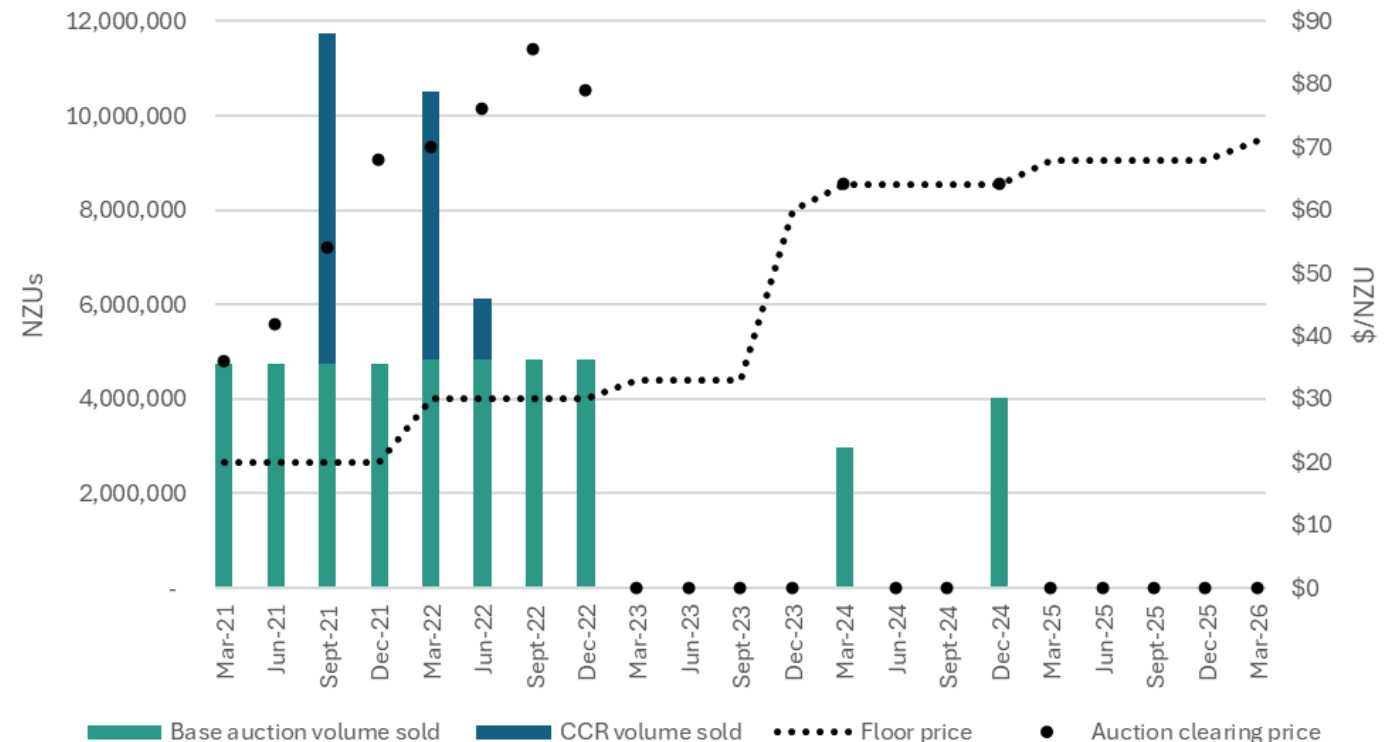
Auctions were introduced to the ETS in March 2021, as part of substantial reforms to the ETS enacted in 2020. Auctions are held quarterly.

The graph shows the volume of NZUs sold at each auction to date, the corresponding clearing price, and the auction floor price. Auctions to date have cleared 55.27 million units and \$3.51 billion associated cash proceeds.*

The Cost Containment Reserve (CCR) mechanism provides for additional volume of NZUs to be added to the auction volume if the auction clearing price reaches the CCR trigger price or prices.

The floor price sets the minimum price the Government is prepared to auction units at.

If auctions don't clear or partially clear (meaning no or only some units are sold) the unsold units carry over to the next auction until the last auction of the calendar year. The following calendar year auction volumes refresh as per the forecast unit supply for that year.



* Includes release of cost containment reserve volumes

How is forestry included in the ETS

Some forest owners can register certain types of forests to receive NZUs. They can then sell these NZUs on the secondary market. New Zealand's baseline date for net emissions is 1 January 1990 (agreed in the Kyoto Protocol). This means that net emissions in any given year are compared to the level in 1990. This creates two forest types that are treated differently in the ETS.



Pre-1990 forest land

- The ETS applies to certain forests established before 1 January 1990 and that remained forest on 31 December 2007
- **These forests are counted as part of New Zealand's baseline carbon stock**
- These forests can't earn any units from the ETS
- These forests can be harvested and replanted without ETS obligations
- If deforested, participants must surrender NZUs
- 55 million NZUs were offered to forest landowners recognising the impact of the ETS on land-use flexibility



Post-1989 forest land

- Is forest established after 31 December 1989
- **Is considered additional carbon storage above New Zealand's baseline**
- Participants can earn units for forest growth by registering with the EPA via Ministry of Primary Industry (MPI) under the EPA's delegation to MPI
- If registered forest is deforested or deregistered, participants must pay back all units earned
- Participants using stock-change accounting will have obligations if harvested, while participants using averaging accounting do not have obligations if it is replanted
- Registered land remains in the ETS (e.g. following land sale) until deregistered

What is the stockpile and why is it important?

We divide the stockpile into five components, including:

- **Surplus units:** NZUs held mainly for speculative purposes as opposed to held against future surrender obligations
- **Forestry hedged units:** held against future liabilities
- **Non-forestry hedged units:** units held for future non-forestry liabilities
- **Holding volumes:** units held for emissions that have already occurred (i.e. held for current year compliance)
- **P90 units:** Units to offset deforestation liabilities of pre-1990 forest that are not expected to come to market

These components vary in liquidity, meaning how easily and quickly units can be sold. Generally, surplus units are the most liquid and units held for near term compliance are the most illiquid. They impact settings in different ways:

- **Surplus units** pose a risk to meeting emissions budgets. The Government has committed to drawing down the surplus by 2030 to manage this risk. The uncertainty in the size and drawdown of the surplus has significant impacts on auction volumes.
- **Non-surplus stockpile** may have a role in dampening price increases during times of supply shortage (such as that being floated by commentators in the late 2020s) depending on the liquidity of the non-surplus stockpile.

Liquidity in the non surplus stockpile remains significantly uncertain due to lack of information about hedging behaviour and liquidity estimates that depend on complex behaviour – e.g., whether participants may sell units in the near term with the expectation they can be bought back later at a lower price.

Short term sentiment vs medium-long term fundamentals

- The 4 November announcement on amendments to the Climate Change Response Act 2002 (CCRA) triggered a significant sell off, with NZU prices down materially (mid-low \$30s).
 - Prices have been volatile since, but have shown some signs of recovery, with the average prices trading in the mid-low \$40s over March 2026.
 - According to several commentators, prices reflect short term sentiment of uncertainty as opposed to medium or long term fundamentals, which suggest fundamental tightening towards the later 2020s.

Short term drivers	Medium to long term drivers
Increased forestry supply in mid 2026 post MERP* (partially offset by related surrenders from foresters)	Uncertainty in timing of forestry returns for the fifth MERP and likely declines in new forestry registrations
Policy and political uncertainty	Reducing stockpile in the 2020s
Marginal sellers in need of cash flow (which could be exacerbated by the fuel shock)	Auction dynamics – 2026 auctions may not clear, later auctions are likely needed
Buyer caution – some buyers already hedged for the next few years, hedging carbon exposure unlikely to be a top priority in the near term	From late 2020s/early 2030s onwards, forestry is expected to be main driver of the market and we expect prices to trend towards the levels needed to incentivise exotic afforestation

*MERP = Mandatory Emissions Return Period

How has the NZU price changed between 2024 and 2026?

The graph shows New Zealand's historic carbon price taken from the Carbon News website. The Carbon News NZU Index tracks daily movements in the NZU market across multiple trading platforms.

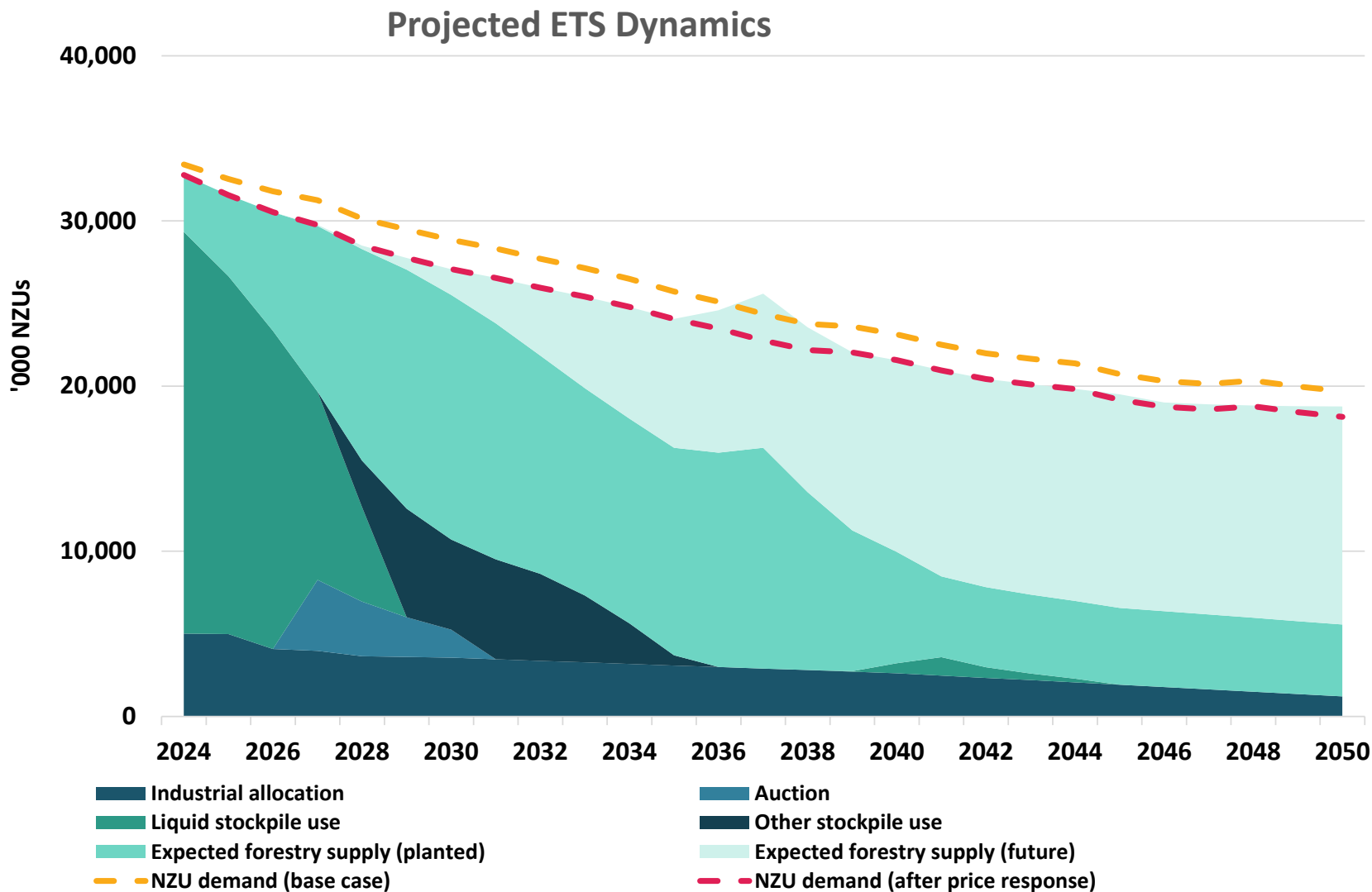


Current/forward looking supply and demand dynamics

Factor	Commentary
Compliance demand: projected at ~32Mt in 2026, reducing to ~29Mt in 2030	Demand is projected to steadily decline regardless of NZU price dynamics, due to factors such as steady improvements in energy efficiency, increasing renewable electricity generation and battery electric/hybrid vehicle take-up. Demand might reduce faster if the NZU price is high enough for long enough to incentivise further investments in emissions reducing technologies and activities.
Auction volumes: 5.2Mt in 2026 reducing to 1.7Mt in 2030	Volume currently in regulation (excluding cost containment reserve volumes).
Industrial allocation: ~4.5Mt in 2026/27 reducing to ~4.0Mt from 2028	Forecast to steadily decline according to legislated phase out. Step change in 2028 is from the anticipated closure of Methanex.
Forestry removals: ~10m NZUs in 2026, increasing to ~18-21m NZUs per annum from 2030 onwards	From the late 2020s, will be most of the new units coming into the scheme. Given complexity of forestry market dynamics and voluntary vs mandatory emissions returns, timing of when units come to market is uncertain.
Stockpile: a total of ~136m NZUs (as of 31 December 2025). Estimate up to ~50m NZUs might be drawn out by 2030, mostly surplus units	A large source of supply over the settings period, however, significant uncertainties exist due to complex forestry behaviour and the timing of surplus drawdown. In the medium to long term, we anticipate further non-surplus stockpile drawdown could occur if flat/falling prices are expected.

Current/forward looking supply and demand dynamics

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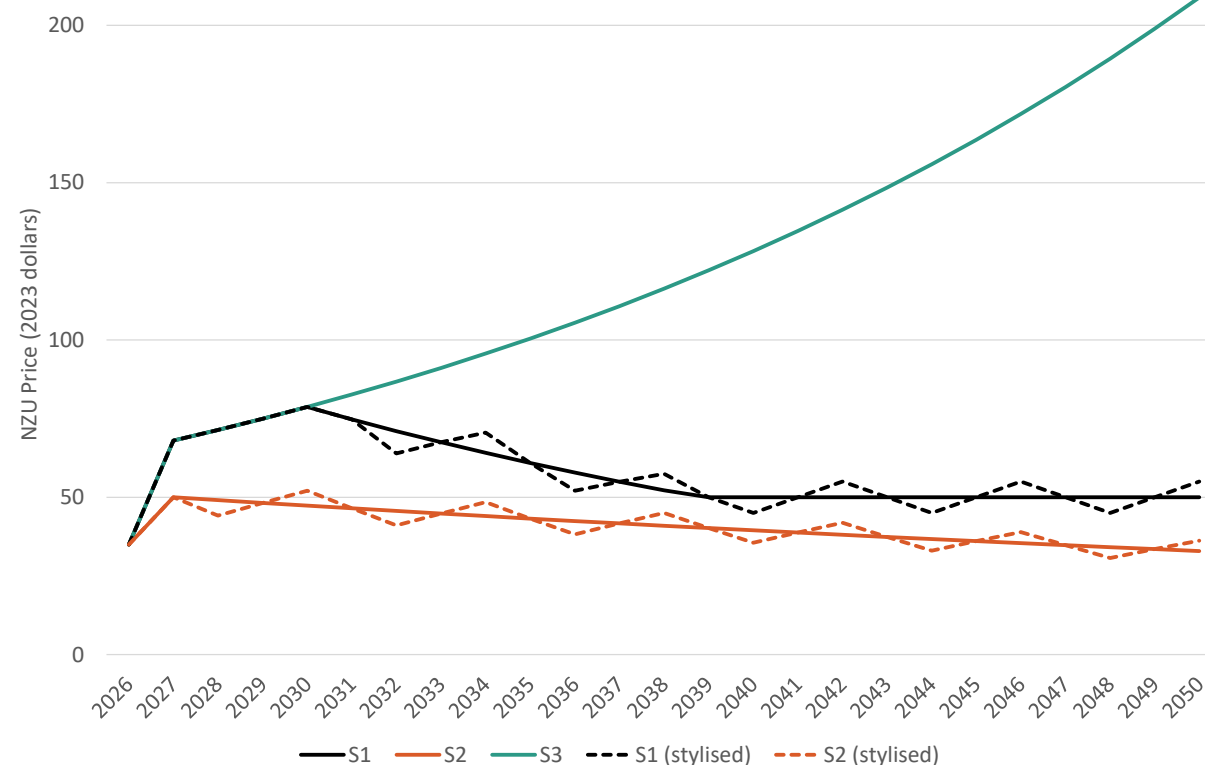


Note: based on early projections from the ETS market model. As with all models, there is a high degree of uncertainty and results are sensitive to a range of key assumptions, notably on forestry and stockpile behaviour.

Broad outlook for ETS prices

- **Short term** - prices will likely remain low this year (and therefore auctions will likely not clear). Beyond that, prices will need to lift to at least the auction floor price if the auction volumes are needed through the remainder of the 2020s.
- **Longer term** - ETS could drive quite different price outcomes depending on where market pricing power rests and how responsive firms and foresters are to price signals.
 - **Most likely outcome** - prices are low over the medium to long term – sufficient to incentivise exotic afforestation but unlikely to drive much additional decarbonisation. While prices will fluctuate from year to year (dotted lines), a competitive forestry sector is expected to drive relatively low prices on average over time (solid lines).
 - **Less likely but still plausible outcome** - foresters and other parties with an interest in rising prices are able to exert sufficient market pricing power to lead to steadily rising NZU prices. The restrictions on converting farmland to forestry could help enable this, by curbing the afforestation / supply response to higher prices, but are unlikely to be a sufficient driver on their own.

Projected NZU prices (2023 dollar terms)
under different scenarios





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