



Ministry for the
Environment
Manatū Mō Te Taiao

NOTE: This presentation pack was used during individual meetings with ETS Market Advisory Group members to facilitate scenario testing discussions. Members were invited to provide their views in response to the questions and topics presented on each slide.

2026 ETS unit and price control settings

Market Advisory Group consultation

[CLASSIFICATION] AND NOT GOVERNMENT POLICY]

Consultation topics

- **Topic 1:** Balancing achieving emissions budgets with medium term stability
- **Topic 2:** Distribution of auction volume in the early vs later years
- **Topic 3:** Approach to meeting the third emissions budgets (EB3)
- **Topic 4:** Aligning price controls to emissions budgets, targets and market dynamics

Topic 1: balancing achieving emissions budgets with medium term stability

- Achieving emissions budgets and targets is the core purpose of the ETS. The existence of the surplus puts that at risk.
- Addressing the surplus needs balancing with the risk of undersupply, which is being flagged by some commentators over EB2. This undersupply may impact medium term stability.
- Our analysis suggests low undersupply risk under the status quo, due to stockpile drawdown and assuming that forestry units come to market as they are earned.
- Each scenario prioritises the trade offs differently.

Topic 1 scenarios:

Scenario A: Lower auction volumes (relative to SQ)

Scenario B: Status quo auction volumes

Scenario C: Higher auction volumes (relative to SQ)

Topic 1 questions

1. How would different auction volume choices impact on market/participant confidence in the ETS market?
2. How would you respond, or expect the market to respond, to signs of undersupply in the later 2020s?
3. How might the market respond to signals from the Government that undersupply may eventuate in the late 2020s?

Topic 2: Distribution of auction volume in the early vs later years (EB2 period)

- Some commentators are questioning the need for auctions in the short term if they continue not to clear
- Current auction volumes may also be considered somewhat disconnected with broader market supply.
- When auctions do not clear, the market is signalling the volume is unneeded by itself. However, it is possible to either cancel or redistribute volume to manage this.

Topic 2 questions

1. Would participants benefit from knowing there would be zero auctions in 2027 or 2027 and 2028 under some scenarios? Is this better than relying on the auction price floor to prevent auctions from clearing if volume is not needed?
2. Would cancelling or redistributing 2027/28 auction volume materially reduce market predictability and negatively impact market confidence? Why?
3. Do you prefer cancelling or redistributing 2027/28 volume? Explain.

Topic 2 scenarios:

Scenario A: Cancel auction volume for 2027 and 2028

Scenario B: Cancel auction volume for 2027

Scenario C: Status quo (keep volumes)

Scenario D: Redistribute 2027 volume to later years

Scenario E: Redistribute 2027 and 2028 volume to later years

Topic 3: Approach to meeting the third emissions budget (EB3)

- There is an estimated 9-14Mt gap to meeting the third emissions budget, depending on assumptions
- Currently, our analysis suggests the ETS cannot close this gap on its own – even if there were no auctions from 2027 due to high stockpile drawdown implying low price expectations and in
- The Government will need to address this issue through the third emissions plan, due in 2029. However, the Government could choose to signal starting work now.

Topic 3 scenarios:

Scenario A: Commitment to meeting EB3 through ERP3 without any advance detail

Scenario B: Identify ‘plausible sector shifts’ that could be achieved through ERP3 policies

Scenario C: Start policy work on complementary policies

Scenario D: Set auction volumes to zero from 2031

Scenario E: Set auction volumes to zero from 2027

Topic 3 questions

1. How does the market view the current gap between projections and the EB3 target?
2. How would the market respond to the different signals in scenarios 3.A, 3.B, and 3.C and the zero auction volumes scenarios 3.D and 3.E?
3. Do you agree with our assumption that the liquidity of the stockpile is impacted by price expectations over the medium to long term?
4. Do you agree that the market expects the cost of forestry will drive the ETS price in the long term?

Topic 4: Aligning the price floor with emissions budgets, targets and market dynamics

- Currently, there is ~\$30 difference between the price floor and the secondary market.
- It is possible to derive different signals from this price difference. Either, the market may be signalling repricing or there may be other drivers, such as low market sentiment and regulatory uncertainty.
- How the price difference is rationalised determines the scenarios below.
- Our analysis suggests a lower price floor is analytically possible, however, that emissions reductions are unlikely to have gotten cheaper.

Topic 4 scenarios

Scenario A: Lower, but gradually rising price floor

Scenario B: Flattening price floor

Scenario C: Status quo price floor

Scenario D: Higher price floor

Topic 4 questions

1. What do you consider to be the driver of lower secondary market prices?
2. What would be the likely market response to each option?
3. How could changes to price controls be consulted on without triggering a market reaction?



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