FOREST OWNERS ASSOCIATION

New Zealand Farm Forestry Association
Oranga Rākau Aotearoa

Submission

Annual Updates to New Zealand Emissions Trading Scheme Limits and Price Control Settings for Units 2026

Submission to:

ETS settings consultation

Ministry for the Environment

etsconsultation@mfe.govt.nz

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Submitters

The New Zealand Farm Forestry Association (FFA) is the association representing people who own, manage, or invest in small-scale private forests and/or are interested in the many values of trees. FFA currently has around 1,500 members, representing a good cross-section of the 15,000 entities owning private forests in New Zealand. Small forest owners (<1,000 ha) represent more than 90% of participants in the New Zealand Emissions Trading Scheme (the ETS).

New Zealand Forest Owners Association (FOA) is the representative membership body for the commercial plantation forest growing industry. FOA members are responsible for the management of approximately 1.2 million hectares of New Zealand's 1.79 M ha of plantation forests and over 75% of the annual harvest[1].

In 2024, the forest growing sector was worth $5.75 billion in export value, and it is anticipated that total export returns for forest products will reach $7.33 billion by 2027[2]. The sector has a 12% share of rural land use and a high proportion of Māori landowners (48%). The sector contributes 1.6% of New Zealand's GDP and employs approximately 42,000 people in wood production, processing, and the wider commercial sector. Commercial forests sequester approximately half of New Zealand's carbon dioxide emissions.

Executive Summary

We thank the Ministry for the Environment (MfE) for the opportunity to provide feedback on the proposed changes to the ETS.

In general, we support the objectives and the criteria used to assess the options presented. However, we disagree with some of the key assumptions used in the analysis of these options.

Specifically, we suggest that participants holding NZUs in the stockpile have a lot more flexibility to respond to the market price for NZUs than has been allowed in the model. This could lead to a much larger supply of stockpiled units into the market than modelled by MfE.

We believe that this risk needs to be addressed by a more precautionary approach with regards to auction volumes, i.e. auction volumes may need to be reduced to those expressed in Option 3.

[1] https://www.nzfoa.org.nz/images/FOA_Facts_and_Figures_2023-2024_-_Web_file.pdf

[2] Situation and Outlook for Primary Industries December 2025

General comments

Approximately 470,000 hectares of forest in the ETS (53%) are registered under stock change. Another 140,000 ha (16%) are registered as permanent forests, with the remaining 270,000 ha being registered under averaging.

Units derived from permanent forests or forests under averaging can be assumed to be surplus and will sooner or later be sold on the market. Owners of forests under stock change are in a very different situation. If the price for NZUs develops as forecast, i.e. peaking at more than $80 and then slowly declining to the long-run average cost of forestry of around $50, then it is rational for a forester to either:

1) sell earned units as the price increases, and then purchase them back when the price declines, should the owner want to harvest; or

2) decide to treat their forest as permanent forest and sell all stockpiled and future units.

A major factor in this choice is the net income expected from a forest at harvest. This depends on distance to ports, difficulty of harvesting, the value of the trees, regulatory hurdles, etc. However, given the margin compression experienced by foresters, for small growers we expect a large shift to option (2), which we anticipate will release millions of NZUs into the market. Even at the current price of between $50-$60/NZU many growers have already decided that they will get better returns from their forests by monetising earned NZUs rather than harvesting.

We suggest that MFE's analysis significantly underestimates the price/supply elasticity of NZUs earned by forests under stock change and there is a high risk that the projected price peak/ undersupply will not eventuate.

We question the assumption of another 600,000 ha of new forests being planted between now and 2050, given the declining profitability of the forestry sector, the LUC constraints surrounding any new afforestation and increasing uncertainty with regards to regulations around forestry and the ETS.

Another major risk in the assumptions used is whether or not the Government will update the Look-up Tables. Should the Tables be updated then there could be a significant increase in available NZUs, which will affect the projected prices.

Given the risks associated with an oversupply of NZUs we suggest a precautionary approach when determining auction volumes. While an undersupply of Units can easily be corrected an oversupply cannot.

For these reasons we strongly believe that the auction volumes in Option 3 should be used in the 2027-2031 settings.

Finally, we suggest that the criterion *"Support for NZU prices consistent with the level and trajectory of international emissions prices"* from Table 4 for the assessment setting options, has not been adequately considered. The European ETS is the world's largest and most liquid compliance market, in which a certificate for 1 tonne of carbon dioxide (equal to 1 NZU) trades for around 65 Euros, or NZD $150. While the consultation document is silent on what this criterion means for current and projected NZU prices, it is obvious that we are not meeting it, and it could have a real effect on the export of New Zealand products to the EU. Europe is now addressing the treatment of carbon dioxide emissions in countries exporting to it through the Cross Border Adjustment Mechanism (CBAM). In effect it requires exporters to the EU to pay a carbon tax, to create a level playing field with European suppliers.

Consultation Questions

Question 1: Do you have any comments on whether changes to the first two years of ETS settings could be justified on the basis of the proper functioning of the ETS?

The market during the past 12 months has been volatile and erratic. When participants can buy NZUs for a little as $34, then clearly the ETS is not functioning as intended because this is much less than the price needed to incentivise decarbonisation. Overall, if we believe that the auction volumes are holding down the carbon price then changing the auction settings is responding to the price signals that we would see coming through the ETS to ensure that the ETS is functioning as intended. MfE's own analysis indicates that it is unlikely that this change will have any effect in 2027, given a predicted continued low carbon price.

Question 2: Do you have any comments on the possibility of shifting 2027 volumes to 2028-30, to better manage the risk of undersupply later in the EB2 period?

Our preference is to leave the proposed auction volumes for 2027 alone, as MfE's projections have a high degree of uncertainty. Should an undersupply become likely, then this can be identified in time to adjust auction volumes going forward, ensuring the proper functioning of the ETS using Section 30GGB5 and 30GC95 of the Climate Change Response Act (CCRA).

Question 3: Do you have any comments on the likelihood of undersupply in the later EB2 period?

As outlined in our General Comments above we suggest that the risk of an undersupply is extremely low. If there is subsequent undersupply it can be managed later in the period.

Question 4: Do you have any suggestions for how the Government can manage the risk of undersupply later in the EB2 period?

Should we move to a biennial ETS settings process then we would support adding a temporary lower CCR tier.

Question 5: Do you have any comments on the proposed auction floor price

We agree with the proposed auction floor.

Question 6: Do you have any comments on the proposed cost containment reserve prices or volumes

We agree with the proposed CCR volume and prices.

Question 7: do you agree with our impact analysis? Are there any further impacts to consider that we have not captured in our analysis

The impact analysis of the settings on the economy largely ignores the beneficial effect of NZU income on forest owners. Assuming that in 2027 any auction volume will be negligible, and around 30 million NZUs will be surrendered at a price of between $50 and $70 per NZU, then this will result in forest owners receiving $1.5 to $2.1 billion from emitters. As forest owners are likely to spend this on their forests as well as the wider economy, it should improve economic and environmental outcomes in New Zealand. Further, higher NZU prices will lead to more decarbonisation, resulting in the implementation of new emissions reducing technology which will create more high value employment in the economy.

Question 8: What are you views on the potential impact of each option on Māori communities?

We support the analysis in the consultation document and further engagement with Māori.

Question 9: which is your preferred option?

As stated above, we prefer Option 3.

Question 10: What benefits or improvements could result from each option?

As outlined before, we believe that Option 3 will have a much better chance of delivering a higher NZU price and incentivising emission reductions. That means it will better support the proper functioning of the ETS and deliver better alignment with international (European Union) pricing than Options 1 or 2.

Question 11: What are the challenges or risks of these options?

The major risks associated with Options 1 and 2 are that they do not take sufficiently into account the price/supply elasticity of the NZUs that are already in the stockpile, or that will be generated by forests under the stock change regime.

Question 12: Do you prefer another option not outlined here? Please describe what it would involve.

It is acknowledged that the consultation is to specifically address unit limits and price control settings for 2027-31 however, we submit that the consultation process should consider and review the volume of industrial allocations provided to emitters. If the Government is concerned about excess NZU supply, it should also consider whether industrial allocation settings remain appropriate and are contributing to the same issue.

Industrial allocations were intended to be a transition measure. Some of the current supply and pricing challenges may be alleviated by a more gradual reduction in industrial allocation volumes, reducing the need for increasingly restrictive auction settings while maintaining alignment with emissions budgets.

The consultation places significant emphasis on reducing auction volumes because of concerns about surplus units and market oversupply. Industrial allocation remains a substantial source of supply, forecast at 18.3 million NZUs over 2027–31.

Additionally, foresters are interested in exploring further whether the auctions are needed at all.

Question13: Do you have any comments on the proposal to update the EB2 cap, based on 2025 projections?

We support the update to the EB2 cap.

Question14:

We have no comments to make.

Question 15: Do you have any comments on using a range of surplus estimates to inform unit limits options?

Given the high level of uncertainty about the effect of higher NZU prices on market liquidity, we suggest that a precautionary approach is required when determining auction volumes. An undersupply of units can easily be corrected via the injection of additional auction volumes, but an oversupply cannot.

Questions 16 to 18:

We have no comments to make.

Question 19: Do you support the shift to biennial ETS settings decisions?

We support the shift to biennial decisions.

Question 20:

We have no comments to make.

Closure

We trust these comments provide useful feedback. Should you need further information, the New Zealand Farm Forestry Association and the New Zealand Forest Owners Association are both willing to help in any further discussion.

We do not object to this submission being made public.

Egon Guttke

Farm Forestry Association

Elizabeth Heeg

Chief Executive
Forest Owners Association

Contact Details

Egon Guttke
New Zealand Farm Forestry Association
Level 9, 93 The Terrace, Wellington, 6011

Email egon.guttke@outlook.co.nz
Web www.nzffa.org.nz

Elizabeth Heeg
New Zealand Forest Owners Association
Level 9, 93 The Terrace, Wellington, 6011

Email: Elizabeth.heeg@nzfoa.org.nz
Web www.nzfoa.org.nz