

PwC's 'Quick Guide' to proposed ETS reform



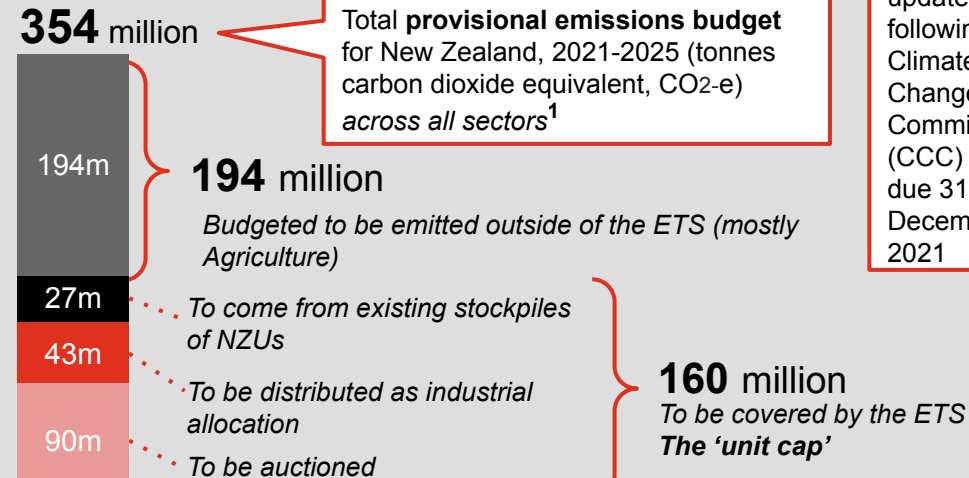
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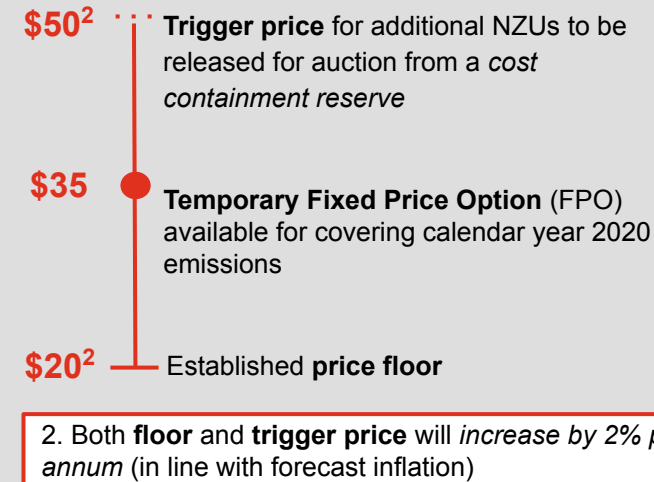
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What changes are coming?

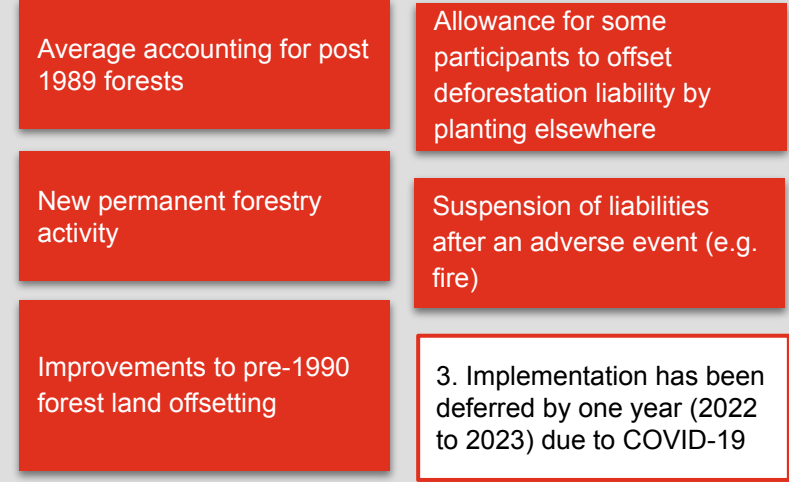
1 Provisional emissions budget and 'unit cap'



2 Emissions pricing controls



3 Forestry policy changes³



What does this mean for my business?



The cost of meeting emissions surrender obligations is very likely to increase

- Budget volume is 14 million tonnes less than expected demand for NZUs. This supply constraint will cause upward pressure on NZU prices.
- Depletion of existing NZU stockpiles is not guaranteed. This supply-side risk may lead to even greater upward price pressure.
- The option to purchase NZUs at a fixed price will disappear for emissions in calendar year 2021 and beyond



There will be increased financial incentive to decrease operational emissions

- The least cost way to address emissions may become to emit less in the first place
- NZU price trajectory is only set to increase
- Future emissions budgets are likely to get tighter as New Zealand moves towards its net zero 2050 goal



Incentives to invest in forestry to earn NZUs, as opposed to purchasing them at auction, have increased

- The price floor will underwrite part of the return for forestry
- Forestry policy changes work to mitigate financial risks of forestry investing
- Incentives for planting pine over natives have increased (in part due to higher rates of sequestration)



Shifting incentives may encourage land-use change towards forestry

- Businesses reliant on current land use may face supply issues if significant land-use shifts occur
- Incentives will increase over time, particularly with the introduction of average accounting

When will this happen?

