

**Voluntary Report** – Voluntary - Public Distribution

**Date:** November 14, 2024

**Report Number:** NZ2024-0015

**Report Name:** New Zealand Government on Track to Legislate Agriculture Out of Emissions Trading Scheme

**Country:** New Zealand

**Post:** Wellington

**Report Category:** Agricultural Situation, Climate Change/Global Warming/Food Security

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**Report Highlights:**

The New Zealand Government is in the final stages of amending its Climate Change Response Act 2002 to remove agriculture activities from the New Zealand Emissions Trading Scheme. This is the first legislative process nearing Royal Assent by the new coalition government, which has disbanded controversial agricultural emissions pricing plans put in place by the previous government in the last 12 months. These amendments to current legislation would give New Zealand's largest sector time to develop an alternative solution to reducing greenhouse gas emissions.

**Executive Summary:**

The New Zealand Government is in its final stages of amending its Climate Change Response Act 2002 to remove agriculture activities from the New Zealand Emissions Trading Scheme. This is the first legislative process nearing Royal Assent by the new coalition government, who in the last 12-months have disbanded controversial agricultural emissions pricing plans put in place by the previous government.

These amendments to current legislation would provide New Zealand's largest sector time to develop an alternative solution to reducing greenhouse gas emissions that would effectively incentivize farmers to reduce their on-farm emissions.

On November 7, the Committee of the Whole House read the bill, a nearing final stage in the legislative process for New Zealand law changes. This process followed the legislative scrutiny process at the Select Committee, which reviewed submissions on the proposed amendment bill from individuals, industry representatives, councils, iwi (i.e., confederation of tribes) organizations, environmental non-governmental organizations, and community groups. Feedback received in submissions highlighted concerns for the environment, but it also highlighted the importance of agriculture to the value of New Zealand's merchandise exports.

**Background:**

The New Zealand Emissions Trading Scheme (NZ ETS) is the government's primary tool for reducing greenhouse gas emissions and meeting domestic and international climate change targets. Sectors included in the NZ ETS are required to report their annual greenhouse gas emissions to the Government. The NZ ETS includes "surrender obligations", which require participants in the scheme to pay for the emissions they produce by surrendering New Zealand Units (NZUs).

FAS/Wellington provided several voluntary reports highlighting the previous government's intention to have New Zealand be the first country to price agricultural emissions. In these reports it was noted that the collaborative partnership group - He Waka Eke Noa (HWEN), underscored that 99 percent of farmers were against on-farm carbon sequestration accounted for in the NZ ETS.

In November 2023, the national government changed to a 3-party coalition, with a highlighted commitment not to proceed with pricing agricultural emissions by 2025, as had been the previous government's goal. In 2024, the government disbanded the industry and government partnership focused on a solution to agricultural emissions reduction – HWEN. Following this, on June 20, 2024, the new bill was introduced to the House: Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill.

Bills in the New Zealand Parliament are proposals to make a new law or to change an existing one. Only Parliament can pass a bill. Each bill goes through several stages, giving Members of Parliament and the public the chance to have their say.

This bill is part of the government’s commitment to keeping agricultural activities out of the NZ ETS and to instate a “fair and sustainable” pricing system for on-farm agricultural emissions by 2030. Agricultural processors (of animals and fertilizer) have been required to monitor and report their agricultural emissions under the NZ ETS since January 2011. However, agriculture is the only sector that currently does not have surrender obligations.

### **Proposed Legislation**

This bill amends the Climate Change Response Act 2002 (CCRA), to remove agriculture activities from the New Zealand Emissions Trading Scheme.

The CCRA, via the NZ ETS, currently requires:

- Agricultural processors to surrender New Zealand units (NZUs) to pay for their agricultural emissions from January 1, 2025 (processors currently report their emissions).
- Animal farmers must report their emissions from January 1, 2026, and surrender NZUs to pay for them from January 1, 2027.

The rationale for the amendments to the CCRA is to move obligations because of the following:

- Processor-level pricing of agricultural emissions may not effectively incentivize farmers to reduce their on-farm emissions, as on-farm behavioral changes may not be effectively recognized (processors may pass the same cost to all farmers regardless of their emissions efficiency). This also means that there would be little incentive to incorporate mitigations on-farm.
- Applying a single price to all gases contradicts the intended split-gas pricing approach of New Zealand’s legislated split gas targets.
- Implementing the farm-level obligations in the NZ ETS could bring around 100,000 farmers into the system as participants. This is likely to present significant administrative, compliance, and data management challenges. Complying with the system would also be costly for farmers. Retaining any form of obligations for agriculture in the NZ ETS contradicts the government’s clear commitment to keeping agriculture out of the NZ ETS.

### **Submissions Received on the Bill**

During the legislative scrutiny process at the Select Committee, there were 581 written submissions and oral evidence from 26 submitters. Most submissions were from individuals, but submissions were also received from industry representatives, councils, iwi organizations, environmental non-governmental organizations, and community groups.

As agriculture is the largest contributor of greenhouse gases in New Zealand (~48 percent), most submissions that opposed the bill highlighted environmental concerns. These concerns included not acting now, delays the burden to future generations. In addition, that some submitters felt that the bill would prioritize economic gains over climate targets and would negatively affect New Zealand’s progress towards emissions reduction.

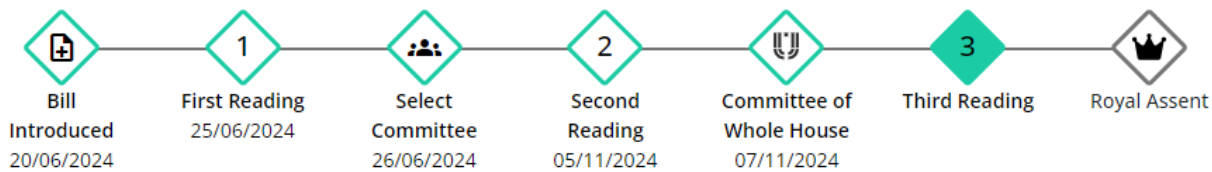
The current opposition and previous government highlighted: “Agriculture is vital to New Zealand, contributing approximately 70 percent of merchandise exports and employing around 314,000 people.” In addition, “The decision to remove agriculture from the ETS marks a pivotal moment aimed at giving farmers in New Zealand more independence and control in their sector. However, this move carries potential long-term negative domestic and international impacts. During the recent debates during the Committee of the Whole House, FAS/Wellington interpreted this comment about negative implications as related to competitiveness and meeting sustainability expectations of perceived higher value markets.

Many acknowledged that including agriculture in the NZ ETS is not a perfect solution. However, an appropriate and effective alternative approach would need to be designed for the industry.

### Current Stage

The bill is nearing the final stage in the legislative process for changing New Zealand laws (Figure 1), having already proceeded through its first reading, select committee, and second reading. The third reading is the next stage, potentially taking place before the end of 2024. The legislation would take effect the day following Royal Assent.

**Figure 1: Progress of Current Bill**



Source: New Zealand Parliament

### Attachments:

No Attachments.