New Zealand House of Representatives
Te Whare Māngai o Aotearoa

Primary Production Committee
Komiti Whiriwhiri Take Ahumatua

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Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill

62—1

Presented to the House of Representatives
by Mark Cameron, Chairperson

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Recommendation

The Primary Production Committee has examined the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill and recommends by majority that it be passed without amendment.

About the bill

The Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill would amend the Climate Change Response Act 2002 (CCRA) with the aim of removing agricultural activities from the New Zealand Emissions Trading Scheme (NZ ETS).

The NZ ETS is the Government's main 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).

What the bill would do

The bill would amend or repeal several sections of the CCRA to remove agriculture from the NZ ETS. In particular, clause 33 would repeal Part 5 of Schedule 3 of the CCRA to remove agricultural activities from the list of activities that require people carrying them out to become participants in the NZ ETS and report and/or pay for emissions by surrendering NZUs. We note that removing obligations for agricultural processors to report emissions will not affect the Government's reporting of emissions as official estimates of New Zealand's agricultural greenhouse gas emissions do not use NZ ETS data.[1]

Clause 32 and Schedule 2 of the bill would confirm that those already registered under the NZ ETS for agricultural activities would cease to be participants from the bill's commencement date (the day after Royal assent). Deregistered participants would still be required to keep any records collected for at least seven years.[2]

Clause 34 of the bill would repeal Schedule 5 of the CCRA, titled "Primary sector climate change commitments". These commitments require the Climate Change Commission to consider and report on certain milestones to track the progress of the Government–sector agreement, *He Waka Eke Noa | Primary Sector Climate Action Partnership*. As the Climate

1 New Zealand's human-induced emissions and greenhouse gas removals are reported annually in the Greenhouse Gas Inventory. Sources used for agricultural emissions in the report include Statistics New Zealand, DairyNZ, Livestock Improvement Corporation, and Beef+Lamb NZ.

2 This is consistent with standard requirements for deregistered NZ ETS participants.

Change Commission has completed its report and the partnership has since been disestablished, these commitments are no longer needed.

Context

The Government has committed 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 fertiliser) 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.

Future requirements to monitor, report, and surrender NZUs for agricultural emissions were added to the CCRA in 2020. Farmers would need to begin monitoring and reporting their emissions in 2024, and paying for them in 2025. These obligations were introduced as a temporary backstop, with the intention that they would be repealed when an alternative system for pricing agricultural emissions had been developed (with a planned deadline of 2025). They were then deferred in 2023, with the reasoning that the Government would have more time to implement a split-gas levy system for agricultural emissions.

In its current form, the CCRA would introduce surrender obligations for animal and fertiliser processors under the NZ ETS from 1 January 2025.[3] The CCRA also sets out that animal farmers would be required to report their emissions from 1 January 2025 and to pay for their emissions from 1 January 2027.[4] These farm-level obligations would replace processor-level obligations for on-farm animal emissions. Obligations for fertiliser emissions would remain at the processor level unless an Order in Council is made to shift obligations to the farm level.

To prevent obligations for processors from coming into effect, this bill would need to come into force before 1 January 2025. Other activities associated with agriculture will still be included in the NZ ETS and will not be affected by the bill. These include:

- energy emissions from dairy and meat processing
- energy emissions from the manufacturing of synthetic nitrogen fertiliser
- emissions from non-farm activities such as transportation.

Legislative scrutiny

As part of our consideration of the bill, we have examined its consistency with principles of legislative quality. We have no issues regarding the legislation’s design to bring to the attention of the House.

Submissions received on the bill

We received 581 submissions and heard oral evidence from 26 submitters. Most submissions were from individuals, but we also received submissions from industry representatives, councils, iwi organisations, environmental non-governmental organisations, and community groups. A full summary of submissions, along with responses from officials,

[3] Agricultural processors carry out activities such as importing or manufacturing fertiliser, slaughtering animals, exporting live animals, or processing milk or colostrum.

[4] Animal farmers carry out activities such as farming, raising, growing, or keeping animals for reward or the purpose of trade of those animals or animal products or material derived from them.

is available in the departmental report on the bill, published on the Parliament website. We thank submitters for sharing their views on the bill.

Below we summarise some of the main themes from submissions on the bill.

Economic consequences for farmers and wider New Zealand

Many submitters who supported the bill stated that farmers' participation in the NZ ETS would be overly complex and would introduce unfair costs for farmers already under financial pressure. Small farms would be particularly affected, facing similar costs to larger farms. We heard that farmers must have access to emissions-mitigation tools that are cost-effective before any emissions pricing is introduced. Many highlighted the importance of agriculture to New Zealand, reasoning that its inclusion in the NZ ETS and the subsequent financial consequences for the sector would have major negative consequences for New Zealand's economy.[5]

Appropriateness of using NZ ETS to price agricultural emissions

Some submitters who were in favour of the bill expressed the view that the Government must address climate change, but they believe that agriculture's inclusion in the NZ ETS would not help to achieve this.

We heard from some submitters that pricing agricultural emissions at the processor level through the NZ ETS would not be effective at driving behavioural change. Costs would be passed on by processors to farmers on a general per-kilo-of-product basis and would not take into account individual efficiency.[6] We heard that efficient processors should be rewarded to promote innovation and environmental stewardship.

Some submitters argued that the bill could be counterproductive, resulting in an increase in global emissions as agricultural production would shift to other countries with less efficient producers. A small number raised concerns about the lack of price differentiation between short- and long-lived gases in the NZ ETS. The Government has committed to taking a "split-gas" approach to emissions pricing (treating biogenic methane, a short-lived gas, differently from long-lived gases such as carbon dioxide or nitrous oxide). The NZ ETS would apply a single price per tonne to all gas emissions from agricultural activities.

Disputing the scientific basis for including agriculture in the NZ ETS

Some submitters supporting the bill challenged the scientific basis for including agriculture or methane-related obligations in the NZ ETS. A few disputed that the effects of methane are accurately reflected in New Zealand's emissions reporting or policy, with some suggesting that the subject needs more review before action is taken. Some submitters argued that decisions on pricing and targets should not be made until after the Methane Science and Target Review is complete and its findings have been presented, as this would support a more informed response.[7] We heard other submitters question the link between farming and

[5] According to the Ministry for Primary Industries' *Situation and Outlook for Primary Industries* report for June 2024, the food and fibre sector contributed approximately $54.6 billion in export revenue, 80.9 percent of merchandise exports, 12.8 percent of employment, and 10.5 percent of GDP.

[6] We understand that this issue would be temporary if farm-level obligations were eventually implemented.

[7] The Government has appointed an independent panel to review the scientific understanding of methane and its warming impact in order to provide advice on what a biogenic methane target consistent with the principle

climate change, whether it should be considered a relevant issue, or if climate change was occurring at all.

Environmental reasons to include agriculture in the NZ ETS

The majority of submitters who were opposed to the bill argued that New Zealand needs to urgently address climate change and the increasing threats it poses, including to the agricultural sector. Some submitters were concerned that not acting now shifts the burden to future generations. Although many acknowledged that including agriculture in the NZ ETS is not a perfect solution, we heard that it is New Zealand’s best option to reduce agricultural emissions. Some submitters said that the bill would prioritise economic gains over climate targets and would negatively affect New Zealand’s progress towards emissions reduction. We heard that the bill could increase the risk of New Zealand not meeting its Paris agreement targets or international market and trade expectations. This could result in economic, legal and reputational risks for New Zealand.

As agriculture is a major emitter of greenhouse gases in New Zealand, some argued that it would be inequitable to exempt the sector from paying for its emissions, and that industries that pollute more should pay the highest price. We also heard that the bill would do a disservice to farmers who were “good stewards of the land”; they should have the certainty and support to remain so. Submitters argued that that the bill would undermine efforts to innovate and take responsibility for on-farm emissions, would discredit farmers’ experiences of climate change, and remove farmers’ autonomy as the best people to make decisions on-farm.

Alternative ways to keep agriculture in the NZ ETS

Some submitters argued that failure to develop an alternative emissions pricing system meant that agriculture should be included in the NZ ETS. We also heard that the exclusion of agriculture might devalue the NZ ETS.

A few submitters suggested alternative ways to maintain agricultural NZ ETS obligations, including retaining processor-level obligations and obligations for manufacturers and importers of synthetic nitrogen fertiliser. One submitter advocated including nitrous oxide emissions in the NZ ETS.

Concerns from Māori and iwi

A small number of submitters raised the following concerns:

- that the bill does not meet the Crown’s obligations under te Tiriti o Waitangi | the Treaty of Waitangi due to insufficient engagement with iwi / Māori and consideration of Māori rights and interests
- that the bill would have significant effects on Māori rights and interests in natural resources
- that the bill would breach the intent of the Ngāi Tai ki Tāmaki Claims Settlement Act 2018 and Crown apology

of no additional warming would look like for New Zealand. It is scheduled to provide a final report on its findings by 29 November 2024.

- that there was insufficient consultation and input from tangata whenua on the bill, and there must be a mechanism to allow meaningful engagement with iwi.

Green Party of Aotearoa New Zealand differing view

The Green Party opposes the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill. In the context of a longstanding failure by subsequent governments to seize the nettle on our most polluting sector, this legislation abandons one of the few current mechanisms for addressing agricultural emissions. Pricing agricultural climate pollution has been signalled for almost 20 years now—cancelling this action shows a disappointing lack of courage and cross-governmental commitment to address the existential threat of climate change. It also fails basic principles of fairness, responsibility, and polluter-pays by failing to treat agriculture like every other sector that pays a price on their emissions.

Not only does this legislation remove the incentive for farm-based emissions management by revoking the legislative backdrop to measure, report, and eventually submit units for on-farm emissions, it also prevents recording and understanding agricultural emissions, so they can be more effectively reduced. This bill revokes the longstanding requirement since 2011 for fertiliser and animal processors to monitor and report their agricultural emissions under the NZ ETS, and revokes the future requirement to measure on-farm emissions.

This legislation revokes the legislative backstop for agricultural processors to enter the NZ ETS. Agriculture makes up around half of all New Zealand's emissions, 91 percent of biogenic methane, and 94 percent of nitrous oxide emissions. Modelling produced by officials suggested that New Zealand could save nearly $1 billion by 2050 through reduced emissions costs and damage to the climate if processors entered the NZ ETS. Repealing this legislative backstop signals that our highest emitting sector—agriculture—does not need to reduce its emissions, undermining our ability to meet climate targets and obligations, and harming our international reputation for taking climate change seriously. Delaying essential action means that reducing agricultural emissions—in line with climate targets—will require either a higher future emissions price, or other more intensive legislative action, to enable faster reductions. Cancelling the primary mechanism for action on agricultural climate pollution implies either more rapid and disruptive future action or decoupling New Zealand from the global commitment to climate action.

Labour Party differing view

The removal of agriculture from the emissions trading scheme will prevent farmers from entering the NZ ETS, allowing them to avoid the administrative, compliance, and data management requirements that come with reporting biological emissions from farms. Processor reporting requirements have been in place since 2011 and the NZ ETS is the only primary policy tool remaining to reduce greenhouse gas emissions.

Agriculture is vital to New Zealand, contributing approximately 70 percent of merchandise exports and employing around 314,000 people. The sector also relies on industries such as agronomy, veterinary services, agritech, and biosecurity, making it integral to the nation's economy and identity.

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 impacts both domestically and internationally.

Currently, around half of New Zealand's emissions come from agriculture, primarily in the form of biogenic methane and nitrous oxide. This amendment risks exacerbating climate change impacts, leading to more extreme weather events, biodiversity loss, and water crises. Moreover, it could lead to a violation of our international obligations to reduce emissions and may jeopardize our free trade agreements, such as the EU Free Trade Agreement that requires us to effectively implement the UNFCCC and the Paris Agreement. Such actions will damage New Zealand's hard-earned reputation as a "clean and green" country.

We agree that challenges such as financial insecurity and stringent compliance and administrative measures have added to the pressure on farmers in recent years, and we need to work hard together to flip the narrative away from the vilification of farmers, and work to support our hard-working agricultural people.

However, without an innovative replacement policy proposal to reduce agricultural emissions, we have no choice but to withhold our support for this amendment. Labour is of the view that this Government continues to revoke legislation without having a solid, well researched, viable replacement option. Farmers need certainty and this bill does not provide that.

The Government has said it will price emissions no later than 2030; that is actually not far away and it seems that this Government is relying on methane reduction technology which will take time to develop and to get to market at scale and also be affordable to farmers. We simply cannot afford to cross our fingers and hope for the best.

This is an irresponsible move that will ultimately lower the chances of collective action on climate change, and irreversibly damage our international reputation.

Appendix

Committee procedure

The Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill was referred to the committee under urgency on 25 June 2024. (The calendar date was 26 June.) The House instructed us to report the bill back no later than 1 November 2024.

The closing date for submissions was 28 July 2024. We received and considered submissions from 581 interested groups and individuals. We heard oral evidence from 26 submitters at hearings in Wellington and by videoconference.

We received advice on the bill from the Ministry for the Environment and the Ministry for Primary Industries, which also consulted with the Environmental Protection Authority. The Office of the Clerk provided advice on the bill's legislative quality. The Parliamentary Counsel Office was available to assist with legal drafting.

Committee members

Mark Cameron (Chairperson)
Steve Abel
Miles Anderson
Hon Jo Luxton
Suze Redmayne
Cushla Tangaere-Manuel
Catherine Wedd

Dr Carlos Cheung, Hon David Parker, Hon Willow-Jean Prime, and Hon Dr Megan Woods also participated in our consideration of this bill.

Related resources

The documents that we received as advice and evidence are available on the Parliament website.