



Deferral of NZ ETS reporting obligations for animals–farmer activities

Discussion document



Ministry for the
Environment
Manatū Mō Te Taiao



Te Kāwanatanga o Aotearoa
New Zealand Government

Disclaimer

The information in this publication is, according to the Ministry for the Environment's best efforts, accurate at the time of publication. The Ministry will make every reasonable effort to keep it current and accurate. However, users of this publication are advised that:

- the information does not alter the laws of New Zealand, other official guidelines, or requirements
- it does not constitute legal advice, and users should take specific advice from qualified professionals before taking any action based on information in this publication
- the Ministry does not accept any responsibility or liability whatsoever whether in contract, tort, equity, or otherwise for any action taken as a result of reading, or reliance placed on this publication because of having read any part, or all, of the information in this publication or for any error, or inadequacy, deficiency, flaw in, or omission from the information in this publication
- all references to websites, organisations or people not within the Ministry are for convenience only and should not be taken as endorsement of those websites or information contained in those websites nor of organisations or people referred to.

This document may be cited as: Ministry for the Environment. 2023. *Deferral of NZ ETS reporting obligations for animals–farmer activities: Discussion document*. Wellington: Ministry for the Environment.

Published in August 2023 by the
Ministry for the Environment
Manatū mō te Taiao
PO Box 10362, Wellington 6143, New Zealand
environment.govt.nz

ISBN: 978-1-991077-70-7

Publication number: ME 1784

© Crown copyright New Zealand 2023

Contents

Background and context	4
Scope of this engagement	5
The Government’s proposal	6
Option 1: Animals–farmer obligations under the NZ ETS as set out in the CCRA	7
Option 2: Deferring the farm-level obligations by two years (preferred option)	9
Benefits, costs and trade-offs of options 1 and 2	10
Consultation questions	13
Have your say	14
Timeframes	14
How to provide feedback	14
Publishing and releasing submissions	15

Tables

Table 1:	Estimated comparison of costs based on numbers of participants	8
Table 2:	Timeframe comparison of requirements for animals–farmers under option 1 and option 2	9

Background and context

Changes in climate are already happening in Aotearoa New Zealand. Extreme weather events, flooding and droughts increase the pressures faced by farmers and growers. Farmers and growers are both critical to the economy and directly exposed to the effects of the changing climate. Everyone must adapt to the changing climate and contribute to international efforts to limit the global temperature increase by reducing greenhouse gas emissions.

Agricultural greenhouse gas emissions currently contribute 49 per cent of Aotearoa New Zealand's gross emissions. Reductions in agricultural emissions are required to meet Aotearoa New Zealand's domestic and international greenhouse gas emissions targets. Pricing agricultural emissions helps create an incentive for the uptake of emissions-reducing practices and technologies.

The Climate Change Response Act 2002 (CCRA) provides a framework for developing and implementing climate change policies to enable Aotearoa to meet its domestic targets, emissions budgets and international obligations. To help achieve this, the CCRA requires reporting and surrendering of units for emissions from specified activities through the New Zealand Emissions Trading Scheme (NZ ETS).

The NZ ETS is the Government's main tool for reducing greenhouse gas emissions. All sectors covered by the NZ ETS must report their annual greenhouse gas emissions to the Government. Surrender obligations mean that a participant in the NZ ETS is required to pay the Government for their emissions. Currently, all sectors apart from agriculture have surrender obligations.

In 2008, agricultural activities were included in the CCRA, with obligations for fertiliser and animals-processors to monitor and report their agricultural emissions under the NZ ETS from 1 January 2011. In 2020, the CCRA was amended and required fertiliser and animals-processors to pay for these emissions through the NZ ETS from 2025.

From 1 January 2024, the CCRA requires animals-farmers to register with the Environmental Protection Authority (EPA) and begin monitoring their emissions from 1 January 2024 in order to report on those emissions, with surrender obligations commencing on 1 January 2025. These provisions are frequently referred to as the 'NZ ETS backstop'.

Why was the NZ ETS backstop introduced?

Pricing agricultural emissions through the NZ ETS was set up as a backstop option to ensure progress towards reducing agricultural emissions. The NZ ETS backstop created a clear timeline for when agricultural emissions would be priced through surrender obligations in the NZ ETS.

The NZ ETS backstop consists of two parts:

- farm-level pricing for animals–farmer activities and
- processor-level pricing.

In 2022, the Government had a choice to switch on the NZ ETS processor-level surrender obligations if they were not satisfied with the He Wake Eke Noa Partnership’s progress in developing a system to price agricultural emissions. This did not happen as the Partnership put forward their proposal in May 2022. The farm-level obligations for animals–farmer activities remain in place and will automatically begin with registration and monitoring requirements from 1 January 2024 and surrenders for emissions from 1 January 2025 unless it is deferred via an Order in Council or legislation is amended.

The Government has options as to how to include pricing at the farm-level. It could either bring the agriculture sector into the already established NZ ETS or establish an alternative pricing system for agricultural emissions.

Pricing agricultural emissions at the farm-level either within the NZ ETS or an alternative levy system would mean that farmers would be responsible for emissions from livestock on their farms. Farmers would be required to report to the Government and pay for their agricultural emissions, either by directly paying the Government (through an alternative levy system) or purchasing units to cover any liabilities (NZ ETS).

Since 2019, the Government has been working in partnership with the primary sector and Māori on an alternative farm-level agricultural emissions pricing system to replace the NZ ETS. In 2022, the Government undertook extensive consultation on a proposed farm-level agricultural emissions pricing system as an alternative to including agricultural emissions in the NZ ETS. The Government is now working to legislate and implement an alternative levy system.

Scope of this engagement

The scope of this engagement is limited to the provision in the CCRA that places registration, monitoring, reporting and surrender obligations on animals–farmers, beginning with registering and monitoring from 1 January 2024. The date these obligations come into effect can be deferred by an Order in Council to a later date as appointed by the Governor-General.

The Government is seeking your feedback on deferring these obligations from 1 January 2024 to 1 January 2026 to allow time for agricultural emissions pricing policy to be legislated and implemented. If the date is not deferred, animals–farmers will be required to register as a participant with the EPA and monitor their emissions from 1 January 2024 ahead of reporting obligations, with surrender obligations commencing a year later.

The Government's proposal

The CCRA requires animals–farmers to register and begin monitoring their emissions from 1 January 2024 in order to report on those emissions, with surrender obligations commencing on 1 January 2025.

Section 2A(5D) of the Climate Change Response Act 2002

Subpart 4 of Part 5 of Schedule 3 (for animals–farmer activities):

- a) applies on and after 1 January 2024 or a later date appointed by the Governor-General by Order in Council; but
- b) is affected by section 219, which provides that emissions released during the following excluded period do not require units to be surrendered: the first year in which that subpart 4 applies to the persons, or class of persons carrying out that activity.

While the Government works to legislate and implement pricing of agricultural emissions at farm level, we are proposing to defer the NZ ETS provisions related to monitoring and reporting for animals–farmers from 1 January 2024 to 1 January 2026, which also has the effect of delaying surrender obligations. Deferring these obligations will provide the necessary time to legislate and implement agricultural emissions pricing policy to ensure it is practical and most effective at reducing agricultural emissions. The processor-level NZ ETS backstop will remain in place as set out in the CCRA until an alternative system is in place. When legislation for an alternative system for pricing agricultural emissions is introduced, the relevant NZ ETS obligations would be repealed.

This consultation seeks your feedback on whether this obligation should be deferred from 1 January 2024 to 1 January 2026.

Option 1: Animals–farmer obligations under the NZ ETS as set out in the CCRA

Pricing agricultural emissions through the NZ ETS was set up as a backstop option to ensure progress towards reducing agricultural emissions in the event an alternative pricing system was not in place by 2025.

Under the NZ ETS backstop, emissions pricing will commence 1 January 2024 for animals–farmers.

Definition of animals–farmer activity

The Climate Change Response Act 2002 defines animals–farmer activity as:

farming, raising, growing, or keeping ruminant animals, pigs, horses or poultry for:

- a) reward; or
- b) the purpose of trade in those animals, animal material or animal products taken or derived from those animals.

The **farm-level backstop** means that animals–farmers will be required to:

- register and begin monitoring their emissions for reporting purposes from 1 January 2024
- surrender units to cover their emissions from 1 January 2025.

Under the CCRA, the definition of animals–farmer activity means a large number of farmers would be required to register, monitor and surrender units. Initial estimates suggest over 100,000 farmers could have obligations. This includes a significant number of small holdings such as lifestyle properties and the minor-emitting livestock sector.¹ For comparison, the He Waka Eke Noa – Primary Sector Climate Action Partnership proposal would have included an estimated 23,000 participants and would have captured 96 per cent of agricultural emissions.

¹ The minor-emitting sector, including swine, poultry, goats, horses, alpacas, llamas, mules and asses, account for only 0.5 per cent of Aotearoa New Zealand’s agricultural emissions according to the [2023 Greenhouse Gas Inventory](#). The costs of including these minor sectors would likely outweigh the additional emissions reduction benefits that would arise from including these sectors at this time.

Case study

Breeders of sport horses would be required to register, monitor and report their agricultural emissions and then face surrender obligations if they meet the animals–farmer activity definition in the NZ ETS.

A breeder of 20 ponies on a 3-hectare property would be required to follow the above process in order to capture around 0.5 kilograms of methane, at an estimate carbon value of \$40. The estimated reporting and administration costs for that emission would be around \$1,000 per annum.²

If animals–farmers entered the NZ ETS, changes to NZ ETS regulations would be required as well as system development to stand up the administrative, compliance and data management components for the regulator. The development of regulations, including policy development and public consultation, can take approximately 18 months and there is not enough time to do this prior to obligations coming into effect.

If animals–farmers participated in the trading of emissions under this system, it is likely to be complicated and inefficient, incurring high transaction and administration costs.

Estimated administration costs

The NZ ETS animals–farmer activity definition could require over 100,000 animals–farmers to participate. Table 1 provides a comparison between the number of participants as proposed by the He Waka Eke Noa – Primary Sector Climate Action Partnership proposal versus the number of participants that are likely to be captured under the NZ ETS.

Compliance and administration costs include:

- time to for participants to understand and complete reporting
- compliance activity
- help desk/call centre resource
- extension activities.

Table 1: Estimated comparison of costs based on numbers of participants

Reporting costs obligations for: ³	Aggregate costs for 23,000 participants ⁴	Aggregate costs for 106,000 participants ⁵
Farmers	\$14m	\$76m
Implementation agency	\$8m	\$43m

² This assumes 8 cents per kilogram of CH₄ emissions using the emissions factor from [New Zealand's Greenhouse Gas Inventory](#).

³ The estimated reporting costs do not reflect compliance, monitoring, enforcement or registration and estimate unit cost.

⁴ Estimated number of participants under the He Waka Eke Noa – Primary Sector Climate Action Partnership proposal.

⁵ Estimated number of NZ ETS participants based on approximately 50,000 GST-registered farmers and an additional 56,000 participants (mainly lifestyle block owners) that are not GST registered but have livestock and could meet the NZ ETS animals–farmer activity definition.

Option 2: Deferring the farm-level obligations by two years (preferred option)

The Government is proposing to defer the obligations for animals–farmers (under sections 2A(5D) and 2B of the CCRA) from 1 January 2024 to 1 January 2026. The new timeline being proposed for option 2 is explained in table 2.

Table 2: Timeframe comparison of requirements for animals–farmers under option 1 and option 2

Option 1: current CCRA animals–farmer requirements		Option 2: Two-year deferral of animals–farmer requirements	
Date	Requirement	Date	Requirement
1 January 2024	Register with the EPA and begin monitoring emissions under the NZ ETS.	1 January 2026	Register with the EPA and begin monitoring emissions under the NZ ETS.
1 January 2025	First annual emissions reports for the year 1 January 2024 to 31 December 2024 are due by 31 March 2025 and surrender obligations commence for emissions from 1 January 2025.	1 January 2027	First annual emissions reports for the year 1 January 2026 to 31 December 2026 are due by 31 March 2027 and surrender obligations commence for emissions from 1 January 2027.
1 January 2026	Surrender units for the 2025 emissions year.	1 January 2028	Surrender units for the 2027 emissions year.

Under this option, only the farm-level pricing obligations would be deferred for two years. The processor-level obligations would not change. As processor-level monitoring and reporting is already in place, we consider pricing will be practical to set up, and the costs to administer the system will be relatively low.

Implementing option 2

This change to the CCRA would be implemented via an Order in Council. When making an Order in Council, the Minister of Climate Change must have regard to particular matters set out in section 2B of the CCRA. These matters are summarised as the:

- need for the EPA to be able to verify information contained in emissions returns
- likelihood that animals–farmers will reduce their emissions as a result of becoming participants
- desirability of minimising compliance and administrative costs for participants, and the administration costs for the Crown.

Benefits, costs and trade-offs of options 1 and 2

While neither option would have a material impact on emissions reductions ahead of pricing commencing in 2025, the Government's preferred option is option 2 (defer the obligations for animals–farmers for two years).

We consider there are significant costs associated with option 1 as follows:

- Difficult to implement and expensive from a regulatory perspective, due to the large number of participants in the NZ ETS, and for farmers as it is a complex system to interact with. The Government's initial assessment estimates that this could capture more than 100,000 animals–farmers.
- Farmers would not be prepared to participate from 1 January 2024.
- System administration would be challenging to set up prior to statutory reporting and obligation dates.

We consider the benefits of option 1 are as follows:

- **Reporting and pricing emissions at farm level.**
Reporting and pricing emissions at farm level means farmers can better understand the emissions associated with production and are incentivised to take action to reduce these emissions.
- **The timeframes set for agricultural emissions pricing are met.**
By proceeding with the farm-level NZ ETS backstop option, the Government will likely meet the 2025 timeframe for pricing agricultural emissions.

We consider the following benefits of option 2:

- **Emissions will still be priced at farm level.**
Under option 2, deferring farm-level reporting for animals–farmers under the NZ ETS would eliminate the need to set up an interim system for farm-level reporting while agricultural emissions pricing policy is legislated and implemented.
- **Agricultural emissions would still be priced in 2025.**
Either an alternative system to price agricultural emissions at farm level would replace the NZ ETS requirement or the legislated obligations will commence. However, the administrative complexity and costs of introducing farm-level pricing under the NZ ETS are more likely to be avoided if it is deferred by two years.
- **Deferring the obligations for animals–farmer activities under the NZ ETS will provide clarity for farmers about their obligations in 2024.**
Under option 1, farmers are unlikely to be prepared for the upcoming farm-level pricing changes. Farmers have been focused on understanding and developing the alternative agricultural emissions pricing system – and may not be prepared for the NZ ETS backstop options. This means there may be both a lack of awareness of their obligations, and a lack of knowledge on how to meet them. If the obligations under the NZ ETS are not deferred, first, farmers would have to register and monitor emissions for reporting purposes as

prescribed in the CCRA from 1 January 2024 under the NZ ETS. Then they would move to reporting under an alternative agriculture emissions system at a later date.

- **Option 2 means farmers will not have to comply with two different pricing systems.**

This is beneficial as it will avoid animals–farmers having to learn and comply with two different systems. An alternative levy system will ensure it is most effective at reducing agricultural emissions to achieve the country’s domestic and international targets and is practical to implement.

Overall, the Government prefers option 2 (deferring by two years).

There are trade-offs to consider when weighing options 1 and 2. Option 1 requires farm-level emissions reporting under the NZ ETS from 1 January 2024. This NZ ETS backstop was introduced to create a clear timeline for when agricultural emissions would be priced.

Option 2 would delay this, but it would allow for Government to continue work to legislate and implement an alternative levy system. We have not modelled the emission impacts of delaying the backstop.

Modelling shows that the NZ ETS processor-level backstop would achieve significant emissions reductions. If the farm-level backstop is implemented, we expect that these same prices applied at the farm level would also result in significant reductions. The Government is committed to implementing an alternative levy system by 2025. Modelling indicates that pricing through the processor-level backstop or an alternative farm-level emissions pricing system will enable us to meet the 2030 greenhouse gas targets.^{6,7}

Overall, the Government considers option 2 is the preferred option to create an enduring and effective system.⁸

This aligns with the Climate Change Commission’s 2022 analysis that implementing farm-level pricing within the NZ ETS will not be feasible by 1 January 2025, due to cost and complexity.⁹

The Government also considers that option 2 is consistent with the purpose of the CCRA.

⁶ Modelling scenario for alternative farm-level emissions pricing is based on the farm split-gas levy: pricing at farm level for biological greenhouse gas emissions where methane (CH₄) and nitrous oxide (N₂O) are priced differently, initial low prices as there is no free allocation and greenhouse reductions from technology mitigation options are rewarded via different CH₄ and N₂O incentive payments.

⁷ Ministry for the Environment. 2022. [Regulatory impact statement: Agricultural emissions pricing](#). Wellington: Ministry for the Environment.

⁸ To have an alternative system in place in 2025 will be challenging and will be dependent on policy decisions, investment in the system and regulatory processes occurring in parallel.

⁹ Climate Change Commission. 2022. [Full report: Progress towards agricultural emissions pricing \(June 2022\)](#). Wellington: Climate Change Commission.

Option 2 is consistent with the purpose of the CCRA

In addition to the matters summarised above, the Minister must also ensure that any decision is consistent with the purpose of the CCRA. The purpose includes:

- providing a framework by which Aotearoa can develop and implement clear and stable climate change policies that contribute to the global effort to limit the global average temperature increase to 1.5 degrees Celsius above pre-industrial levels.
- providing for an emissions trading scheme to support and encourage global efforts to reduce the emission of greenhouse gases by:
 - assisting Aotearoa to meet its international obligations
 - assisting Aotearoa to meet its emissions targets and budgets.

Specific to agriculture, the Government has set domestic emissions reduction targets that align with limiting global warming to 1.5 degrees Celsius. These targets are:

- net-zero accounting emissions for long-lived greenhouse gases by 2050
- a 24–47 per cent reduction below 2017 levels of biogenic methane emissions by 2050
- a 10 per cent reduction below 2017 levels of biogenic methane emissions by 2030.

Our current assessment is that a decision to defer animals–farmers’ obligations is consistent with the purpose of the CCRA. The current assessment indicates that processor-level obligations in the NZ ETS are expected to achieve targets and reductions in agricultural emissions.

Processor-level pricing also acts as a backstop while agricultural emissions pricing policy is legislated and implemented. This ensures that agricultural emissions are priced from 2025 to assist Aotearoa to meet its domestic emissions reduction targets and align with international obligations to limit global warming to 1.5 degrees Celsius.

Consultation questions

The Government welcomes your feedback on the questions below.

Deferral of obligations for animals–farmer activities under the New Zealand Emissions Trading Scheme (NZ ETS)

1. Do you agree with the proposal to defer obligations for animals–farmer activities from 1 January 2024 to 1 January 2026 under the NZ ETS? If not, what alternative options should be explored?
2. Do you think the deferral will have a significant impact on our path to reducing agricultural emissions? Why?
3. What impact do you consider there would be on compliance and administrative costs as a result of animals–farmers participating in the NZ ETS? Why?

Have your say

Timeframes

This consultation starts at 1pm on 18 August 2023 and ends at 11.59pm on 6 September 2023.

When the consultation period has ended, officials will analyse submissions and provide advice to the Government on the proposal discussed in this document.

How to provide feedback

You can make a submission in two ways:

- via Citizen Space (our consultation hub) available at:
<https://consult.environment.govt.nz/climate/deferral-nz-ets-reporting-for-animals-farmers>
- by writing your own submission.

We request that you do not email or post submissions as this makes analysis more difficult. However, if you need to, please send written submissions to Ministry for the Environment, PO Box 10362, Wellington 6143 and include:

- your name or organisation
- your postal address
- your telephone number
- your email address.

If you are emailing your feedback, send it to AgEmissionsPricing@mfe.govt.nz as a:

- PDF, or
- Microsoft Word document (2003 or later version).

Submissions close at 11.59pm on 6 September 2023.

Publishing and releasing submissions

All or part of any written submission (including names of submitters) may be published on the Ministry for the Environment's website, environment.govt.nz. Unless you clearly specify otherwise in your submission, the Ministry will consider that you have consented to website posting of both your submission and your name.

Contents of submissions may be released to the public under the Official Information Act 1982 following requests to the Ministry for the Environment (including via email). Please advise if you have any objection to the release of any information contained in a submission and, in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information. We will take into account all such objections when responding to requests for copies of, and information on, submissions to this document under the Official Information Act 1982. The Privacy Act 2020 applies certain principles about the collection, use and disclosure of information about individuals by various agencies, including the Ministry for the Environment. It governs access by individuals to information about themselves held by agencies. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that the Ministry for the Environment may publish.

The Privacy Act 2020 applies certain principles about the collection, use and disclosure of information about individuals by various agencies, including the Ministry for the Environment. It governs access by individuals to information about themselves held by agencies. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that the Ministry for the Environment may publish.