Meat Industry Association of New Zealand

beef+lamb new zealand

Submission

7 July 2025

TO THE

Environment Select Committee

ON THE

Climate Change Response (Emissions Trading Scheme – Forestry Conversion) Amendment Bill

BY

Beef + Lamb New Zealand Ltd

Meat Industry Association

About the Red Meat Sector

The New Zealand sheep and beef sector is a vital driver of the New Zealand economy and its prosperity. It is New Zealand's second largest export sector and one of the largest employers in New Zealand, accounting for 92,000 jobs, or almost five percent of the fulltime workforce.

The sector generates $12 billion in income annually, and $4.6 billion in household income – this is, on average, about $3,300 for every household in New Zealand. At a regional level, the extent of the red meat sector's contribution is even more pronounced. In some regions it can account for 12 percent of fulltime employment and up to $5000 per household.

The red meat sector's exports are therefore crucially important to the broader New Zealand economy, helping the nation grow because they increase revenue, create jobs and raise the standard of living.

About Beef + Lamb New Zealand Ltd

Beef + Lamb New Zealand (B+LNZ) is the farmer-owned organisation representing New Zealand's sheep and beef farmers. B+LNZ is funded under the Commodity Levies Act 1990 through a levy paid by producers on all cattle and sheep commercially processed in New Zealand. It represents around 9,200 commercial farming businesses whose farms cover just under a third of New Zealand's total land area.

B+LNZ's vision is thriving sheep and beef farmers, now and into the future. Its priorities are to champion farming excellence (through on-farm extension focused on enhancing productivity, profitability and sustainability, and through investing in research and innovation to solve sector production challenges), undertake advocacy (championing farmers' interests and shaping the future domestically and internationally), and to energise the sector (by building trust, reputation and confidence, and by proudly celebrating sheep and beef farming).

About Meat Industry Association

The Meat Industry Association (MIA) is a voluntary, membership-based organisation representing processors, marketers, and exporters of New Zealand red meat, rendered products, and hides and skins.

MIA represents 99 percent of domestic red meat production and exports, making the meat industry New Zealand's second largest goods exporter with exports of $9.9 billion. The meat processing sector is New Zealand's largest manufacturing sector that employs over 25,000 people in about 60 processing plants, located mainly in the regions. The sector is a significant employer in many of New Zealand's rural communities and contributes over $4 billion in household income.

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Summary

B+LNZ and MIA supports the intent of the Climate Change Response (Emissions Trading Scheme – Forestry Conversion) Amendment Bill, but is seeking some important changes.

For over six years the sector has been raising concerns about the NZ ETS artificially incentivizing blanket afforestation. This afforestation is not the result of consumer demand for trees, but rather the result of government policies that are unbalanced and an outlier internationally.

New Zealand is alone in designing an ETS with no controls on the use of forestry offsets. The ETS has seen overwhelming areas of productive sheep and beef farmland sold and converted into blanket forestry, driven by the lucrative returns that can be made from carbon credits.

Our independent analysis shows **300,000 hectares** of whole sheep and beef farms have been confirmed as sold to forestry entities between 2017 and the beginning of 2025[1].

We estimate a further 50,000 h of whole farms are likely be confirmed as sold, or converted into forestry, before the currently proposed new rules enter into effect later this year, taking the total of whole farm conversions to at least 350,000 ha[2]since 2017.

B+LNZ estimates this reduction in land will cause a reduction of at least **2.5 million stock units**. This is already having an impact on the sheep and beef sector with one processing plant closing and more signalled, and significant negative effects on regional economies and communities.

We therefore welcome the Government's moves to introduce restrictions on the amount of productive farmland that can be converted into forestry and entered into the ETS to claim carbon credits.

It has become clear, however, that these restrictions do not go far enough.

We have two major areas of concern:

1. The "temporary exemptions" allowing forestry entities to enter farmland that was converted after the changes were announced on 4 December are unclear, too flexible and need to be tightened.
2. The restrictions on land-classes relating to whole farm conversions that can be entered into the ETS do not go far enough.

[1] land-use-change-pastoral-farming-large-scale-forestry.pdf

[2] The following is a breakdown of this 50,000 ha estimate. We expect at least a 10,000 ha increase in the number of farms were sold in 2024 to the number that is in our latest report, linked to in footnote 1. The 2024 number in our latest report is a preliminary number. In the last couple of years there has been a significant delay in farm sales being registered, in particular OIO investments. In the Orme report they also note that they are aware of 20,000 ha of whole farms that have not been sold, but have been fully converted into forestry this year. Based on the phone calls we have received this year from farmers, and the size of farms are known to have been sold to known forestry entities, we estimate that up to 20,000 ha of whole farms have been sold for conversion this year, but have not yet been registered.

These two areas of concern are elaborated on below:

1. The 'temporary exemptions' list is too broad

When the limits were announced in December 2024, the Government said the new rules would apply from 4 December 2024, unless there was a "clear" intent for conversion before that date.

The Government's stated intent was that this exemption would be for "rare" instances.

The current text of the legislation, however, says "any" of the listed activities would be eligible on their own, and two items on the list (ordering seedlings and third-party assessments) should not be sufficient as they do not constitute enough proof of intent.

B+LNZ is hearing from many farmers who are aware of farms that have been sold to entities this year intending to take advantage of the current overly permissive list of exemptions.

2. The restrictions on <u>whole farm conversions</u> that can be entered into the ETS do not go far enough and will not adequately reduce the amount of land use change that has been occurring.

B+LNZ and MIA supports the current proposed moratorium on whole farm conversions on land-classes 1-5 being entered into the ETS, but the moratorium needs to be extended to all land classes.

The currently proposed restrictions will do little to limit the main land classes where whole farm conversions have typically taken place.

89% of the farms that have been purchased for conversion into forestry in the last eight years have been in land class 6-8 (58.1% on land class 6; 29.7% on land class 7; and 1.1% on land class 8).

The proposed quota of 15,000 ha a year on land class 6 is only 6,713 ha lower than the 21,713 ha that have been converted on average under land-class 6 each year over the last 8 years. There are no proposed restrictions on land classes 7 and 8.

Under the proposed new rules, B+LNZ analysis indicates at least 26,000 ha of whole farms will still be able to be converted and entered into the ETS within land classes 6-7 between 2025 and 2050.

Land class 6, in particular, is highly productive land and critical to the sheep and beef sector, and land class 7 is also productive.

This would see a further 650,000 ha of sheep and beef farmland converted into forestry between 2025 and 2050.

The 350,000 ha already converted plus an additional 650,000 ha would take the total to 1 million ha of sheep and beef farmland converted into forestry between 2017 and 2050.

Without further restrictions on whole farm conversions, significant damage will be done to the sheep and beef sector and wider New Zealand economy

This amount of land use change would see a 19 percent reduction in the 5 million ha of productive grassland in the sheep and beef sector, and an 18 percent reduction in stock units by 2050.

The resulting reductions in production will lead to a significant loss in employment, export earnings and social wellbeing to both rural communities and New Zealand.

New Zealand is an outlier internationally and other countries significantly restrict whole farm conversions

The reduction in our sector - driven by fossil fuel emitters using carbon credits to offset rather than reducing their own emissions at source - is an outlier internationally, against the long-term interests of New Zealand, and is unacceptable.

New Zealand is the only country, aside from Kazakhstan, that has no restrictions on forestry offsetting in its ETS.

In Australia, the Minister for Agriculture needs to approve each application to convert whole farms into forestry for carbon credits.

A growing number of climate change experts, including the Parliamentary Commissioner for the Environment, are calling for forestry to be phased out of the NZETS.

While B+LNZ and MIA ultimately supports a review of the ETS settings, this will take years, with irreparable damage done to rural New Zealand in the meantime.

To stop the decline in the sheep and beef sector caused by poor ETS settings, we urge that the moratorium on whole farm conversions being entered into the ETS be extended to all land classes, or at least land class 6.

New Zealand sheep and beef farms on land classes 6 and 7, in particular, produce large amounts of high-quality food and employ thousands of New Zealanders. These iconic and productive New Zealand farms should not remain exposed to a serious issue caused by short-term government policy.

B+LNZ and MIA's proposed further restrictions do not prevent an entity from purchasing a farm to convert it into forestry for harvesting. This can still occur.

The proposed changes simply prevent an entity from then entering land from a whole farm purchase into the ETS for carbon credits and therefore removes the significant government distortion that has been driving recent wholesale land use change.

Note: The consultation period on the proposed legislation is just six working days. This has not allowed adequate time to analyse the 24 pages of proposed changes to the Climate Change Response (Emissions Trading Scheme – Forestry Conversion) Amendment Bill. The following submission therefore focuses on the key issues.

B+LNZ and MIA reserves the right to raise further issues during the process, in particular if further changes are needed to give effect to the issues raised in this submission.

Recommendation 1:

The "temporary exemptions" allowing forestry entities to enter farmland that was converted after the changes were announced on 4 December are too broad and need to be tightened.

This concern relates to the definition of "qualifying forestry investment" proposed as a new Part 5 inserted into Schedule 1AA.

Recommended change to the legislation:

- **The definition of a qualifying forestry investment in New Part 5 inserted into Schedule 1AA has to be amended.**
    - **The reference to "any" needs to be removed from the chapeau to this definition.**
    - **It also needs to be made clear that clauses (c) and (g)(i) are insufficient as evidence on their own. They need to be combined with another action on the list OR removed from the list.**

When the limits were announced in December 2024, the Government said the new rules would apply from 4 December 2024, unless there was a "clear" intent for conversion before that date.

That is fair, as rules shouldn't apply retrospectively to land use decisions made in good faith.

The Government's stated intent was that this exemption would be for "rare" instances[3].

However, since the Government made their announcement in December a significant number of farms have been sold to forestry entities that were put on the market after the announcement was made.

Minister McClay, in his press release on 25 June on the passing of the first reading of the currently proposed legislation stated: "… the purchase of land and ordering of trees prior to 4 December 2024 would be an example of proof of a qualifying investment, whilst each of these actions **alone** would not."[4]

The current wording in the proposed legislation, however, is inconsistent with this stated intent.

In the new Part 5 to be inserted into Schedule 1AA is a definition of the "qualifying forestry investment" that would be considered as meeting the "transitional" exemptions there are a number of changes that need to be made.

(See Appendix One for an extract of the text of the legislation.)

In the chapeau of the definition of "qualifying forestry investment" currently "any" of the listed activities are eligible – i.e, only undertaking one activity is sufficient.

This is too broad and does not match the Minister's statement of 25 June, that one activity on their own would not be eligible.

There are also two items in the list of exemptions that should not be sufficient in their own right:

[3] Legislation introduced to restrict farm-to-forest conversions | Beehive.govt.nz
[4] Farm-to-forest Ban passes first reading | Beehive.govt.nz

(e) investment in preparation for afforestation has been made, for example ordering seedlings or undertaking land preparation for forestry.

AND

(g) a third party has been contracted to undertake due diligence for the purposes of

(i) afforesting land.

With respect to (e), B+LNZ has heard from many farmers that forestry entities that had purchased seedlings prior to the December announcement that they intended for replanting an existing property, or for converting a farm they had already purchased, have instead purchased a new farm this year and are intending to use the purchase of those seedlings to say they meet the criteria.

The ordering of seedlings should not be sufficient on their own, for a farm that has been purchased following the Government's announcement.

With respect to (g)(i), we understand that MPI has already undertaken an assessment across New Zealand and identified all land that is suitable for afforestation.

The way the legislation is currently worked therefore means someone could potentially use as assessment as evidence, but no action has necessarily been undertaken by either the farm owner or a forester to meet this condition prior to December 2024 and it therefore cannot be used as evidence to prove there was intent to convert that land.

Recommendation 2:

While B+LNZ and MIA appreciates the efforts of the Government to put some restrictions on whole farm conversions being entered into the ETS, the restrictions do not go far enough.

B+LNZ and MIA supports the moratorium on whole farm conversions relating to land-classes 1-5 being entered into the ETS.

However, the annual quota of 15,000 ha on land class 6 being able to be entered into the ETS, and no restrictions on land classes 7 and 8, do not go far enough.

B+LNZ analysis of recent farm sales shows that 88.9% of the farmland that has been sold and converted into forestry has been in Landclass 6 and above.

The annual 15,000 ha quota on land class 6 is therefore only 6,700 ha below how much has happened each year for the last 8 years.

Under the proposed new rules B+LNZ estimates 26,000 ha a year of whole sheep and beef farm conversions will still be able to be entered into the ETS.

Land class 6 is the sheep and beef sector's main land class and highly productive. Land class 7 can also be productive.

By 2050, this would see 1 million ha of whole sheep and beef farms entered into the ETS, which would decimate the sector and significantly affect rural New Zealand communities and the New Zealand economy.

Recommended changes to the legislation:

- **The moratorium on <u>whole farm</u> conversions that can be entered into the ETS are extended from Land-Class 1-5 to all land-classes.**

The carbon market has driven a significant and unsustainable increase in farm sales into forestry since 2018

Over the last couple of years, B+LNZ has commissioned Orme Associates to track the sale of sheep and beef farms into forestry.

Orme Associates tracks the purchasing name of each sheep and beef farm sale and has counted each time a clear forestry entity has purchased a farm over 250 hectares.

The amount of whole farms (by hectare) that have been purchased is summarised in Table 1 below. This is based on Orme's latest report from May 2025.[5]

[5] Land-use change from pastoral farming to large-scale forestry May 2025

The actual number of whole farms is likely to be higher than their numbers as sometimes Orme may miss a purchaser that is not a known forestry entity.

The Orme data shows that farm sales started to increase in 2018 when the previous Labour/Green government signaled the $25 cap on the carbon price was going to be lifted, which happened in 2019.

Prior to this date, only about 6,000 ha to 7,000 ha of farmland was converted into forestry each year.

After the cap was lifted in 2019, farm sales to forestry entities increased rapidly as the carbon price quickly increased from $25 per tonne to over $50 per tonne.

Sales slowed slightly in 2023 as the previous Government announced a review of the settings and the current Government announced it would also take measures, but still were well above pre 2018 levels.

Table 1: Sheep and beef farms sold to forestry entities between 2017 and early 2025

Whole of Farm Purchase	Year									Grand Total (hectares)	Overall % by Conversion
	2017	2018	2018	2020	2021	2022	2023	2024	2025 Q1		
Honey (Mānuka)	3,039	7,340	1,678	3,313	3,175	876				**19,421**	6.5%
Forestry	2,510	11,245	26,198	6,069	16,266	7,855	10,122	3,623		**83,888**	27.9%
Carbon Forestry				13,635	16,029	31,686	6,101	7,018		**74,469**	24.8%
Forestry OIO	1,455	8,982	10,626	15,261	28,112	23,540	13,295	19,842	1,762	**122,875**	40.9%
Total Whole of Farm	**7,004**	**27,567**	**38,502**	**38,278**	**63,582**	**63,957**	**29,518**	**30,483**	**1,762**	**300,653**	**100.00%**

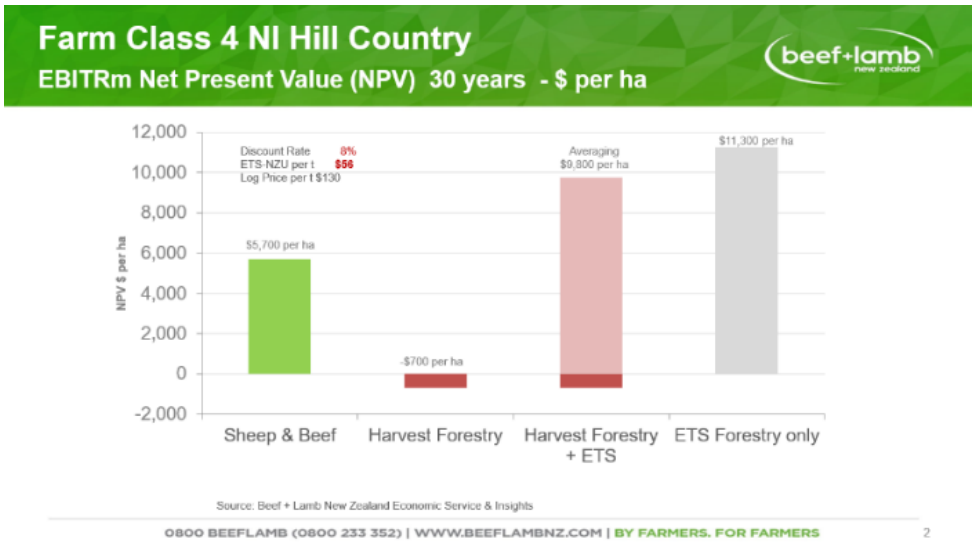
Source: Orme Associates Research published May 2025

The graph below (Graph 1) clearly shows it is the additional returns that can be gained from carbon credits that has driven the increase in whole farms being purchased to convert into forestry.

Sheep and beef farming over a 30-year period is more profitable that forestry, but the addition of the returns that can be made from carbon credits fundamentally distorts the market.

- Over a 30-year period sheep and beef returns are significantly higher per hectare than from production (harvest) forestry only. ($5,500 per hectare compared to negative $700 per hectare based on 2024/25 prices.)
- The expected returns from plantation forestry plus carbon credits is $9,800, and for carbon farming only (ie no harvesting) is $11,300 per ha.

Graph 1: Hill Country Sheep and Beef Farming and forestry alternatives: Earnings before Interest, Tax, Rent and management reward, Net Present Value (NPV) 30 years - $ per ha



**Note the analysis in the graph above uses Treasury's updated 8% discount rate. We can provide the graph for the lower discount rate if useful. Note also that the difference in returns between sheep and beef production and harvest only (ie production) forestry in 2024/25 is greater than in previous years, but the trend is consistent.*

There is a narrative that the recent farm sales into forestry have occurred because sheep and beef farming is unprofitable, but the graph above shows clearly it is the additional returns from carbon credits that are the primary driver of the activity.

The inflated returns from the carbon price means forestry owners have been able to outbid sheep and beef farmers

We are aware of farmers that had wanted to purchase a farm that was up for sale, but were outbid by those who were intending to convert the farm into forestry for carbon and were able to pay more because of the carbon price.

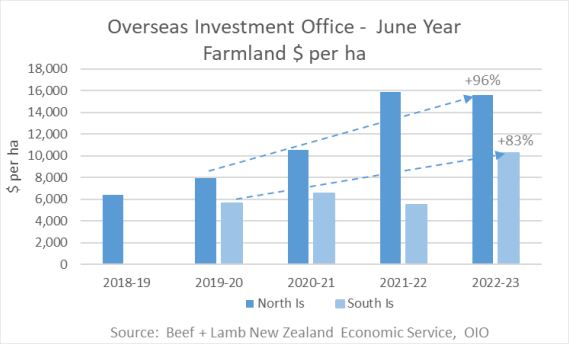
This means that many of the farms that have come up for sale in the last 6 years would have been sold to a farmer and remained in the sheep and beef sector if it had not been for this market distortion.

The following graph shows the impact the carbon price has had on land values.

This is based on analysis of the value of land purchased by overseas investors into forestry since the cap on the carbon price was lifted in 2019/2020. Overseas investors have been the largest purchaser of sheep and beef farms to convert into forestry in the last 5 years (see Table 1).

In a four-year period, North Island sheep and beef farmland values increased 96% and South Island sheep and beef farmland values increased 83%. Most of the purchases of sheep and beef land for forestry has been in the North Island.

Graph 2: Prices of land purchased under the OIO as disclosed in the transaction



The current proposed restrictions in the legislation put very few limitations on the amount of whole farm forestry conversion that has been happening

The current proposed restrictions are:

- Restrict farm conversions to exotic ETS forests on high-to-medium versatility farmland (LUC classes 1-5);
- A limit of 15,000 hectares per year for exotic conversions on medium versality farmland (LUC class 6);
- No limit on farm conversions to exotic ETS forests on land classes 7-8.
- Allow for up to 25 per cent of a farm's LUC 1-6 land to still be planted in exotic forestry for the ETS, ensuring farmers retain flexibility and choice.
- Exemptions for Crown-owned land and Māori-owned and Treaty Settlement land.

[See Appendix Two for a description of the proposed restrictions on whole farm conversions and exemptions from the explanatory note of the legislation.]

The following table (Table 2) shows the breakdown by land-class of the whole farms that have been sold to known forestry entities since 2017, through the independent tracking of sheep and beef farm sales undertaken by Orme Associates, commissioned by B+LNZ.

- 88.9% of the farmland that has been sold has been in land class 6 and above.
    - 58.1% of the farmland was in land class 6;
    - 29.7% in land class 7; and
    - 1.1% in land class 8.

Table 2: Proportion of farmland sold for afforestation 2017-2024 by land class (LUC)

	Land Use Classification (LUC) Band								
Year	2	3	4	5	6	7	8	Other	Total
2024	0.6%	2.7%	6.7%	1.9%	71.7%	16.0%	0.4%		100.0%
2023	0.0%	2.4%	5.2%	0.5%	57.5%	32.6%	1.7%	0.1%	100.0%
2022	0.2%	3.7%	6.7%	0.5%	57.8%	30.1%	1.0%		100.0%
2021	0.2%	3.7%	6.7%	0.5%	57.8%	30.1%	1.0%		100.0%
2020	0.2%	3.8%	8.7%	2.8%	60.5%	23.3%	0.7%		100.0%
2019	0.1%	3.1%	5.4%	0.9%	52.0%	36.7%	1.7%	0.1%	100.0%
2018	0.1%	3.1%	5.4%	0.9%	52.0%	36.7%	1.7%	0.1%	100.0%
2017	0.1%	3.1%	5.4%	0.9%	52.0%	36.7%	1.7%	0.1%	100.0%
Average 2017-2024	0.2%	3.2%	6.3%	1.1%	57.7%	30.3%	1.2%	0.0%	100.0%

Source: Orme Associates Research, May 2025

The following table (Table 3) shows a breakdown of the amount of farmland by hectare that have been sold per landclass.

Table 3: Hectares of whole farms sold to forestry 2017-2024 by land-class

	2017	2018	2019	2020	2021	2022	2023	2024	Total	Average 2017-2024
LUC2 ha	7	28	39	77	127	128	0	183	588	73
LUC3 ha	217	855	1,194	1,455	2,353	2,366	708	823	9,970	1,246
LUC4 ha	378	1,489	2,079	3,330	4,260	4,285	1,535	2,042	19,399	2,425
LUC5 ha	63	248	347	1,072	318	320	148	579	3,094	387
LUC6 ha	3,642	14,335	20,021	23,158	36,750	36,967	16,973	21,856	173,703	21,713
LUC7 ha	2,570	10,117	14,130	8,919	19,138	19,251	9,623	4,877	88,626	11,078
LUC8 ha	119	469	655	268	636	640	502	122	3,409	426

Source: Orme Associates Research, May 2025

This shows that 21,713 ha of land class 6 was sold for conversion on average each year between 2017 and 2024.

The current proposed quota for 15,000 hectares on land class 6 will, therefore, only reduce the amount of activity in this major land class by 6,713 ha a year than what has recently been happening.

There are no restrictions on land classes 7 and 8.

This means that the proposed new rules will impose virtually no restrictions on 89% of the whole farm farmland that has been purchased for conversion into forestry over the last 8 years.

The amount of whole farms likely to continue to be converted under the current rules will decimate the sheep and beef sector, rural communities and impact red meat exports

If the current proposed quota of 15,000 ha a year for land class 6 is added to the average 11,078 ha that has been planted in land class 7 over the last 8 years, the total reaches 26,000 ha.

Given the significant amount of activity that has happened over the last eight years we anticipate this 26,000 ha will occur each year.

While this may not seem significant at first, over a 25 year period this amounts to 650,000 ha, a substantial land use shift.

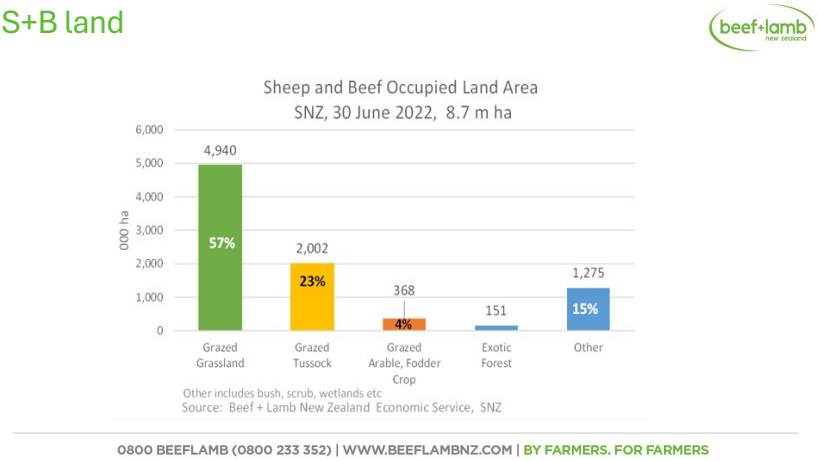
If 650,000 ha is added to the 350,000 hectares that have already been sold for conversion this adds up to 1 million hectares.

Of this 1 million ha, B+LNZ estimate 80% will be grassland, because approximately 20% on average is native vegetation, tussock, lanes or roads.

There is only 5 million[6] ha of grassland in the sheep and beef estate that is suitable for additional forestry establishment as shown in the graph below.

[6] Note: B+LNZ estimate based on GIS analysis that 2.1m ha of sheep and beef land is LUC6 grassland with a further 1.4m ha in LUC7 grassland. Thus over 18% of remaining grassland in LUC6 and LUC7 could be replaced with forestry by 2050.

Graph 3: Breakdown of the land in the sheep and beef estate



The approximately 800,000ha of effective grassland that could be converted to exotic forest is equivalent to 19% of the Sheep and Beef grazed grassland area in 2017-18.

Based on a conservative B+LNZ analysis of an average stocking rate of 10 su per grazed hectare this would see 8 million Sheep and Beef Cattle stock units (SU) permanently displaced.

This would lead to a 18% reduction in sheep and beef stock units between 2017 and 2050.

This 18% reduction in stock numbers would have significant implications for rural communities, the New Zealand economy and red meat exports

This level of reduction in the sheep and beef sector will have a significant negative impact on the sheep and beef sector, jobs across New Zealand that are supported by the sector and New Zealand's exports because the trees (if they harvested) take 25-30 years until harvest.

Impact on regional economies (jobs)

Sheep and beef farmers spend 80% of their expenditure locally.

A Wairoa case study conducted by BakerAg in 2019 found that

- sheep and beef farmers supports 7.4 jobs on average per 1000 hectares through their purchasing of goods and services locally;
- production forestry supports 5.1 jobs on average per 1,000 hectares (but this is not continuous as its mostly during pruning and harvesting); and
- carbon only farming supports less than 1 job per 1000 hectares as there is no pruning or harvesting[7].

B+LNZ therefore estimates that 1 million hectares of land being converted into forestry will lead to an overall net reduction in jobs in New Zealand of between 23,000 and 68,000 depending on the proportion production to carbon forestry.

[7] https://beeflambnz.com/knowledge-hub/PDF/wairoa-afforestation-bakerag-report.pdf

In particular, processing plants across the country will be closed, truck freight companies, vets, shearers, agribusiness consultants, and rural supply companies like PGGW and Farmlands will be significantly affected.

Regional communities will also be heavily impacted. Sheep and beef farming families and their workers support regional schools and other services across the country. Forestry workers tend to live in major regions and don't live close to the farms.

The impact on New Zealand's exports and the New Zealand economy will be significant

Based on analysis by B+LNZ, the reduction in 1 million hectares of sheep and beef farmland will lead to an estimated $32 billion in forgone export earnings by 2050.

This would have a significant impact on the New Zealand economy and to the well-being of the nation over time.

Wider environmental impacts

We are already starting to see the impact of the increase in forestry that has happened in the last couple of years with a major increase in pests across the country. This is having significant impact on sheep and beef farms by destroying pasture.

The Parliamentary Commissioner for the Environment has also highlighted wider environmental concerns such as an increase in the risk of large-scale fires across New Zealand, particularly from carbon only forests which are unmanaged.

Impact on the Emissions Trading Scheme

The ETS is an artificial construct, whose primary objective is to reduce fossil fuel emissions.

New Zealand and Kazakhstan are the only two countries that allow unlimited offsetting within their ETS.

A recent report by the Parliamentary Commissioner for the Environment strongly advocated for the Government to remove forestry from the ETS, because of concerns about the potential scale of land-use change that will happen, and the dampening impact the significant supply of forestry offsets will have on the carbon price and negative effect this will have on the goal of actually reducing gross emissions.

A significant amount of forestry is still able to be converted within farm with the retention of the 25% exemption

B+LNZ and MIA supports the retention of the exemption to convert up to 25% of a farm and enter it into the ETS and the allowance for treaty settlements.

This will provide adequate carbon units into the ETS to meet New Zealand's needs and will encourage planting of trees on the most appropriate land classes within farms.

However, we would like to see how this exemption develops in order to track the overall impact on the sector.

If 25% of all sheep and beef farms were converted into forestry, this would theoretically allow up to 1.25 million ha of grassland to be converted.

We also note that there are also exemptions for Crown-owned land, Whenua Maori owned land and Treaty Settlement land, which will allow even more farmland to be converted.

The integration of 1.25 million hectares of trees within farms will have less of an impact on the sheep and beef sector than from whole-farm conversions of a similar magnitude, but could still be significant.

Modelling by AgFirst has found that converting 10% of a farm into forestry (on the least productive land) would only have a small impact on the farm's overall meat and wool production (a 5% reduction in production) as the farmer could intensify on the remaining land: Forestry on Farms: Implications for Farm Sustainability and Regional Impact

Converting 30%, however, would see much more significant impacts (a 22% reduction in production) as it would not be possible to intensify as much as would be needed to offset the loss of such as significant amount of land.

The amount of forestry that could be planted under the within farm exemption alone, reinforces why further restrictions are needed on whole farm conversions.

If 1 million ha is able to be converted into whole farms and entered into the ETS, combined with 1.25 million ha within farm – the combination of this on the sector would be catastrophic.

Prohibiting further whole farm conversions being entered into the ETS, but allowing within farm integration to be eligible, aligns New Zealand with the approach being following in other countries

A 2023 independent report commissioned by B+LNZ showed that New Zealand and Kazakhstan are the only two countries that allow emitters to offset 100% of their ETS liability with forestry offsets.[8]

The ETS price in Kazakhstan is very low and, unlike New Zealand, is not driving significant whole-farm afforestation.

This same report showed that many countries that do not have forestry in their ETS, or that do not have an ETS at all, nonetheless have strong policies in place to prevent carbon markets artificially driving whole-farm afforestation.

One example is Australia. Australia does not have an ETS that places a compulsory price on GHG. There is, however, a system that enables companies to purchase offsets voluntarily.

These offsets are also purchased by the Australian government via a reverse auction, providing an incentive for emissions reduction but occurring at a cost to the Australian government (rather than generating revenue like a carbon tax or ETS).

In response to concerns over the potential risks large-scale voluntary carbon offsetting could pose for food production, in 2022 the Australian government passed legislation granting the Agriculture Minister the ability to prevent projects that convert farmland into plantation forestry from generating carbon credits.

In Australia, if you plan to convert agricultural land (such as a whole farm) into plantation forestry specifically to earn carbon credits under the ACCU Scheme, you must first submit a

[8] https://beeflambnz.com/sites/default/files/news-docs/International-ETS-Forestry-Review.pdf

"Plantation Notification" to the Minister for Agriculture (via the Department of Agriculture, Fisheries and Forestry). This step is compulsory for new tree plantations on non-forest land.

This extra requirement only applies to the plantation forestry category and applies to all land classes. The details of this are outlined in the Australian Department of Agriculture, Forestry and Fisheries (DAFF) website, which states:

> *"New plantations are commonly established on land previously used for agriculture. To complement the eligibility requirements of the ERF Plantation Forestry Method, the Australian Government Minister responsible for Agriculture assesses whether a proposed project/s may lead to an undesirable impact on agricultural production in that region. The requirement applies only to projects involving establishment of a new plantation forest (that is, a project that converts non-forest land to forest). The project could be a new project or the addition of land to an existing project as outlined in the explanatory statement...*

...*Where the Agriculture Minister determines that the project would have an undesirable* impact on agricultural production in the region, the project is deemed ineligible."9

Previous Australian guidance limited the amount of farmland that could be converted into plantation forestry to generate carbon credits to the smaller of 30% of a farm or 300ha.

The new guidance does not have a fixed percentage but rather states:

"The Agriculture Minister may broadly consider the following factors in forming an opinion about whether a project will have an undesirable impact:

- *The size of the proposed project area relative to the agricultural region and the proportion of arable or pastoral land in the region to be impacted.*
- *Type of commodities/industries to be impacted and their relative significance within the region.*
- *Impact on agricultural processors or agribusinesses in the region, which may then have a detrimental effect on the region's agricultural production.*
- *Impact on infrastructure for the agricultural industry.*
- *Industry trends in the region.*
- *Recent land use changes.*
- *Whether the proponent has considered bushfire, soil, weed and pest management for the project.*
- *Other information on the region's agricultural sector and potential impacts."*

Much of the ETS-driven whole farm conversions that have happened rapidly in New Zealand in the last 8 years would fail this test. This is despite New Zealand having less land than Australia, an economy that is more dependent on the agriculture sector, and hard data showing the many negative impacts being caused by the current policy settings.

The same 2023 report also collated examples of international policies designed to encourage the integration of vegetation into farmland while aiming to achieve a range of co-benefits.

[9] https://www.agriculture.gov.au/agriculture-land/farm-food-drought/climatechange/mitigation/cfi/plantation-forestry-notifications

New Zealand is an outlier in having an ETS that includes the entire forestry sector, that enables participants to offset 100% of their liability with forestry credits and that places very little importance on the social, economic and environmental harm done by government-driven blanket exotic forestry.

We therefore see the 25% exemption for within farm conversions being entered into the ETS as appropriate for encouraging the integration of forestry into productive New Zealand sheep and beef farms, but we note that this figure may need to be adjusted based on how landowners and markets respond.

We strongly encourages farmers to integrate vegetation into their farms. If done appropriately, such vegetation can not only sequester carbon but also improve water quality, improve biodiversity, provide shade and feed for livestock, and reduce soil erosion.

APPENDIX ONE

Schedule
New Part 5 inserted into Schedule 1AA

s 17

Part 5
Provisions relating to Climate Change Response (Emissions Trading Scheme—Forestry Conversion) Amendment Act 2025

46 Interpretation

In this Part,—

amendment Act means the Climate Change Response (Emissions Trading Scheme—Forestry Conversion) Amendment Act **2025**

commencement date means **31 October 2025**

ETS applicant means a person who has made an application (and **ETS application** has a corresponding meaning)—

(a) under section 57 to be registered as a participant in respect of an activity of standard forestry or permanent forestry; or

(b) under section 182C(3) to add any carbon accounting area or areas to the post-1989 forest land in respect of which the person is recorded as a participant

qualifying forestry investment means any of the following:

(a) a registered lease or a registered forestry right, or an agreement to obtain a lease or a forestry right:

(b) a conditional or unconditional sale and purchase agreement for land:

(c) an emissions ruling under section 107 that land is eligible to be post-1989 forest land has been applied for or has been made by the EPA:

(d) in relation to the establishment of a forest,—

(i) a resource consent has been applied for or has been granted by a local authority under the Resource Management Act 1991:

(ii) a permitted activity notice has been given by a local authority under the Resource Management Act 1991:

(e) investment in preparation for afforestation has been made, for example ordering seedlings or undertaking land preparation for forestry:

(f) a recognised local or central government grant to afforest land has been received:

(g) a third party has been contracted to undertake due diligence for the purposes of—

(i) afforesting land; or

(ii) purchasing land with the intent to afforest it.

APPENDIX TWO

Extract from the Explanatory Note of the restrictions on whole farms being entered into the ETS and exemptions.

The Bill limits whole-farm conversions and preserves high- and medium-versatility land for agricultural use by—

- determining farmland eligibility for registration in the ETS, based on the land's land use capability (LUC) class; and
- restricting the registration of exotic ETS forestry on high- to medium-versatility (LUC class 1–6) farmland (except for exemptions, limits, and allowances); and
- limiting the registration of exotic ETS forestry on medium-versatility farmland under LUC class 6 permits to an annual limit of 15,000 hectares or an amount prescribed in regulations.

The Bill continues to allow for exotic ETS forestry on productive land by—

- not applying restrictions to registering exotic forestry on low-versatility (LUC class 7 and 8) farmland; and
- not applying restrictions to registering existing forest land in the ETS; and
- not applying restrictions to registering new indigenous forestry in the ETS; and
- not applying restrictions to registering exotic forestry in the ETS on land that is not actively farmed; and
- allowing exotic forestry to be registered on up to 25% of LUC class 1–6 land on an individual farm; and
- allowing an exemption from the restrictions for land that has high or severe erosion risk and should be retired from farming to prevent further erosion; and
- allowing an exemption for Crown-owned land being made available for afforestation through partnership with the private sector (this exemption does not include land being productively farmed by Landcorp Farming Limited (Pāmu) or land administered under the Crown Pastoral Land Act 1998); and
- allowing an exemption for areas without national-scale LUC mapping, including the Chatham Islands, Stewart Island/Rakiura, and urban areas (areas that are mapped in the future will no longer be exempt by default).

The Bill supports a credible ETS market and certainty for participants by—

- including transitional provisions (temporary exemptions from restrictions) for people who show evidence of a qualifying forestry investment made prior to this policy direction being announced; and
- allowing the annual hectare limit on LUC class 6 land to be periodically reviewed by the Minister of Climate Change and the Minister of Agriculture, in consultation with the Minister of Forestry, and for the Minister of Climate Change to recommend regulations be made to change the annual hectare limit; and

- allocating the right to register exotic forestry on LUC class 6 farmland through a randomised ballot system to enable more equitable access to LUC class 6 annual hectare limit permits; and
- allowing ETS applicants to opt for a property-scale LUC assessment of property at their own cost.

The Bill meets the Crown's Treaty of Waitangi obligations by exempting from the restrictions—

- land returned pursuant to a Treaty settlement, which includes—
  - land held by a post-settlement governance entity if acquired as Treaty settlement redress or exercising of rights under a settlement; and
  - reserves managed wholly or jointly by a governance entity under a Treaty settlement; and
  - land that has been declared to be a legal entity or person (including Te Urewera land within the meaning of section 7 of the Te Urewera Act 2014); and
  - the maunga listed in the Ngā Mana Whenua o Tāmaki Makaurau Collective Redress Act 2014; and
- land held under Te Ture Whenua Maori Act 1993 (excluding General land owned by Māori), which includes—
  - Māori customary land and Māori freehold land as defined by section 4 of Te Ture Whenua Maori Act 1993; and
  - Māori reservations under Part 17 of Te Ture Whenua Maori Act 1993; and
  - land constituted as a Māori reserve under the Maori Reserved Land Act 1955; and
- the types of General land owned by Māori, which includes land—
  - that was previously Māori freehold land, which ceased to have that status in accordance with Part 1 of the Maori Affairs Amendment Act 1967 or an order of the Māori Land Court; and
  - that is beneficially owned by the persons, or by the successors who are members of the preferred classes of alienees, who beneficially owned the land immediately before the land ceased to be Māori land.