

Cultivating change: navigating the new land use limits in the Emissions Trading Scheme

The Government has signalled changes to the Emissions Trading Scheme which aim to curb excessive conversions of farmland to forestry land while still allowing forestry (on less productive land) to play an important role in New Zealand's climate strategy. These policy changes are to be adopted in 2025

The Government has announced significant changes to the Emissions Trading Scheme (ETS), aimed at curbing the rapid conversion of productive farmland into forestry for the purpose of earning New Zealand Units (NZUs). These changes, notified in a press release on 4 December 2024 by Agriculture and Forestry Minister Todd McClay and Climate Change Minister Simon Watts, come in response to growing concerns over the impact of large-scale land conversions of farmland into exotic forestry land. The new regulations are designed to strike a balance between achieving climate goals and protecting the agricultural sector's interests, ensuring that farmers retain the ability and some flexibility to make informed land-use decisions.

Overview of the key policy changes

Moratorium on exotic forestry for productive farmland

The most significant change in the new rules is the imposition of a moratorium on the registration of exotic forestry for carbon credits on Land Use Classification (LUC) 1-5 farmland. The LUC system classifies land into eight categories based on such land's ability to support productive uses, considering factors like soil

quality, climate, erosion risk, and susceptibility to flooding or drought. The system is intended to identify land limitations that affect productivity.

LUC 1-5 areas represent the most productive and accessible agricultural land in New Zealand. Under the new regulations, farmers in these zones will no longer be able to freely plant exotic forests and register them in the ETS.

Annual cap on exotic forestry registrations for LUC 6 farmland

In addition to the general moratorium on the registration of exotic forestry in the ETS planted on LUC 1-5 land, the Government has also introduced a cap on the registration of exotic forestry in the ETS for LUC 6 farmland. This land class represents areas of medium agricultural versatility. Under the new policy, only up to 15,000 hectares of LUC 6 farmland per calendar year can be converted to exotic forestry for carbon credit registration – the utilisation of this ETS registration cap is available to everyone on a first in, first served basis.

This cap seeks to limit the overall extent of land converted to forestry that can be registered in the ETS, while still allowing for a level of exotic forestry planted on less productive land to be registered in the ETS.

Maintaining flexibility for farmers

Despite the above restrictions, the new rules still allow farmers some degree of flexibility in their land use. Under the new policy, up to 25% of LUC 1-6 land on a farm can be planted in exotic forestry for the purposes of ETS registration. This ensures that farmers still have the option to plant a limited number of trees for carbon credits if they wish.

Landowners will also be able to request a reassessment of their property's LUC categorisation, which could open up further opportunities for forestry development in some areas.

Transitional provisions and exemptions

Greening the margins: Unlocking the potential of small forestry blocks in New Zealand (Continued)

The Government will introduce transitional measures for landowners who were already in the process of afforestation before 4 December 2024. These landowners will be allowed to continue with their afforestation plans and register their exotic forests in the ETS, as long as they can demonstrate a commitment to afforestation before the announcement date, such as through a land purchase agreement or a seedling order.

In addition to these transitional provisions, the new rules will include exemptions for certain types of Māori land, as required by Treaty obligations. These exemptions include land governed by the Te Ture Whenua Māori Act 1993, land that was changed to general land under the Māori Affairs Amendment Act 1967, and land that was part of a Treaty settlement. These provisions ensure that Māori landowners can continue to pursue economic opportunities through forestry.

No restrictions on ETS registrations for certain farmland to forestry conversions

For clarity, the Government has confirmed that there are to be no limits on ETS registrations in respect of:

- LUC class 7 to 8 farmland;
- forest land already registered in the ETS; and
- native (indigenous) forest registrations in the ETS.

Incentivising forestry on low-value crown land

The Government is also pursuing a separate policy to work with the private sector in planting trees on Crown land with low farming or environmental value. These lands, which are not ideal for farming, could be utilised for afforestation projects that support New Zealand's climate targets without displacing productive agricultural land. The Government released a Request for Information (RFI) on 18 December 2024 about these potential public-private partnerships – submissions in respect of the RFI close on 28 February 2025.

The path forward: legislation and implementation

A press release dated 2 May 2025 has confirmed that the related legislation formalising the policy changes is on track to be introduced during the second quarter of 2025.

As the legislation is finalised, it will be important to assess how these changes are implemented and whether they strike the right balance between environmental, economic, and social considerations - farmers, foresters, and investors will be keeping a close on the developments and will need to adjust their plans to ensure they are in compliance with the new regulations.

Want to know more?

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