

Presented to the House of Representatives in accordance with Standing Order 272

## **Legislative Statement for the Climate Change Response (Extension of Penalty Transition for Forestry Activities with Low Volume Emissions Liabilities) Amendment Bill**

The purpose of the Climate Change Response (Extension of Penalty Transition for Forestry Activities with Low Volume Emissions Liabilities) Amendment Bill (**the Bill**) is to extend the transitional arrangement currently in place for unit liabilities from forestry participants and eligible persons in the New Zealand Emissions Trading Scheme (**NZ ETS**) where the average liability is less than 25,000 units per year (**small forestry participants**), until 31 December 2024.

The transitional arrangement is set out in clause 17 of Schedule 1AA of the Climate Change Response Act 2002 (**the Act**) and:

- applies to small forestry participants who fail to surrender or repay units by the due date;
- delays the application of the new penalty (set at three times the price of carbon per unpaid unit, with no ability to be reduced) that commenced on 1 January 2021 for most NZ ETS participants who fail to surrender or repay units by the due date (the **new surrender or repayment penalty**) until 31 December 2022; and
- retains the previous excess emissions penalty for small forestry participants until 31 December 2022 (set at \$30 per unit that the person has failed to surrender or repay by the due date, with a discretion to reduce the penalty by up to 100% in certain circumstances).

This transitional arrangement was developed in 2020 and inserted into the Act on 1 January 2021, in recognition that the new surrender or repayment penalty could be disproportionate to small forestry participants. This is because of the scale of the penalty compared to their cashflow; meaning if a small forester were to incur the new surrender or repayment penalty and be unable to pay it, their assets (such as their home or farm) could be at risk in the event of default.

This Bill recognises that the risk to small forestry participants identified in 2020 persists and is likely to be exacerbated by the sharp increase in the price of carbon (set in regulations for the purpose of calculating penalties) in recent times. This Bill aims to mitigate this risk by extending the transitional arrangement until 31 December 2024. This ensures enough time for:

- a new penalty to be developed for small forestry participants who fail to surrender or repay units by the due date, which is proportionate and fit for purpose by effectively deterring non-compliance while reducing the risk of serious hardship; and
- small forestry participants to be educated on what a new penalty will mean in practice before it takes effect from 1 January 2025.