SUBMISSION ON

NZ ETS unit settings and annual regulatory updates

26 June 2025

To: Ministry for the Environment
Name of Submitter: Horticulture New Zealand
Supported by: Tomatoes NZ, Vegetables NZ Inc.

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Ahumāra Kai Aotearoa

OVERVIEW

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Our submission

Horticulture New Zealand (HortNZ) thanks the Ministry for the Environment for the opportunity to submit on the NZ ETS unit settings and annual regulatory updates 2025 and welcomes any opportunity to continue to work with the Ministry for the Environment and to discuss our submission.

The details of HortNZ's submission and decisions we are seeking are set out in our submission below.

PART 1

HortNZ's Role

Background to HortNZ

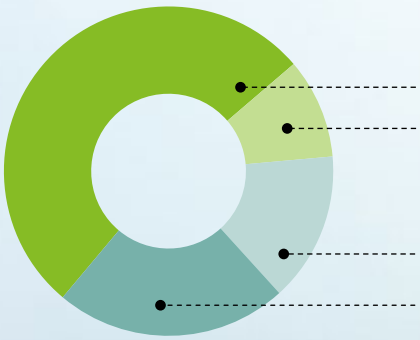
HortNZ represents the interests of approximately 4,500 commercial fruit and vegetable growers in New Zealand who grow around 100 different fruits and vegetables. The horticultural sector provides over 40,000 jobs.

There are approximately 80,000 hectares of land in New Zealand producing fruit and vegetables for domestic consumers and supplying our global trading partners with high quality food.

It is not just the direct economic benefits associated with horticultural production that are important. Horticulture production provides a platform for long term prosperity for communities, supports the growth of knowledge-intensive agri-tech and suppliers along the supply chain, and plays a key role in helping to achieve New Zealand's climate change objectives.

The horticulture sector plays an important role in food security for New Zealanders. Over 80% of vegetables grown are for the domestic market and many varieties of fruits are grown to serve the domestic market.

HortNZ's purpose is to create an enduring environment where growers prosper. This is done through enabling, promoting and advocating for growers in New Zealand.



Export value

Fruit $3.94bn

Vegetables $0.73bn

Domestic spend

Fruit $1.10bn

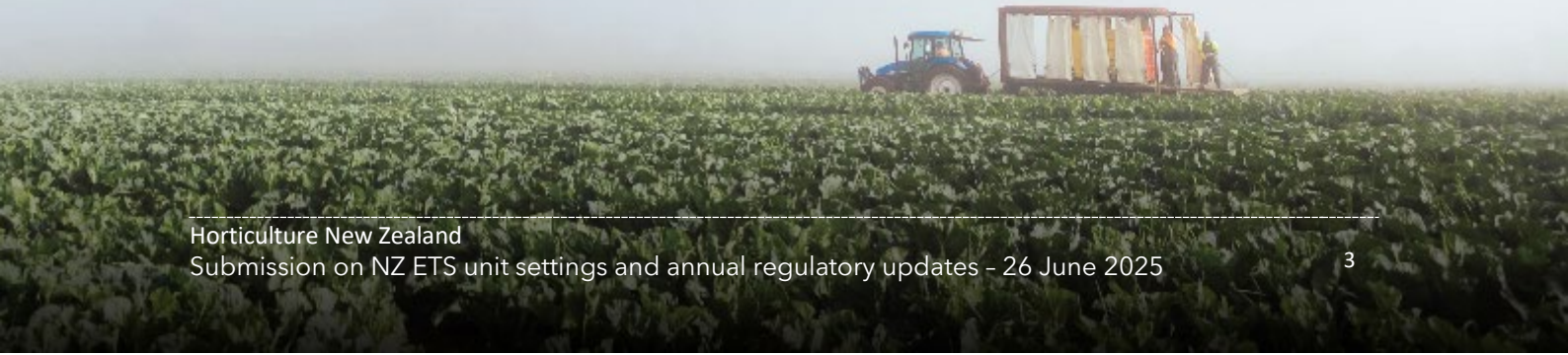
Vegetables $1.71bn

Industry value $7.48bn

Total exports $4.67bn

Total domestic $2.81bn

Source: Stats NZ and MPI



PART 2

Executive Summary

Maintain market certainty

HortNZ supports:

- maintaining current price controls,
- maintaining auction volumes, and
- removing the requirement to make a statutory declaration when you're closing an account with the EPA, removing a joint account holder, or removing a primary representative.

Proving for greenhouse industry decarbonisation

Outside of the scope of this consultation, HortNZ seeks:

- that captured and utilised CO_2 is recognised in ETS accounting, and
- funding or low-interest loans are made available to support greenhouse decarbonisation, given the importance of greenhouses for a resilient domestic food supply and climate adaptation.

PART 3

Submission

The horticulture sector supports New Zealand's net-zero target and market mechanisms to achieve that goal. This section of our submission responds directly to the Ministry's consultation documents on *Annual updates to New Zealand Emissions Trading Scheme limits and price control settings for units 2025* and the *Proposed changes to the New Zealand Emissions Trading Scheme regulations 2025*.

The following section of our submission provides information about how the horticultural sector pays into the Emissions Trading Scheme (ETS) and the policies outside of the scope of this consultation that are needed to support sector decarbonisation.

1. Annual Updates to NZ ETS Limits and Price Control Settings

HortNZ supports the use of criteria to assess policy options, with more weighting on the 'likelihood of incentivising (net) emissions reductions', as opposed to removals.

Q. 2	How do you think recent price developments should factor into the Government's thinking about unit settings and price controls?

In general, HortNZ believes the ETS should be treated as a free market. Frequently adjusting price controls distorts the market's purpose - to incentivise decarbonisation. As such, recent price developments should not be used as justification to change price controls.

HortNZ supports maintaining current price controls, adjusted for inflation, to provide market certainty. Consistent settings engender businesses with the confidence to invest in decarbonisation.

This aligns with the Climate Change Commission's advice and the Ministry's preferred approach. This meets the consultation document's criterion for the ETS to operate in a 'transparent and durable' manner.

Q. 9	What is your preferred option [for auction volumes]?

The consultation proposes two options for auction volumes:

1. maintain the auction volumes from 2024 settings and extend them to 2030, or
2. increase volumes by 13.6 million units to be auctioned over 2028-30.

HortNZ supports option 1, maintaining the auction volumes. Based on the analysis in the consultation document, there is little risk of an undersupply of units by 2030. Extending the 2024 settings would provide more certainty for future settings. Increasing the supply of units would be inconsistent with driving decarbonisation to achieve domestic emissions reductions.

2. Proposed Changes to NZ ETS Regulations

2.1. New Zealand Emissions Trading Register and accounts

Q. 12	Which option [no change/option 1] do you prefer?

Regulations currently require holders of NZU's to provide a statutory declaration to the EPA when they open/close an account, add/remove a joint account holder or appoint/remove a primary representative.

HortNZ supports option 1, the proposal to remove the requirement to make a statutory declaration when you're closing an account, removing a joint account holder, or removing a primary representative. This should reduce the administrative burden on growers, who often struggle to interface with the ETS due to administrative barriers and associated costs.

PART 4

Industry Decarbonisation

3. Horticulture in the Emissions Trading Scheme

The horticulture industry is undergoing decarbonisation. Many greenhouses use heating sources in colder months which produce greenhouse gas emissions. Industry's initial focus is on reducing energy requirements and improving energy efficiency within these operations. Industry has partnered with EECA through a multi-year project to support decarbonisation efforts in the covered cropping sector.[1] Industry has also partnered with GNS Science to provide a tool for growers to consider geoheat as a potential renewable energy solution using ground source heat pumps.

3.1. Emissions Trading Scheme Involvement

Currently, in horticulture, only heated greenhouse growers who have emitting energy sources pay into the ETS. Growers of fresh tomatoes, cucumbers and capsicums are eligible for industrial allocation which recognises their "Emissions Intensive and Trade Exposed" (EITE) status, whether they grow indoors or outdoors.[2]This is to prevent carbon leakage because they compete in the commercial market with imported vegetables which are not subject to the same emissions policies. Growers of other indoor crops such as aubergine, lettuce and herbs are not eligible and experience the full cost of the ETS without industrial allocation. Growers without EITE status have seen closures and operation changes at a faster rate than non-eligible crops.

Most growers surrender their industrial allocation to offset their NZ ETS obligations for fuel use. The rest struggle to trade their allocation because it is too small or because they experience difficulty interfacing with brokers due to language barriers or administrative complexity.[3] This is, in part, due to the design of the ETS, which is geared toward the trade of large volumes of credits generated through carbon forestry. [4] Forestry credits are traded at a far greater volumes than those from covered cropping operations.

Growers who heat their greenhouses using natural gas capture CO_2 in the process which is then absorbed by the plants to boost production. **Captured and utilised CO_2 should be recognised** in ETS accounting.

3.2. Covered Crops for Food System Resilience

A single adverse weather event can decimate a season's crop, however greenhouses are adaptive growing systems that mitigate the chances of disaster and maintain continuity of food supply. The covered crop industry plays an important role in evening out market supply issues in the off-season. This is particularly important when adverse weather events impact the few areas in the country where there is winter production of certain vegetables. They also allow growers to extend the growing season in colder regions. This creates regional diversity in our food supply when growers can produce crops in any region.

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[1] EECA. "Covered Cropping Decarbonisation Pathway". Accessed online 26/06/25.
[2] Horticulture | EPA
[3] Tomatoes NZ
[4] MPI. "ETS online system". 16/05/25. Accessed online 26/06/25.

Indoor growing systems are less vulnerable to environmental conditions and pressures such as significant weather events. Even in times without extreme weather, greenhouses provide a controlled environment able to protect crops from wind, rain and hail which may become more intense with a changing climate.

4. How to Achieve Industry Decarbonisation

Decarbonising the greenhouse industry carries a high cost, from improving energy efficiency at the lower end of the scale, to full energy transition at the higher end. Full energy transition involves significant investment, especially for small and medium-size greenhouse businesses which do not have large profit margins. The price tag is often unachievable.

Given the strategic importance of indoor growing for climate adaptation and New Zealand's food supply, it is a serious risk if greenhouse businesses close due to ETS costs. In the past, the Government supported greenhouse decarbonisation through the Government Investment in Decarbonising Industry (GIDI) fund. While that fund was disestablished, funding mechanisms to support transition are still needed.

HortNZ seeks that the Government provide **funding for greenhouse decarbonisation** through the establishment of a Sustainable Food Systems Fund or expansion of criteria in existing regional development funds to include decarbonisation. Low-cost loans for renewable energy solutions are another option.

Vegetable growers are price-takers given the market dynamics under New Zealand's supermarket duopoly. If greenhouse businesses cannot get over the capital hurdle to decarbonise, they will have to absorb the cost of the ETS. Many greenhouse growers have left the industry or transitioned to a seasonal operation (instead of year-round production) due to fuel costs and the inability to make the energy transition. Without support for energy transition, more exits are likely and will lead to greater consolidation of greenhouse production, reducing consumer access to healthy greenhouse-grown produce and the resilience of the industry.