

IN-CONFIDENCE

Office of the Minister of Agriculture
Office of the Minister of Climate Change

Cabinet

**Release of the He Waka Eke Noa – Primary Sector Climate Action Partnership
Final Recommendation Report**

Proposal

- 1 This paper provides an update on the He Waka Eke Noa – Primary Sector Climate Action Partnership's recommendations on pricing agricultural emissions, which will be publicly released on 8 June 2022.

Relation to government priorities

- 2 The Government declared a climate change emergency on 2 December 2020. Cabinet agreed that climate change "demands a sufficiently ambitious, urgent, and coordinated response across government to meet the scale and complexity of the challenge" [CBC-20-MIN-0097 refers].
- 3 Enabling a just transition to a low-emissions, climate-resilient future is a Government priority. Cabinet declared its intention to "put the climate at the centre of government decision-making" [CBC-20-MIN-0097 refers].
- 4 The information in this paper also relates to the Cooperation Agreement between the Labour and Green Parties. Achieving the purpose and goals of the 2019 zero carbon amendments to the Climate Change Response Act 2002 (CCRA) is an agreed area of cooperation.

Background

- 5 As noted in the first Emissions Reduction Plan, agricultural emissions make up 50 percent of Aotearoa New Zealand's gross emissions, including most of our emissions of nitrous oxide and biogenic methane. Reducing these emissions is needed to achieve our 2050 target, including the requirement to reduce biogenic methane emissions by 24 to 47 percent by 2050.

- 6 In 2019, Cabinet agreed to price livestock emissions at a farm-level and fertiliser emissions at a processor-level starting 1 January 2025 [CAB-19-MIN-0480 refers]. Cabinet considered two options to addressing agriculture in the interim period of 2020 to 2025:
 - 6.1 pricing livestock and fertiliser emissions at processor level in the NZ ETS from 2021 (as recommended by the Interim Climate Change Committee); or
 - 6.2 a formal sector-government agreement, based on the Primary Sector Leaders Group's proposal, *He Waka Eke Noa: A Primary Sector Climate Change Commitment*, to design a practical and cost-effective system for reducing farm-level emissions by 2025.
- 7 Cabinet agreed to the formal sector-government agreement as an interim option to encourage agricultural emissions reductions and to support the transition to farm-level emissions pricing from 2025 [CAB-19-MIN-0480 refers]. The He Waka Eke Noa – Primary Sector Climate Action Partnership (the Partnership), a partnership between government, the primary sector, and Māori, was established¹, in 2020 to implement this agreement.
- 8 The Partnership was tasked with providing recommendations on an alternative agriculture pricing mechanism by 31 March 2022. This report back was delayed to 31 May 2022 due to COVID-19 disrupting the Partnership's engagement and consultation processes.
- 9 To monitor progress of the Partnership's work toward farm-level pricing by 2025, Cabinet agreed to include legislative milestones in the Climate Change Response Act 2002 (CCRA):
 - 9.1 emissions reporting: for 25 percent of farms to know their emissions number by 31 December 2021; and, for all farms to know their emissions number by 31 December 2022;
 - 9.2 farm plans: for a quarter of farms to have a written greenhouse gas (GHG) emissions plan by 1 January 2021; and, for all farms to have a written GHG emissions plan by 2025; and
 - 9.3 farm-level accounting and reporting system: a pilot of a farm-level accounting and reporting system to be completed by 1 January 2024; and, for this system to be in use by all farms by 1 January 2025.

¹ The 13 Partnership members include Ministry for the Environment, Ministry for Primary Industries, DairyNZ, Beef + Lamb NZ, Meat Industries Association, Federated Farmers of New Zealand, Horticulture New Zealand, Federation of Māori Authorities, Apiculture NZ, Dairy Companies Association of New Zealand, Deer Industry New Zealand, Irrigation New Zealand, and Foundation for Arable Research.

- 10 The CCRA also includes provisions for the Climate Change Commission (the Commission) to provide the Minister of Climate Change and I two reports on:
 - 10.1 'what assistance, if any' should be provided to participants of an agricultural pricing system. We received this report on 31 May 2022; and
 - 10.2 progress toward farmer readiness for an agricultural emissions pricing system including progress toward meeting the legislative milestones. We expect to receive this report by 30 June 2022.
- 11 Section 215 of the Climate Change Response Act 2002 requires the Minister of Climate Change and Minister of Agriculture to prepare and make publicly available a report on how agricultural emissions will be priced by 31 December 2022. We will consider both the Partnership's recommendations and the Commission's reports, undertake any necessary consultation, and seek Cabinet's agreement before publishing this report.
- 12 This paper provides an overview of the Partnership's recommendations.

Partnership's key recommendations for pricing agricultural emissions

- 13 The Minister of Climate Change and I received the Partnership's recommendation report (the final report) on 31 May 2022. We provided the Cabinet Economic Development Committee an update on the final report on 1 June 2022. The Partnership will publicly release its final report on 8 June 2022.
- 14 Officials from the Ministry for the Environment (MfE) and Ministry for Primary Industries (MPI) have supported the Partnership in developing the design of an effective and workable agricultural emissions pricing system. However, to preserve their ability to provide free and frank advice to Ministers and Cabinet throughout 2022, MPI and MfE are not signatories to the final report and its recommendations.

Recommendation for a farm-level pricing system

- 15 The Partnership consulted farmers on two pricing options:
 - 15.1 a farm-level split-gas levy, in which farmers report and pay for their own emissions based on farm-specific data such as stock numbers, fertiliser applied, etc.; or,
 - 15.2 a processor-level hybrid levy, under which meat, milk, and fertiliser processors pay an emissions charge based on the quantity of meat or milk received from farmers, or the quantity of fertiliser sold.
- 16 A majority of farmers consulted expressed a preference for a farm-level pricing option. Farmers stated that this gave them control to manage their farm business and emissions profile, and recognition for their actions on farm.

- 17 The Partnership also considered the potential for a transition from a processor-level pricing system to a farm-level pricing system. Half of farmers preferred to go straight to a farm-level pricing option in 2025, while around a third of farmers preferred a transition from a processor-level system to a farm-level system.
- 18 Following farmer feedback, the Partnership is recommending implementing the farm-level split-gas levy from 2025. Partners consider that this will be the most effective option at driving change over the short and long term.

The Partnership recommends a farm-level split-gas levy

- 19 Under the recommended farm-level split-gas levy, farmers will:
 - 19.1 report on their emissions annually;
 - 19.2 pay one levy rate for their short-lived GHG emissions (methane from livestock);
 - 19.3 pay a separate levy rate for long-lived GHG emissions (nitrous oxide from livestock and synthetic fertiliser and carbon dioxide from urea);
 - 19.4 receive an incentive payment for uptake of approved actions that reduce emissions, such as use of a technology like a methane inhibitor; and
 - 19.5 receive a payment or credit for on-farm sequestration, including vegetation which is not eligible for registration in the NZ ETS such as pre-1990 regenerating native forestry and riparian plantings.
- 20 Revenue raised from agricultural emissions pricing would be ringfenced to fund incentive payments and sequestration, as well as the administration costs of this system and support further research and development.
- 21 The Partnership recommends a 'collaborative governance approach' to provide a strong role for the sector and Māori/iwi overseeing key functions of the pricing system, including levy rate setting and revenue recycling.

The Partnership recommends beginning pricing with a transitional farm-level split-gas levy system from 2025 and transition to a full system by 2027

- 22 Sector leaders recognise the challenge of implementing a farm-level system by 2025. Rather than pricing agricultural processors as an interim measure, they will recommend starting pricing with a simplified farm-level levy system. This will include mandatory reporting of 2024/2025 emissions, and pricing of 2025/2026 emissions, from 1 July.
- 23 The transitional farm-levy system will include a 'stage one' (simple) emissions calculator, simplified sequestration, and incentives discounts for approved mitigation actions (use of technologies for example, low methane sheep).
- 24 The full farm-level system would be in place by 2027. This system will include a detailed emissions calculator, as well as a wider range of sequestration activities and incentives discounts for approved actions.

The Partnership recommends establishing a range of governance entities, including a system oversight body and an independent Māori board, to oversee key functions of the pricing system

- 25 The Partnership is recommending a 'collaborative governance approach' to oversee key functions of a pricing system.
- 26 This approach includes the establishment of a System Oversight Board, with expertise and representation from the primary sector. He Waka Eke Noa Partners propose to work with the Minister of Climate Change and the Minister of Agriculture to jointly appoint members of this Board. This Board will:
 - 26.1 work closely with an Independent Māori Board and sector bodies to recommend to Ministers appropriate levy rates, the price of sequestration, and the value of incentive discounts;
 - 26.2 set the strategy and direct investment of any revenue raised from the farm-level split-gas levy; and,
 - 26.3 the Partnership has noted further work is needed to understand the appropriate legal structures and roles and responsibilities for an Implementation Agency.
- 27 An independent Māori Board should be established to ensure Māori landowners are reflected in the strategy for investing revenue and direct funds by Māori agribusiness to priority areas.
- 28 The proposed co-governance approach recommends Ministers undertake enhanced consultation with the System Oversight Board before any decisions are made and provide an explanation if its recommendations are not followed.
- 29 In addition to the He Waka Eke Noa Partnership Group, System Oversight Board, and independent Māori Board, the Partnership is recommending the establishment of an Implementation Agency, and science and implementation panel.

The Partnership recommends that levies should be as low as possible to drive emissions reductions, while maintaining a profitable primary sector

- 30 The Partnership is proposing setting separate prices for short-lived and long-lived gases and a separate price for sequestration. As well as giving the sector a strong role in the price-setting process, the design features and controls on the price include:
- 30.1 the factors that should be considered in setting the levy rate such as:
- 30.1.1 progress toward emissions targets; availability and cost of farm mitigation;
 - 30.1.2 impacts on farmers, rural communities, and Māori agribusiness;
 - 30.1.3 emissions leakage and food security; and,
 - 30.1.4 current scientific, mātauranga Māori, and economic information.
- 30.2 a unique levy rate is set for methane. This levy rate will be tailored to specific methane reductions required and the available technologies
- 30.3 the levy rate for long-lived gases will be initially set at the level required to fund sequestration, incentive discounts, research and development, and administration cost. In the long-term, this rate will be based on the Partnership's sector strategy on reducing long-lived gas emissions;
- 30.4 initial price for sequestration will be linked to the NZ ETS carbon price, but will be discounted to reflect He Waka Eke Noa sequestration requires a lower burden of proof than the NZ ETS; and
- 30.5 a price ceiling would be in place where levy rate is no more than if agriculture entered the NZ ETS with 95 per cent free allocation, and the maximum price for methane cannot be greater than 11c/kg until 2028.

The Partnership recommends for levy revenue to be invested back into the primary sector for R&D to support further emissions reductions and support lower emissions food production

- 31 All revenue raised by agricultural emissions pricing would be ringfenced and invested back into the primary sector.
- 32 Farmers will receive a financial incentive for eligible practices and technologies that deliver measurable emissions reductions.
- 33 The sequestration regime will recognise existing and new eligible vegetation that encourages 'the right tree in the right place' as part of an integrated farming landscape.
- 34 Remaining revenue will be invested back into the primary sector for research and development to support further emissions reductions and support lower-emissions food and fibre production. Revenue will also need to contribute to the administration costs of the system.

Next Steps

- 35 The CCRA requires us to prepare and make publicly available a report on how agricultural emissions will be priced by 31 December 2022. To meet this deadline, we will need to:
- 35.1 from 31 May 2022 – Consider the Partnership's recommendations;
 - 35.2 June 2022 – Consider the Commission's reports on agricultural assistance (due 31 May) and assessment of progress towards a farm-level agricultural emissions pricing system (due 30 June);
 - 35.3 9(2)(f)(iv)
 - 35.4 9(2)(f)(iv)
 - 35.5 December 2022 – Release the report on the approved agricultural pricing system.

Financial Implications and Legislative Implications

- 36 This paper does not seek any policy decisions. We will outline the financial and legislative implications when Cabinet considers policy options for an agricultural emissions pricing system.

Impact Analysis

- 37 This paper does not seek any policy decisions. A regulatory impact statement, climate implications of policy assessment, and population implications and human rights assessment will be included when Cabinet considers policy options for an agricultural emissions pricing system in 9(2)(f)(iv)

Consultation

- 38 The Department of the Prime Minister and Cabinet was consulted on this paper.

Communications

- 39 The Partnership will hold a media conference to publicly release the final report on Wednesday 8 June. Industry partners consider this event to be a 'show of unity'. All partners will be invited to speak. Beef + Lamb New Zealand's chair and CEO will be overseas at the time.
- 40 We have worked with our Ministries to develop a government communications plan around the Partnership's report publication.

Proactive Release

- 41 We propose to proactively release this Cabinet paper following Cabinet decisions on the preferred policy option in 9(2)(f)(iv)

Recommendations

The Minister of Agriculture and Minister of Climate Change recommend that the Committee:

Background to the He Waka Eke Noa – Primary Sector Climate Action Partnership

- 1 Note that, in September 2019, Cabinet agreed to a formal sector-government agreement as an interim option to encourage agricultural emissions reductions and to support the transition to farm-level emissions pricing from 2025 [CAB-19-MIN-0480].
- 2 Note that the He Waka Eke Noa – Primary Sector Climate Action Partnership (the Partnership) was established in 2020 to develop and implement a framework to reduce agricultural emissions and build the agriculture sector's resilience to climate change. This framework includes developing and implementing a pricing mechanism by 2025.
- 3 Note that the Partnership was tasked with providing recommendations on an alternative agriculture pricing mechanism by 31 March 2022; however, this report back was moved to 31 May 2022 due to Covid-19 related delays.

Partnership's draft key recommendations

- 4 Note the Partnership will publicly release its report, *He Waka Eke Noa – Primary Sector Climate Action Partnership: Recommendations for pricing agricultural emissions Report to Ministers*, on 8 June.
- 5 Note that the Partnership is recommending:
 - 5.1 Establishing a simplified farm-level split gas-levy transitional system by 2025 and moving to a more complex system by 2027;
 - 5.2 Revenue raised from agricultural emissions pricing would be ringfenced to fund incentive payments and sequestration, as well as the administration costs of this system and support further research and development; and,
 - 5.3 A collaborative governance approach to provide a strong role for the sector and Māori/iwi overseeing key functions of the pricing system, including levy rate setting and revenue recycling.

Climate Change Commission's reports on an agricultural pricing system

- 6 Note that the Climate Change Commission (the Commission) are advising the Minister of Climate Change and Minister of Agriculture through two reports:
 - 6.1 'What assistance, if any' should be provided to participants of an agricultural pricing system – delivered 31 May 2022; and
 - 6.2 Progress toward farmer readiness for an agricultural emissions pricing system including progress toward meeting the legislative milestones – due 30 June 2022.

Final decisions on an agricultural emissions pricing system need to be made before 31 December 2022

- 7 Note that section 215 of the Climate Change Response Act 2002 requires the Minister of Agriculture and Minister of Climate Change to publish a report on an alternative pricing system for agricultural emissions by 31 December 2022.
- 8 Note that the Minister of Climate Change and Minister of Agriculture will seek agreement from Cabinet in 9(2)(f)(iv) on a preferred option for pricing agricultural emissions from 2025 and to approve a consultation approach.

Authorised for lodgement

Hon Damien O'Connor

Minister of Agriculture

Hon James Shaw

Minister of Climate Change