Climate Implications of Policy Assessment: Disclosure Sheet

This disclosure sheet provides the responsible department's best estimate of the greenhouse gas emissions impacts for New Zealand that would arise from the implementation of the policy proposal or option described below. It has been prepared to help inform Cabinet decisions about this policy. It is broken down by periods that align with New Zealand's future emissions budgets.

Section 1: General information

General information	
Name/title of policy proposal or policy option:	Amending the CCRA to repeal NZ ETS agricultural obligations
Agency responsible for the Cabinet paper:	Ministry for the Environment
Date finalised:	*23rd January 2024*
Short description of the policy proposal:	*This paper seeks Cabinet's agreement on final policy decisions to draft primary legislation to repeal the agricultural obligations in the New Zealand Emissions Trading Scheme (NZ ETS) under the Climate Change Response Act 2002 (CCRA).* *More information can be found following the RIS (ETA for RIS is February 2024,* Regulatory Impact Statement: Amending the Climate Change response Act to repeal New Zealand Emission Trading Scheme agricultural obligations | The Treasury New Zealand*).*

Section 2: Greenhouse gas emission impacts

Sector & source	Changes in greenhouse gas emissions in tonnes of carbon dioxide equivalent (CO_2-e)						
	2020–25	**2026–30**	**2031–35**	**2036–40**	**2041–45**	**2046–50**	**Cumulative impact**
Electricity	-	-	-	-	-	-	-
Transport	-	-	-	-	-	-	-
Industry	-	-	-	-	-	-	-
Waste	-	-	-	-	-	-	-
Agriculture (MT CO_2-e)	0.16	2.31	4.81	5.51	5.61	5.60	24.00
Land use, land use change and forestry	-	-	-	-	-	-	-

Sector & source	Changes in greenhouse gas emissions in tonnes of carbon dioxide equivalent (CO_2-e)						
	2020–25	2026–30	2031–35	2036–40	2041–45	2046–50	Cumulative impact
Total	**0.16**	**2.31**	**4.81**	**5.51**	**5.61**	**5.60**	**24.00**

Section 3: Additional information

Additional information

<u>Our assumptions are:</u>

- For the purposes of the New Zealand Greenhouse gas inventory reporting, MPI estimates projections of agricultural greenhouse gas emissions. These projections include estimates of the impact of legislated measures that could have an effect on agricultural emissions. One such policy is the pricing of agricultural emissions through the processor-level backstop in the NZ ETS starting in January 2025.
- MPI modelled the agricultural emissions pricing at the processor level with 95 per cent discount rate (the allocation set for the CCRA). These assumptions were based on a “backstop” policy measure to be implemented if the He Waka Eke Noa government-industry partnership does not succeed, and it is unlikely emissions pricing will be implemented this way.
- Research completed by Manaaki Whenua in 2019 has been used to estimate the effect of pricing (see reference section for link). As the modelling was based on lower carbon prices than the current NZU price, we extrapolated the modelled impact of the policy in order for the estimated effect to be consistent with the 2035 carbon price agreed to by agencies. We also discussed our modelling approach with subject matter experts at MPI.
- This resulted in an overall impact on livestock numbers by 2 per cent and 5 per cent for the dairy population and sheep, beef, and deer populations respectively.
- It has been assumed for the projection modelling that irrespective of whether agriculture is incorporated through the ETS or an alternative farm-level pricing system, the unit price for carbon emissions will be the same as that for forestry under the ETS (i.e. the carbon price path agreed by agencies).

Section 4: Quality assurance

Quality assurance

The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal.

This paper requests Cabinets approval for the final policy decisions to draft legislation aimed at repealing agricultural obligations within the New Zealand Emissions Trading Scheme (NZ ETS), as outlined in the Climate Change Response Act 2002 (CCRA). The Government has expressed their intention for a fair and sustainable pricing system for on-farm agricultural emissions by 2030 at the latest that reduces emissions without sending production overseas.

If Cabinet repeals these obligations, it is anticipated to lead to a cumulative increase in expected emissions of around 24Mt CO2e for the 30-year period from 2020 to 2050.

Quality assurance
This equates to approximately 157kt CO_2e within the first emissions budget period (2022-2025), 2Mt CO_2e within the second emissions budget period (2026-2030), and 5Mt CO_2e within the third emissions budget period (2030-2035). Repealing these obligations is expected to lead to an increase in emissions because pricing serves as an incentive for emission reduction efforts. Associating a cost with emitting greenhouse gas emissions encourages the adoption of practices and technologies that lower emissions. The CIPA team has conducted a high-level review of the modelling and deems it reasonable in reflecting the impact of this proposed change.