



12 June 2019

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Fieldays meeting on climate change with the Primary Sector Leaders Group

Purpose:

This briefing provides you with a copy of the Primary Sector Leaders Group's revised proposal for an Agreement on climate change, and officials' assessment of the proposal. It also provides talking points for your meeting with the Leaders Group this Friday at Fieldays, led by the Prime Minister.

Minister	Action Required:	Ministers' Deadline
Minister of Agriculture Minister for Climate Change	Note and agree the recommendations contained in the briefing.	As soon as possible.

Contact for telephone discussion:

	Name	Position	Work
Responsible Manager - MPI	Chris Kerr	Manager, Domestic Climate Change Mitigation	021 963 214
Responsible Manager - MfE	Mark Storey	Manager, Climate Policy	022 068 7443
Primary Author - MPI	Kristen Green	Senior Analyst, Domestic Climate Change Mitigation	
Secondary Author - MfE	Kelly Forster	Senior Policy Analyst, Climate Policy	

Key Messages

1. You will be joining the Prime Minister for a **meeting with the Primary Sector Leaders Group (the Leaders Group) this Friday morning at Fieldays** to discuss their revised proposal for an Agreement on climate change. The revised proposal builds on a previous version presented to Ministers on 22 May. Officials have engaged with the Leaders Group over the past few weeks on their development of the revised proposal.
2. The revised proposal reflects a shift from past public debate and fractured views within the sector on whether there is a need for New Zealand to reduce its emissions from agriculture, and whether a price incentive through the Emissions Trading Scheme (ETS) should be used to do so. The proposal also includes an acknowledgement from the sector of the need to limit global temperature rise to 1.5°C for the first time.
3. However, officials consider that, for an Agreement to achieve similar outcomes to the alternative of a processor-level ETS in 2021, it should ensure the sector starts to deliver emission reductions now, and give the sector investment and regulatory certainty that emissions will be priced from 2025. In its current form, the proposal does not provide the same level of policy and investment certainty that the alternative of a processor-level ETS in 2021 would provide.
4. In assessing whether the revised proposal meets similar outcomes to a processor-level ETS, officials have reviewed the proposal against five elements and communicated these requirements to the Leaders Group. These are:
 - an unconditional agreement to price emissions from 2025 (at farm level if possible / desirable and at processor level if not) and acknowledgement that the Government would include this requirement in legislation in 2019;
 - a clear description of how early adopters (and emissions reductions) would be rewarded and incentivised in the interim;
 - some detail on how components of an on-farm pricing scheme would be piloted and evaluated;
 - a commitment for all farmers to have and actively use a Farm Environment Plan by 2025 and consideration of these as a tool to inform an effective pricing mechanism at a farm level; and,
 - a commitment to funding to incentivise actions taken by farmers to reduce emissions and ensure readiness for farm level obligations to start in 2025, including details on how that funding will be collected.¹

¹ Previous advice from officials only listed four elements [briefing B19-0290 / 2019-B-05656 refers]. This additional fifth element has been added by officials to enable a more comprehensive assessment of the revised proposal.

5. While the proposal provides a commitment to work with the Government towards achieving a farm-level pricing scheme by 2025 this is dependent on a number of conditions being met. The proposal does not include any additional funding commitments, and it is unclear if the reprioritisation of existing funds is sufficient to deliver the plan. Other elements, such as a description of how early adopters will be rewarded are not sufficiently explored in the proposal. Officials' assessment of whether the revised proposal meets these elements is summarised in the table on page 4.
6. This briefing also provides you with talking points for your meeting with the Leaders Group at Fieldays [Appendix 1 refers]. At the meeting, you will have the opportunity to raise areas of the proposal you would like to see them develop further or revise prior to public consultation.
7. Members of the Leaders Group may also seek to raise the topic of methane targets within the Zero Carbon Bill, and whether New Zealand's international negotiating mandate should seek different treatment of methane under the Paris Agreement (through 'greenhouse gas metrics'). The talking points in Appendix 1 provide you with responses to these topics, noting that the Select Committee process offers an opportunity for the sector to engage further on the Zero Carbon Bill. Further detailed information on greenhouse gas metrics in the Paris Agreement are provided in Appendix 2.
8. Following your meeting with the Leaders Group this Friday, you will need to meet with your colleagues to discuss whether and how you take forward work on the proposal, including if it requires further development prior to public consultation. These discussions will also need to consider what the Government consults on for its response to the Interim Committee on Climate Change's report on agriculture emissions, and whether or not the discussion document sets out a Government preferred option.

[page redacted under s9(2)(g)(i) of the Official Information Act]

PROACTIVELY RELEASED

Recommendations

9. The Ministry for Primary Industries and the Ministry for the Environment recommend you:

a) **Note** you will be joining the Prime Minister for a meeting with the Primary Sector Leaders Group at Fieldays to discuss their proposal for an Agreement on climate change.

Noted

b) **Note** a copy of this briefing has been forwarded to the Prime Minister's office ahead of your meeting at Fieldays.

Noted

c) **Agree** to forward a copy of this briefing to the offices of Hon Grant Robertson, Hon David Parker and Hon Shane Jones.

Agreed / Not Agreed

d) **Note** you will need to discuss next steps with your colleagues and officials following the meeting with the Leaders Group, including how you want to reflect the proposal in consultation material, and whether and how to take forward their proposal.

Noted

Charlotte Denny
Director, Environment and Communities
Ministry for Primary Industries

Hon Damien O'Connor
Minister of Agriculture

/ / 2019

Janine Smith
Director, Climate Change
Ministry for the Environment

Hon James Shaw
Minister for Climate Change

12/6/2019

Officials' assessment of the revised proposal from the Leaders Group

Purpose

10. This briefing provides you with officials' assessment of the Primary Sector Leaders Group's (the Leaders Group) revised proposal for a joint Industry-Government Agreement on climate change. The revised proposal has been updated by the Leaders Group based on feedback provided by officials [refer briefing B19-0290 / 2019-B-05656 for officials' views on an earlier version of the proposal given to Ministers in May].

Background

11. You will be joining the Prime Minister for a meeting with the Leaders Group this Friday morning (14 June) at Fieldays to discuss their revised proposal. The Leaders Group is expected to be represented at the meeting by:
 - **DairyNZ** – Jim van der Poel (Chair) and Tim Mackle (Chief Executive).
 - **Beef+Lamb NZ** – Andrew Morrison (Chair) and Sam McIvor (Chief Executive).
 - **DCANZ** – Malcolm Bailey (Chair) and Kimberly Crewther (Chief Executive).
 - **Meat Industry Association** – John Loughlin (Chair).
 - **Federated Farmers** – Katie Milne (President) and either Chris Allen (Board Member) or Terry Copeland (Chief Executive).
 - **HorticultureNZ** – Barry O'Neil (President) and Mike Chapman (Chief Executive).
 - **Federation of Māori Authorities (FOMA)** – Traci Houpapa (Chair) and Damita Mita (General Manager – Te Rongoroa Forest & Farm Trust).
 - **Deer Industry NZ** – Dr Ian Walker (Chair).
 - **Foundation for Arable Research** – Hugh Ritchie (Chair).
 - **Irrigation NZ** – Elizabeth Soal (Chief Executive).
12. The Leaders Group were formed in 2017 as a forum for leaders of New Zealand agriculture sector organisations to discuss issues around climate change, and form joint public positions where the organisations have common ground. Processor companies (such as Fonterra, AFFCO and Synlait) do not sit within the Leaders Group, but their industry organisations do (e.g. DCANZ & Meat Industry Association). The group is facilitated by Mike Petersen, a sheep and beef farmer from the Hawkes Bay, who is also New Zealand's Special Agriculture Trade Envoy.
13. The Interim Climate Change Committee provided their report to you on policies to reduce biological emissions from agriculture at the end of April. Their recommendations included:
 - specifying in law a farm-level levy/rebate scheme to price livestock emissions, with mandatory reporting by 2023 and obligations by 2025;
 - pricing livestock emissions in the New Zealand Emissions Trading Scheme (NZ ETS) at processor level in the interim; and
 - pricing fertiliser emissions in the NZ ETS at processor level.

Assessment of the Leaders Group revised proposal

14. As summarised in Table 1, the revised proposal meets some of the elements considered necessary for an Agreement to be a successful alternative to a processor level ETS. The following provides additional analysis where further consideration is needed to have confidence that the alternative achieve policy and investment certainty similar to a processor-level ETS.

Agreement to price emissions at a farm-level from 2025

15. The proposal includes an agreement to price emissions at the farm level in 2025 but is subject to a number of conditions including:
- obligation set at farm level;
 - price forms part of a broader policy framework including investment in research and development;
 - only emissions that cause “additional warming” are priced and “only to the extent necessary to incentivise the uptake of economically viable opportunities”;
 - ability to “net off” emissions and sequestration at the farm gate.
 - recognising all forms of sequestration on farm;
 - mechanism does not duplicate other policy instruments that will have a similar outcome e.g. water policy;
 - mechanism is non retrospective; and,
 - mechanism is flexible.
16. Most of these conditions align with what officials consider to be important for an effective emissions pricing, including ensuring a price on emissions is supported by other programmes and is not retrospective. Further work is needed to understand the cost and complexity of rewarding all on-farm sequestration, so officials advise not committing to recognising all sequestration as a precondition to pricing emissions at the farm-level. In line with the Interim Committee’s recommendations, we instead propose investigating whether and how sequestration from a wider set of vegetation on farm can be rewarded, and how this could be “netted-off” against any liability is considered integral to designing any farm level scheme.
17. Further consideration is needed for the condition that “price is set at the margin at which additional warming occurs, and only to the extent necessary to incentivise the uptake of economical viable opportunities”. This condition is not consistent with placing a price on all/every tonne of emissions. All other sectors face a price on their emissions regardless of the availability of cost effective mitigation. The broader purpose of pricing emissions is to drive changes in demand and stimulate innovation for new technologies and practices. Work still needs to be done to work through the details of exactly how a mechanism for pricing methane is aligned with the targets set in the Zero Carbon Bill. The provision of free allocation will see the sector face a marginal price for their emissions, but to mitigate the social impact to farming communities, rather than to calibrate it with what technologies will be adopted.

18. Officials note the Agreement does not include a condition on other countries having a similar pricing scheme. Withheld under s9(2)(g)(i)

Reward for early adopters/emission reductions

19. The proposal does not include clear commitments to reduce agricultural emissions or clear mechanisms to incentivise/reward early adopters. In particular the proposal does not detail how processors will increase efforts to incentivise farmers to reduce emissions.
20. The proposal highlights the NZ Farm Assurance Programme as having a role in supporting and incentivising change in the red meat sector. However this assurance programme does not currently include any requirements to reduce emissions.

Pilots for on farm pricing

21. Further details would be required before officials would have confidence that successful piloting on farm pricing could start before 2025. The proposal does include an outcome/target for a 2023-24 pilot of emissions reporting and benchmarking but the work stream actions linking to that outcome do not specify how this would take place.
22. The sector proposal is also unclear about the relative priority between starting with a simple estimation method versus having confidence in emissions numbers produced.
23. Given the sector's preference for this to include reporting on all on-farm vegetation then this could be a potentially complex reporting system which would require significant testing and piloting before it would be ready to be rolled out to all farms.

Withheld under s9(2)(h)



Other considerations when reviewing proposal

27. The revised proposal from the sector also includes a number of positions which differ substantively from agreed Government decisions. This includes:
- Narrative throughout document **no “additional warming”**. No “additional warming” is a goal that is not consistent with proposed objectives for the Zero Carbon Bill and in particular does not necessarily align with a goal of limiting warming to 1.5°C.
 - Narrative throughout document on **food security** in the context of the Paris Agreement. New Zealand contributes only a small amount of global production (though most of it is exported). It produces around 3% of global dairy produce, 3% of sheep meat and 1% of beef.
 - **Request to revisit industrial allocation** phase-down for emissions associated with heating of glasshouses using coal. This request re-litigates Government decisions taken this year to phasedown industrial free allocations.
28. The proposal does not explicitly state how other stakeholders, in particular iwi/Māori, would be involved in actions/decisions in the five year work programme.
29. While not in the written proposal, members of the Leaders Group have asked whether it is possible to change the factor/metrics used to convert methane to carbon dioxide equivalent. Doing so could reduce the reported level of New Zealand’s agricultural emissions when reported in carbon dioxide equivalents and therefore reduce the domestic action needed to meet New Zealand’s targets.

s6(a)



Consultation

31. This briefing was jointly prepared by the Ministry for Primary Industries and Ministry for the Environment. The Ministry of Foreign Affairs and Trade were consulted on advice relating to international negotiations. The Department of the Prime Minister and Cabinet have been informed of the contents of this briefing.

Appendix 1: Talking points for meeting with the Leaders Group

Key messages

Working with the sector on climate change

- We value the crucial role your organisations play in supporting New Zealand's farmers, growers and agrifood businesses to understand how climate change affects them, and how they can best respond and adapt to it.
- Some of the initiatives you've taken in recent years, such as the Dairy Action for Climate Change plan and Taste Pure Nature New Zealand, have provided important platforms for both addressing New Zealand's emissions, and extracting greater value from our exports in a sustainable way.
- Delivering a farm-level pricing scheme for addressing greenhouse gas emissions and delivering on New Zealand's climate change targets is by any measure, complex. We recognise this will pose challenges to the primary sector, and can't be achieved overnight. We will continue to work with you on this, and value the level of thinking and commitment you've put forward in your proposal.

Responding to the revised proposal from the Leaders Group

- For an Agreement to provide farmers certainty and start reducing emissions now, it must include a firm and unconditional commitment to pricing agriculture emissions by 2025, with a constructive industry-government action plan put forward to achieve this at a farm-level.
- If pricing at farm-level can't be achieved, we need certainty that emissions will be priced from 2025 at a processor-level.
- The Government is committed to working with you in good faith on the action plan moving to a farm-level pricing scheme. Delivering on these actions will require additional funding commitments from both the sector and government. The Government's \$229 million Sustainable Land Use Package signals our commitment to working with you on climate and other environmental outcomes.
- Some of the conditions you've outlined for supporting emissions pricing are points we agree are essential to an effective policy framework. Emissions pricing must exist alongside continued investment in R&D, and must make sense in the context of other environmental outcomes we're seeking (particularly on freshwater).
- We recognise some of your concerns around the social impacts from pricing agriculture emissions – including the risk of exacerbating existing pressures on wellbeing within our rural communities. The provision of free allocation will reduce the overall financial impact of pricing emissions and alleviate these risks.

- However, it would not be appropriate to accept your conditions that only emissions that create 'additional warming' and that the price is linked to the cost of technologies currently available. We acknowledge that work needs to be done to work through the details of exactly how a mechanism for pricing methane is aligned with the targets set in the Zero Carbon Bill. But the broader purpose of pricing emissions is to drive changes in demand and to stimulate innovation for new technologies and practices. The provision of free allocation will also see the sector face a marginal price for their emissions, but to mitigate the social impact to farming communities, rather than to calibrate it with what technologies will be adopted.
- Government will commit in good faith to investigating whether and how the likes of on-farm vegetation and small woodlots can be rewarded, but cannot yet commit to rewarding all these sources because the cost and complexity of effectively monitoring and incentivising these plantings is so unknown.
- The Agreement should include a firm proposal for how early adopters will be recognised and rewarded, and how we can begin to shift the practises of our farmers, growers and land owners to ensure emissions from the sector are reduced in absolute terms prior to 2025. We need to start enabling behaviour change now, and rewarding your trail-blazers.

Zero Carbon Bill framework and targets



- We appreciate the public comments from a number of your organisations supporting the framework of emissions budgets and an independent Climate Commission put forward in the Government's Zero Carbon Bill. We would encourage you to engage through the Select Committee process as an important step towards developing an effective long-term framework.
- The proposed range for the 2050 methane target in the Zero Carbon amendments reflects the best science available from the IPCC² on what would be required globally to keep warming below 1.5°C.
- The Climate Commission will provide advice to Government in 2024 on where in this range the 2050 methane target should be set. This advice will consider both what reductions in methane are both possible and achievable.
- Setting a target for the primary sector to avoid further warming by 2050 would not necessarily be consistent with keeping warming to below 1.5°C. Further reductions beyond this level are required globally to achieve the 1.5°C objective.

If Raised: Greenhouse gas metrics and international negotiations

- The approach the Government has taken to separate biogenic methane from long-lived gases within the Zero Carbon Bill recognises the different effect that biogenic methane has on long term warming.
- New Zealand is a party to the Paris Agreement and is required to use the internationally agreed metric of GWP₁₀₀ for reporting emissions.
- I encourage you to continue engaging with our Climate Change Ambassador (Kay Harrison) and negotiating teams in how we work towards achieving the aims of the Paris Agreement and on New Zealand's broader objectives in negotiations.

² Intergovernmental Panel on Climate Change.

Appendix 2: Further information on greenhouse gas metrics in the Paris Agreement

- Countries are now in broad agreement of the need to limit global warming to 1.5°C. There is strong consensus among scientists that, regardless of metric, achieving this goal requires reducing global carbon dioxide emissions to near zero before the end of the 21st century. Other gases, such as methane, need to reduce, but not necessarily to zero to limit global temperature rise to 1.5°C. There is some flexibility as to how quickly reductions in emissions of different gases have to occur.
- Parties to the Paris Agreement have decided, that for reporting aggregate emissions and removals of greenhouse gas emissions (GHGs) expressed in carbon dioxide equivalent, Parties will use the 100-year time-horizon Global Warming Potentials (GWPs) from the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report, or the 100-year time-horizon global warming potential values from a subsequent IPCC assessment report as agreed.
- New Zealand's first Nationally Determined Contribution (NDC) under the Paris Agreement is an economy-wide responsibility target covering all sectors and all gases. It states that the methodologies used to estimate greenhouse gas emissions and removals will use "100 year Global Warming Potentials from the IPCC 4th assessment report".
Withheld under s9(2)(f)(iv)

- Other countries have chosen to use different metrics within their NDCs, in some cases in addition to the agreed metric. However, New Zealand's position reflects the wider Party consensus and the most up-to-date globally agreed science.
- Choice of a common metric for reporting emissions is not up for debate in the near term and New Zealand will not be pushing for a discussion on metrics at this stage. We have supported the consensus agreed by Parties and will continue to do so.
Withheld under s6(a)

- New Zealand may have an opportunity to pursue a scientific and technical discussion of greenhouse gas metrics by the UNFCCC after completion of key components of the IPCC Sixth Assessment Report. The Report is due to be finalised in April 2022 in time for the first global stocktake under the Paris Agreement.

Appendix 3: Primary Sector Leaders Group revised proposal

[withheld as final He Waka Eke Noa proposal is publicly available, e.g. on Beef+Lamb, DairyNZ and HortNZ websites]

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