



## Preliminary advice on policy options to reduce agricultural emissions

		<b>Ministry for Primary Industries</b> Manatū Ahu Matua 	
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	<b>Action sought:</b>	<b>Response by:</b>
To: Hon Damien O'Connor, Minister of Agriculture Hon James Shaw, Minister for Climate Change	Referral	8 April 2019

Actions for Minister's Office Staff	<b>Return</b> signed briefing to MfE/MPI <b>Forward</b> briefing to listed portfolio ministers
Number of appendices and attachments: 2	Titles of appendices and attachments: 1. Agriculture and climate change policy framework (A3) 2. Indicative timeframe for agriculture and climate change policy in 2019 (A3)
Note any feedback on the quality of the report	

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## Preliminary advice on policy options to reduce agricultural emissions

### Key Messages

1. This joint briefing from the Ministry for the Environment (MfE) and the Ministry for Primary Industries (MPI) provides:
  - a. preliminary advice on the advantages and disadvantages of different policy options to reduce agricultural emissions
  - b. an update on focused public consultation taking place in May.
2. Our preliminary advice comes ahead of the release of the Interim Climate Change Committee's (Interim Committee) recommendations report on agriculture, due to you on 30 April 2019. This advice provides further detail on the high-level policy framework and options we provided to you in January [18-B-0822 (MfE) and B19-0035 (MPI) refer].

*The Interim Committee has provided an update on its work on agriculture*

3. The Interim Committee recently engaged stakeholders and provided you with an update on its work on agriculture. The Interim Committee has interpreted its terms of reference broadly and considered a wide range of policies to encourage agricultural emissions reduction. We understand the Interim Committee has proposed:
  - a price incentive at the farm level, either through a tax or levy, aligned with the emissions price under the New Zealand Emissions Trading Scheme (NZ ETS)
  - a range of ways free allocation could be distributed at an assumed rate of 95 percent, but with no clear steer on methodology yet (eg, on a per-output or per-hectare basis)
  - in the short term, due to the complexity of estimating and verifying emissions at farm level, agriculture could be included in the NZ ETS at processor level as a transitional arrangement
  - the addition of farm environment plans as a key component to any successful policy intervention.

*MfE and MPI have worked together to provide our preliminary advice on options*

4. Without having received the Interim Committee's final recommendations report, or undertaken our own complete analysis, we are not able to analyse the costs and benefits of each option or their implications for compliance, monitoring and enforcement.
5. However, MfE and MPI officials have been working together to analyse and discuss our perspectives on the advantages and disadvantages of different policy options. Our preliminary advice indicates:
  - **We consider government intervention will be required to support the agricultural sector to reduce emissions more effectively.**
  - **Farm-level policies would potentially be the preferred approach as it has potential to enable a wide range of behaviour changes to reduce emissions.** However, applying any farm-level policy (either pricing or regulation) is dependent on developing a consistent, cost-effective and enforceable system to monitor and record on-farm actions.
  - **If these barriers to implementation can be overcome, a pricing mechanism at farm level is likely to be preferable, as it would give farmers greater flexibility to**

**meet their obligations.** A processor-level pricing obligation is unlikely to be able to provide the same wide range of incentives for on-farm mitigation.

- **If pricing is the preferred approach, there is a further choice about the type of pricing policy instrument.** Agricultural emissions could be included in the NZ ETS, or an emissions price could be applied through a tax or levy. If a tax or levy were chosen the price that farmers face could be aligned to the NZ ETS price.
- **Free allocation under the NZ ETS (or an equivalent tax/levy rebate) could be used to mitigate the impacts of emissions pricing and avoid emissions leakage.** However, any approach to allocation is likely to create different winners and losers.
- **There are different timeframes and potential pathways associated with each option.** We are considering how the transition from one option to another could be managed over time (eg, from processor to farm level) once the appropriate monitoring systems are developed.
- **Farm-level intervention poses a range of implementation challenges in relation to compliance, monitoring and enforcement,** which we will be investigating more closely and will brief you on later in April.

*Pre-engagement and a short and focused consultation are planned over April/May*

6. The Government's objectives across a range of intersecting policy areas (eg, climate change, freshwater, biodiversity) have significant implications for the agricultural sector and iwi/Māori in particular.
7. Upcoming consultation on agriculture and climate change, therefore, carries risks for the Crown/Māori partnership and stakeholder relationships, and it must be carefully managed. We propose to mitigate these risks through pre-engagement and consultation hui in April/May. We will keep you updated and involved in this approach, as well as the overarching iwi/Māori engagement strategy that MfE is developing with support from MPI.
8. In November 2018, you noted there would be some time for formal consultation on the Interim Committee's report on agriculture to enable the public and iwi/Māori to have their say [CAB-18-MIN-0542 refers]. This approach enables any resulting policy decisions to be included in the Climate Change Response Amendment Bill (CCRAB), scheduled for introduction in early July, and to be subject to the fuller parliamentary scrutiny of the Select Committee process.

*You are consulting on a Cabinet paper for approval to consult on the Interim Committee's report*

9. We have provided you with a draft Cabinet paper for ministerial consultation finishing on 2 April. The paper seeks approval to consult on the Interim Committee's recommendations for two weeks in May and to release a short public submission document. The paper notes our approach to pre-engagement with iwi/Māori, and it proposes a two-week consultation in May, including a ministerial launch, quick poll and a maximum of six stakeholder workshops.
10. In the paper, there is a placeholder for an exemption from providing a separate Regulatory Impact Assessment (RIA), as the Interim Committee's report should cover RIA requirements. However, the Treasury's Regulatory Quality Team (RQT) has advised it will not see the Interim Committee's report until an embargoed copy is provided on 18 April. Therefore, we will not know if the exemption applies until after Cabinet has approved consultation.
11. From our engagement to date with the Interim Committee, it appears they have been considering a number of the key elements required for a RIA. However, we are unable to assess how much this will be reflected in their final report until this is presented in late April.
12. Given the risks we have identified around the challenging timeframes for policy development and final decisions in 2019 (particularly for iwi/Māori and stakeholder engagement), we recommend circulating this briefing to your ministerial colleagues for their information.

## Recommendations

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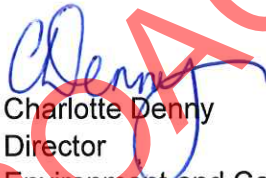
13. We recommend that you:

- a. **Note** our preliminary advice on policy options to reduce agricultural emissions, including the advantages and disadvantages of different policy options
- b. **Note** we provided you with a Cabinet paper on 27 March for ministerial consultation until 2 April, which:
  - i. seeks approval for focused public consultation on the Interim Committee's report on options to reduce agricultural emissions
  - ii. includes a placeholder for an exemption from Regulatory Impact Assessment (RIA) requirements, on the grounds these should be covered by the Interim Committee's report
- c. **Note** we will provide you with a briefing later in April with more detail on the relative implementation challenges of different policy options
- d. **Note** the risks of a focused public consultation for the overall Crown/Māori partnership and key stakeholder relationships, and our approach to mitigating these risks
- e. **Forward** this briefing note to the following Ministers with strong portfolio interests:
  - i. Minister of Crown/Māori Relations
  - ii. Minister of Finance
  - iii. Minister of Energy and Resources
  - iv. Minister for the Environment
  - v. Minister of Māori Development
  - vi. Minister of Forestry.
- f. **Meet** with officials to discuss the content of this briefing note further and to provide an update on officials' progress, should you require it.

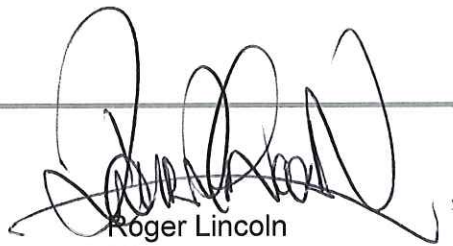
Yes / No

### Signature

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Charlotte Denny  
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Environment and Communities  
**Ministry for Primary Industries**



Roger Lincoln  
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**Ministry for the Environment**

Hon Damien O'Connor  
**Minister of Agriculture**

Hon James Shaw  
**Minister for Climate Change**

# Preliminary advice on options for reducing agricultural emissions

## Supporting material

### Purpose

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1. This joint briefing from the Ministry for the Environment (MfE) and the Ministry for Primary Industries (MPI) provides:
  - a. preliminary advice on the advantages and disadvantages of different policy options to reduce agricultural emissions
  - b. an update on focused public consultation taking place in May.
2. Our preliminary advice precedes the Interim Climate Change Committee's (Interim Committee) recommendations report, which is due on 30 April 2019. We provide an update on the Interim Committee's work to date on reducing emissions from agriculture.
3. This briefing also includes information on the timing of consultation, engagement and key decisions necessary if amendments to regulate emissions from agriculture are included in the Climate Change Response Amendment Bill (CCRAB), which is scheduled for introduction in early July 2019.

### Context

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#### ***The Interim Committee plays a key role in the Government's ambitious climate change agenda***

4. This Government has committed to ambitious action on climate change. The proposed Climate Change Bill (CCB) will provide the architecture for stable and bipartisan climate change policy to 2050. This includes:
  - a. split-gas emission reduction targets, including net zero long-lived gases (e.g., carbon dioxide, nitrous oxide) and a separate biogenic methane target by 2050
  - b. a system of five-year emissions budgets to measure progress towards the targets
  - c. adaptation measures (a National Risk Assessment and National Adaptation Plan)
  - d. the establishment of an independent Climate Change Commission (the Commission) to advise on and monitor New Zealand's progress.
5. Cabinet agreed to establish the Interim Committee, as a precursor to the Commission, to prepare the necessary evidence and analysis on the priority matters of agriculture and renewable electricity generation. The Interim Committee was established in May 2018, with two key deliverables as part of its terms of reference:
  - a. how surrender obligations could best be arranged if agricultural methane and nitrous oxide emissions enter into the New Zealand Emissions Trading Scheme (NZ ETS)
  - b. planning for the transition to 100 percent renewable electricity by 2035 [CAB-18-MIN-0108 refers].
6. In November 2018, Cabinet agreed in principle to change the Interim Committee's terms of reference to provide recommendations, alongside evidence and analysis, on both deliverables by 30 April 2019 [ENV-18-MIN-0042 and CAB-18-MIN-0542 refer]. This accelerated the timeframes for recommendations to the Government, which otherwise

would have been provided by the Commission when enacted by upcoming climate change legislation later in the year.

7. Cabinet's agreement to these in-principle changes allowed you the opportunity to undertake targeted engagement with key iwi/Māori and stakeholder organisations in February. Feedback received was supportive of the Interim Committee providing recommendations directly, and you have both confirmed the in-principle changes alongside other delegated ministers (Energy and Resources, Environment, and Forestry).
8. The Interim Committee has recently engaged stakeholders and updated you on its work to date on agriculture. The Interim Committee has interpreted its terms of reference broadly and considered a wide range of policies to encourage agricultural emissions reduction. The Interim Committee will deliver its final report on 30 April 2019.
9. We understand the Interim Committee is currently inclined to propose:
  - a. a price incentive at the farm level through either a tax or levy rather than inclusion in the NZ ETS. This is due to the high administration costs and complexity of bringing agriculture into the NZ ETS at farm level. For nitrous oxide emissions from fertilisers, evidence indicates there would be no added benefit of a farm-level obligation, so a processor-level point of obligation in the NZ ETS is recommended for fertiliser producers and importers.
  - b. the levy rate set would be aligned to the NZ ETS price over the previous year. This is similar to the existing Synthetic Greenhouse Gas levy.
  - c. a 95 percent rate of free allocation if NZ ETS surrender obligations are introduced, as required by the terms of reference. As free allocation would be set at the average, this would create winners and losers among more and less efficient farmers, respectively. There is a range of ways free allocation could be distributed, for instance on the basis of production or on a per-hectare basis. The Interim Committee is yet to provide a clear steer on its preferred methodology.
  - d. due to the complexity of estimating and verifying emissions at farm level, the Interim Committee believes it could be five years before a farm-level levy could be implemented. The report may recommend that, in the interim, agriculture be included in the NZ ETS at processor level to encourage mitigation in the short term.
  - e. the Interim Committee also considers farm environment plans will be a key component to any successful policy intervention.

***We have provided you with the policy framework and key decision points in 2019 for agriculture and climate change***

10. In a previous briefing [MfE: 18-B-0822; MPI: B19-0035 refer], we provided you with the proposed policy framework for the joint work programme on agriculture and climate change, including a high-level description of the policy objectives, assessment criteria and available options. The framework is provided again for your reference in Appendix 1.
11. We also provided you with the key decision points for agriculture and climate change policy throughout 2019. These are provided in the indicative timeframe in Appendix 2.

**Analysis and Advice**

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***We consider government intervention will be required to support the agricultural sector to reduce emissions more effectively***

12. In discussions with sector stakeholders, they have indicated a preference for a sector-based approach to reducing agricultural emissions. The benefits of such a voluntary

approach would be minimised compliance costs to industry, as well as reduced monitoring and enforcement costs to government. However, we consider there would be a reduced incentive for compliance and little to no accountability for monitoring and enforcement.

13. In a voluntary approach, government and the agricultural sector could sign an agreement in which sector organisations support farmers to plan and implement mitigation measures across dairy, sheep and beef and other sectors to achieve emission reduction targets. This agreement is assumed to include a commitment by all sectors to support farmers to:
  - estimate and report on biological emissions
  - undertake measures to reduce emissions or improve emissions efficiency
  - adopt mitigation technologies once they become available.
14. A modified option is a negotiated agreement between government and industry. This could include a time-bound trigger to regulation in the case of non-compliance. This would incur some administrative and transaction costs, due to the complexity of negotiation with various sector organisations. It could also require continued renegotiation of agreements, which would result in even greater uncertainty for participants in terms of how they might be regulated. However, it could further incentivise industry to comply with expectations for emissions reduction in order to avoid bearing the costs of regulation.
15. There is a trade-off between the administrative costs involved and the overall policy intent of reducing emissions. Binding regulatory approaches are more likely to be effective at reducing emissions than non-binding approaches, given the increased incentives for compliance. If non-compliance does not trigger sanctions, any mitigation measures would rely on the commercial or strategic interests of firms to innovate and change behaviour.

***Farm-level policies could be more effective at encouraging changes in farm management practice***

16. There are two broad choices of regulatory lever for reducing agricultural emissions: market-based (price) instruments and direct regulation (input or output controls). These levers have their own advantages and disadvantages depending on the particular assessment criteria applied (e.g., cost-effectiveness, feasibility, policy alignment).
17. Direct regulation or emissions pricing would be possible at either the processor or farm level. Farm-level incentives would theoretically better reflect farm management practices and, therefore, are able to encourage a wider range of behaviour changes.
18. However, implementing a farm-level policy would depend on determining an estimation method that balanced the need for complexity (to represent a wide variety of circumstances) with the administrative burden on farmers. Farm-level policies also present greater challenges and costs to government in terms of identifying, tracking and running compliance for a large number of participants (approximately 30,000). Currently, the NZ ETS has around 2,500 participants.
19. A processor point of obligation, on the other hand, would be simpler and cheaper for both the sector and government to implement, as it would place obligations on fewer participants (approximately 70 processors). However, it provides a blunter price signal: rather than encouraging changes in farm management practice, it would only be able to encourage emissions reductions through systems change, such as reduced production or land use change (eg, increased afforestation).

***In theory, pricing is likely to be a more efficient and cost-effective option than regulating inputs or emissions directly***

20. A price incentive (e.g. NZ ETS, tax or levy) is expected to be able to achieve emissions reduction at a lower overall cost compared to direct regulation. Direct regulation would

require participants to undertake certain mitigation measures (input controls) or to reduce emissions by a certain amount (output controls), regardless of the costs of doing so. With a price incentive, all emitters would be encouraged to reduce their emissions until the cost of doing so equalled either the tax rate or the price of units. High-cost emitters could opt to pay the tax or purchase units, while low-cost emitters would be encouraged to reduce emissions further to avoid the tax and/or to benefit from selling units.

21. The flexibility of pricing is also likely to make it fairer than direct regulation because it can distribute the impact evenly across different farm types. Placing environmental limits on farmers through regulations, for example, could result in higher costs on some farms compared to others, which, in turn, increases the overall abatement cost to the economy. In contrast, an NZ ETS price, tax or levy would apply the same cost evenly across the economy, including among agriculture and other sectors.
22. Based on these strengths, the Productivity Commission and the Tax Working Group have both recently recommended pricing as a solution for reducing agricultural emissions. However, these assumptions were not modelled or tested as part of a complete cost-benefit analysis, at either the farm or the processor level, or under different policy instrument scenarios. Implementation challenges remain for both pricing and regulation.

***If pricing is the preferred approach, there is a further choice about the type of policy instrument***

23. If pricing were the Government's preferred approach, a second-order choice would be required about whether to do so through surrender obligations under the NZ ETS, or through a different mechanism such as a tax or levy.
24. Including agriculture in the NZ ETS would ensure that all sectors of the economy face the same emissions price. However, direct participation in the NZ ETS is likely to create high transaction costs in relation to a high number of participants buying and selling small quantities of units. A number of these costs are likely to be fixed and would, therefore, impose a greater burden if applied at the farm level compared to the processor level.
25. Alternatively, a fixed NZ ETS price could be applied indirectly through a tax or levy. This could possibly be administered through existing tax collection mechanisms, which would avoid individual participants registering with the NZ ETS and surrendering units directly. Such a levy already operates under the NZ ETS for synthetic greenhouse gases.

***Free allocation under the NZ ETS (or equivalent tax/levy rebates) could be used to mitigate the impacts of emissions pricing and avoid emissions leakage***

26. If priced through the NZ ETS, we assume agricultural emissions would be eligible for industrial allocation, and the sector could be allocated free NZUs. This assistance is provided to firms in other sectors whose activities are considered emissions-intensive and trade-exposed in order to avoid overall emissions leakage and competitiveness impacts. An equivalent rebate process could be undertaken under a tax or levy system. However, free allocation would still need to provide a net benefit and achieve the desired outcomes.
27. As part of our ongoing analysis, we will be assessing the merits of the agricultural sector receiving free allocation or rebates, including how much and by what allocative method (fixed or variable). This will include assessing whether the current default requirements for agricultural allocation under the Climate Change Response Act are fit for purpose.
28. In summary, fixed allocation methods give producers a fixed number of free units or emission allowances that is determined at a given time on the basis of:
  - i. *Historical production, emissions or land value* ('grand-parenting'): Large producers are allocated more free units than low-volume producers as a proportion of total emissions. Farmers face similar emissions costs across the full range of emissions

intensity, but emissions-intensive farmers are less incentivised to mitigate under this option relative to output or land-based allocation methods. Exemptions or similar benefits could be used to avoid disproportionate costs on small agri-businesses.

- ii. *Per hectare of land* ('land-based emissions or land-use capability'): Free units are given based on the size and land-use types or carrying capacity of land. For instance, landowners with higher carrying capacities of land can be given more free units than landowners with lower carrying capacities of land. This option could encourage further land use development within environmental limits, but would be complex to understand and administer and would require further development of land use capability data. Whether you give landowners free units or allowances based on a flat rate per hectare or based on carrying capacity of that land, land-use extensive farmers would experience relatively lower emissions costs than land-use intensive farmers.
29. Both fixed allocation methods encourage emissions abatement and innovation, and work complementary to limits on fertiliser use and leaching rates set out under the National Policy Statement on Freshwater Management (NPS-FM). They pose a generally higher risk of transfer of production to countries without agricultural emission controls, and are more likely to cause distortionary effects, such as costs to new firms or undeveloped land.
  30. Variable allocation methods adjust free emissions allowances annually or over three year periods on the basis of:
    - i. *Annual or three year average reported emissions* ('proportional')
    - ii. *Annual output of milk, meat or stock* ('output-based').
  31. Both variable methods provide the sector with a greater degree of protection from sustained and material impacts of emission pricing by lowering the cost of allowance purchased in less productive years, and treat new entrants the same as incumbent producers. Conversely, they weaken mitigation incentives by shielding farmers from the full cost of additional emissions units and pose a higher risk of windfall profits from sale of surplus allowances. As a result, their effects on fertiliser use and leaching rates may be supplanted by input or output legislation specified by the NPS-FM.
  32. In addition to the rationale, level and method of free allocation or rebates, we will be looking at options for the earmarking (hypothecation) or redistribution of revenue gathered by pricing agricultural emissions. Key decisions on hypothecation include:
    - whether or not to hypothecate
    - how hypothecated funds will be governed (e.g., by government, an independent board)
    - the level and purpose of hypothecated funds.
  33. We consider there is a strong case for earmarking agricultural funds for specific purposes, e.g., further agricultural innovation and mitigation, but will continue to investigate and analyse the options further.

***There are different timeframes and potential pathways for each option***

34. Some options could be implemented on faster timeframes than others. For example, a processor-level point of obligation in the NZ ETS would entail relatively straightforward amendments (ie, within the overall CCRAB package) to enable approximately 70 agricultural processors to face unit surrender obligations.
35. However, a farm-level obligation in the NZ ETS would involve identifying approximately 30,000 new participants and establishing suitable systems to manage their entry and participation in the scheme. A new tax/levy system would be simpler to manage for such a large number of participants, but could take a number of years to establish, owing to the design of new compliance, monitoring and enforcement systems.

36. We are considering the potential benefits and costs of a transition from one mechanism to another from the short to long term. This is an option that we understand the Interim Committee may propose (i.e., moving from a processor- to farm-level obligation over time).

***Establishing the method and systems used to estimate and verify emissions may be challenging***

37. There are around 30,000 farms<sup>1</sup> operating commercially in New Zealand, which does not include smaller sub-commercial farms or lifestyle blocks. Any policies the Government considers to reduce emissions from agriculture will need to account for the high diversity of New Zealand farms and capabilities.
38. Unlike other sectors, agricultural emissions come from a large number of small diffuse sources. To be effective, any policy will require:
- a method(s) of accurately and appropriately estimating emissions or demonstrating compliance
  - a method(s) to report emissions or compliance for each point of obligation
  - a system for the regulator to verify the reported emissions or compliance.
39. There is a range of methods that could be used to estimate emissions either at the farm level or at the processor level. These range from simple calculations using average emission factors (such as forestry look-up tables in the NZ ETS), to complex calculation models like Overseer.<sup>2</sup> While more complex methods can capture a greater range of inputs and provide a more accurate estimate of emissions, they would be more costly to administer. They are also subject to revision as scientific understanding and technologies improve. Simpler methods would be less time-consuming and easier to verify, but would not be able to monitor as broad a range of mitigation measures or adequately represent the diversity of farms and farming systems that exists.
40. Farmers, processors or any other obligated parties would also be required to report their emissions for compliance under any pricing policy. This could include reporting their emissions under the NZ ETS, through the tax system (for levies or taxes) or through some separate process. The appointed regulator would be required to check the returns and verify that the information provided is complete and accurate for a number of audited properties. This may be easier for some policy options than for others.
41. The constraints around estimating, reporting and verifying emissions are likely to be greater for regulatory options that put a price on emissions, such as the inclusion of agriculture in the NZ ETS. To be implemented, any policy approach will require a method of estimating emissions that is perceived to be accurate and appropriate for participants.
42. We will be investigating the relative implementation challenges of all options in the coming weeks. We will provide you with a briefing later in April that goes into more detail on these challenges.

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<sup>1</sup> These are dairy cattle, sheep, beef cattle and deer farms.

<sup>2</sup> Some regional councils and unitary authorities require farmers to use Overseer software for farm-scale reporting or to meet farm-scale nutrient loss limits under the National Policy Statement for Freshwater Management (NPS-FM) 2014. Participating farms can generate greenhouse gas emissions reports with little additional cost or effort.

## Consultation and Collaboration

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43. In the preparation of this briefing, MfE and MPI officials have consulted internally with their respective Communications, Legal and Finance departments, as well as MfE's iwi/Māori relationship managers and MPI's iwi/Māori engagement teams.
44. We have not circulated this briefing more widely or consulted formally across government. However, in preparing some of our general policy advice, we have discussed issues with the Department of Prime Minister and Cabinet and the Treasury, as well as the Environmental Protection Authority, Ministry of Business, Innovation and Employment and Te Arawhiti (Crown/Māori Relations).
45. More generally, we have consulted externally with members of the Interim Committee and Secretariat and agricultural sector representatives. Their feedback has been reflected in this briefing, where appropriate.

## Risks and mitigations

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46. The Government's objectives across a range of intersecting policy areas (e.g., climate change, freshwater, biodiversity) have significant implications for the agricultural sector and iwi/Māori in particular. Any policy to address agricultural emissions is likely to impose uneven impacts on different groups. However, the Government can soften these impacts by providing additional policies to better balance the impacts between groups.
47. Engagement and consultation need to be managed carefully, and in a coordinated manner, to avoid any risks overshadowing policy progress, particularly with iwi/Māori who have recently expressed concerns with climate change policy engagement. There will be limited opportunity for in-depth consultation and engagement with iwi/Māori and agricultural sector stakeholders, following the release of the Interim Committee's report and in the lead-up to final policy decisions. This is a significant risk for the joint work programme on agriculture and climate change, which could impact negatively on both the policy development process and our key relationships.
48. The agricultural sector has also expressed concerns with a perceived lack of its own representation on the Interim Committee. The risk of sector dissatisfaction may increase with the announcement of the Interim Committee now providing final recommendations, along with a shortened consultation period. We have mitigated the first risk through proactive engagement and communications with the sector, including a joint ministerial press announcement and op-ed piece. Key messages included providing greater certainty to the sector and reiterating that final policy decisions remain with the Government.
49. We propose we can somewhat mitigate the second risk of inadequate consultation with iwi/Māori and sector stakeholders by:
  - a. holding workshops in urban and regional centres during the two-week consultation period, to familiarise iwi/Māori and stakeholders with the Interim Committee's recommendations, field any queries and receive their feedback
  - b. maximising the CCRAB Select Committee process, to ensure that iwi/Māori and stakeholders are given adequate time to prepare submissions and be heard.
50. At the same time, MfE is developing an approach for overall engagement with iwi/Māori that manages the risks to the Crown/Māori relationship with the limited time and resources available. This could include high-level engagement, including at ministerial level, in some hui related to freshwater, climate change and resource management in April/May.
51. These hui will require consistent messaging on policy issues across the board, including but not limited to agriculture and climate change. MfE is developing this overall iwi/Māori

engagement approach with support from MPI, and we will continue to update you on this approach through weekly updates.

### **Legal issues**

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52. We are still in the preliminary stages of policy analysis. No legal issues have arisen that warrant your attention at this stage.

### **Financial, regulatory and legislative implications**

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53. You have directed that any legislative or regulatory amendments resulting from final policy decisions should be completed by the end of this year. If the Government decides to regulate agricultural emissions (e.g., through the NZ ETS or a levy), amendments could be included within the CCRAB, which is scheduled to be introduced in early July this year.
54. If final policy decisions are not made prior to the introduction of the CCRAB, a back-up option is to introduce a Supplementary Order Paper (or other notice by you to the Office of the Clerk) in the early stages of the Select Committee process. You have indicated this is not the proposed approach, as it reduces consultation with the Select Committee.
55. We note a Regulatory Impact Assessment (RIA) is typically required at the same time as consultation on significant policy decisions. However, we are seeking an exemption from the Treasury's Regulatory Quality Team (RQT) because the necessary elements of a RIA should already be covered by the Interim Committee's agricultural report.
56. However, the Treasury's Regulatory Quality Team (RQT) has advised it will not see the Interim Committee's report until an embargoed copy is provided on 18 April. Therefore, we will not know if the exemption applies until after Cabinet has approved consultation.
57. From our engagement to date with the Interim Committee, it appears they have been considering a number of the key elements required for a RIA. However, we are unable to assess how much this will be reflected in the final report until it is presented in late April.
58. We can mitigate this risk by providing you with a full and final RIA along with the Cabinet paper seeking final policy decisions in June. This will assess the overall impacts of recommended policy proposals, including modelled economic impacts and fiscal implications. This RIA will be quality-assured by a joint panel of officials from MfE, MPI and RQT.

### **Next Steps**

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59. We are more closely investigating the relative implementation challenges of all options and will provide you with a briefing later in April that discusses these.
60. Given the risks we have identified around challenging timeframes for policy development and final decisions (particularly the risks for iwi/Māori and stakeholder engagement), we recommend circulating this briefing to your ministerial colleagues for their information.
61. There is an opportunity for a joint meeting with officials to discuss the content of this briefing note further and provide an update on officials' progress. We can arrange this meeting with your offices, should you desire it.

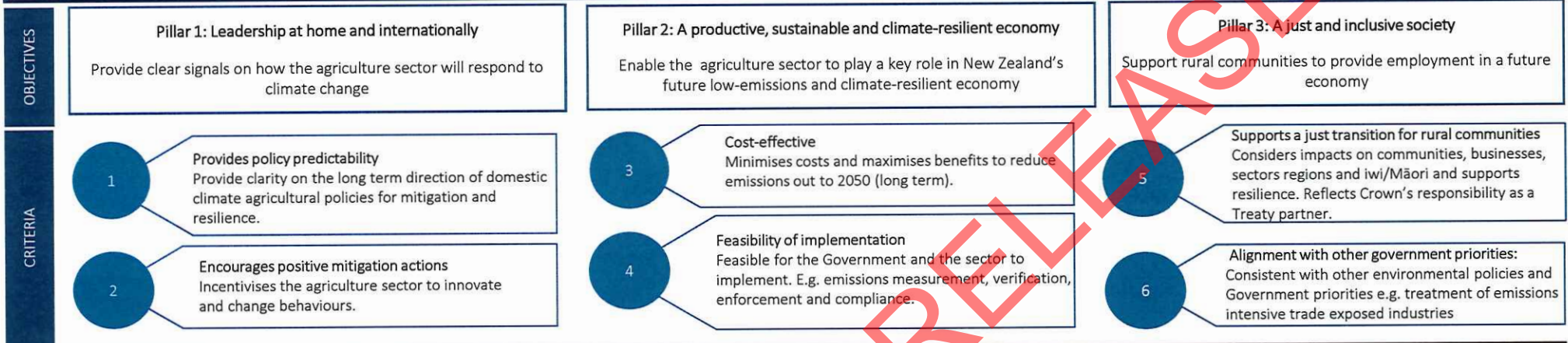
Appendix 1. Agriculture and climate change policy framework

PROACTIVELY RELEASED

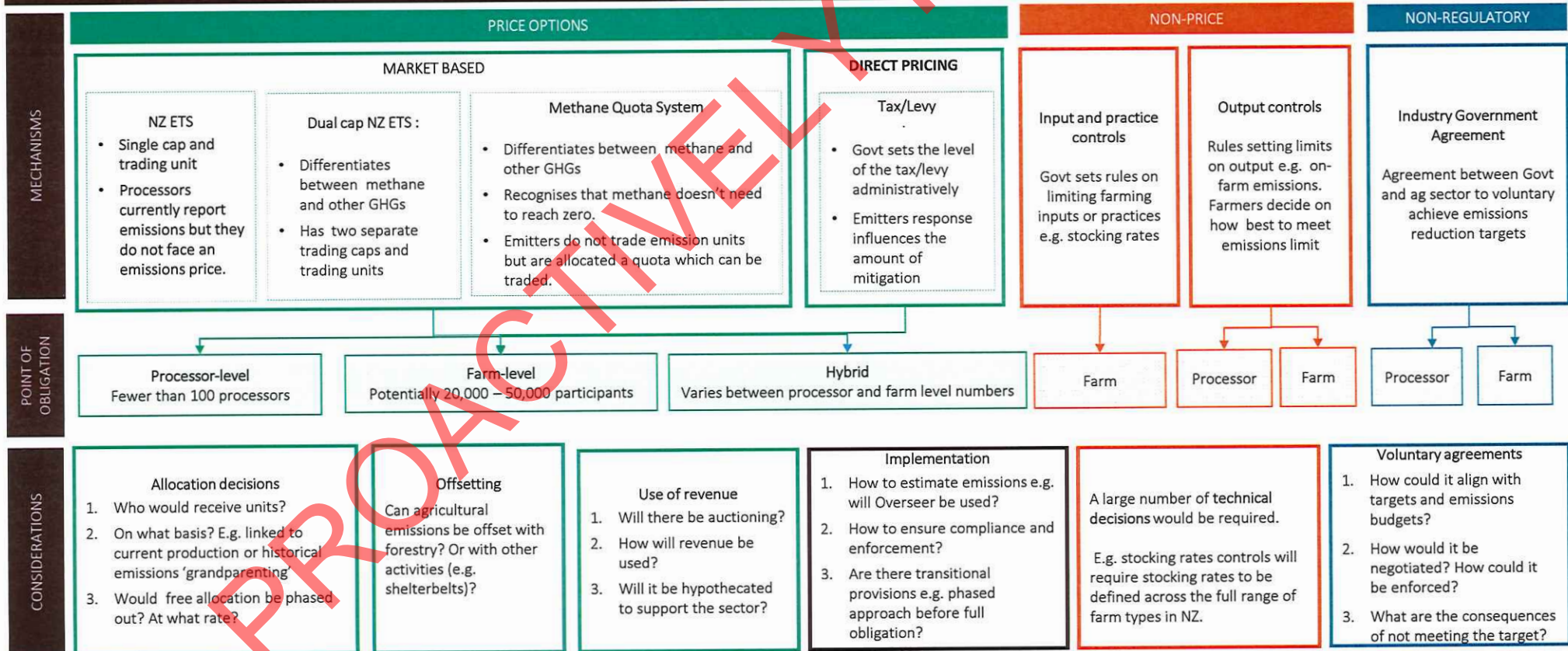
# APPENDIX 1 – AGRICULTURE AND CLIMATE CHANGE POLICY FRAMEWORK

## OVERARCHING OBJECTIVE

To enable the agriculture sector to achieve cost-effective agricultural emissions reduction in line with the emissions budgets and targets that will be set under the Climate Change Bill, and New Zealand's 2030 Nationally Determined Contribution.



## POLICY LEVERS & KEY CONSIDERATIONS



Appendix 2. Indicative timeframe for agriculture and climate change policy in 2019

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## Appendix 2: Indicative timeframe for agriculture and climate change policy in 2019

The calendar below shows how our work fits in with the timing of other key climate change work programmes. It also provides more detail on the process for getting to Government decisions in response to the Interim Committee's report (30 April – early July). You may find it helpful to cross-reference this with briefing note [18-B-05135].

