Te tātai utu o ngā tukunga ahuwhenua

Pricing agricultural emissions

Report under section 215 of the Climate Change Response Act 2002

Ministry for the Environment
Manatū Mō Te Taiao

Ministry for Primary Industries
Manatū Ahu Matua

Te Kāwanatanga o Aotearoa
New Zealand Government

Disclaimer

The information in this publication is, according to the Ministry for the Environment's and Ministry for Primary Industries' (the Ministries) best efforts, accurate at the time of publication. The Ministries will make every reasonable effort to keep it current and accurate. However, users of this publication are advised that:

- the information does not alter the laws of New Zealand, other official guidelines, or requirements
- the information does not constitute legal advice, and users should take specific advice from qualified professionals before taking any action based on information in this publication
- the Ministries do not accept any responsibility or liability whatsoever whether in contract, tort, equity, or otherwise for any action taken as a result of reading, or reliance placed on this publication because of having read any part, or all, of the information in this publication or for any error, or inadequacy, deficiency, flaw in, or omission from the information in this publication
- all references to websites, organisations or people not within the Ministries are for convenience only and should not be taken as endorsement of those websites or information contained in those websites nor of organisations or people referred to.

This document may be cited as: Ministry for the Environment and the Ministry for Primary Industries. 2022. *Pricing agricultural emissions: Report under section 215 of the Climate Change Response Act 2002.* Wellington: Ministry for the Environment.

Published in December 2022 by the
Ministry for the Environment
Manatū Mō Te Taiao
PO Box 10362, Wellington 6143, New Zealand

ISBN: 978-1-991077-26-4

Publication number: ME 1735

This document is available on the Ministry for the Environment website: environment.govt.nz.

Contents

Executive summary

This report has been prepared by the Minister of Climate Change and Minister of Agriculture (the Ministers) to meet the requirements of section 215 of the Climate Change Response Act 2002 (CCRA).

The report outlines a system to put a price on emissions from agricultural activities as an alternative to the New Zealand Emissions Trading Scheme (NZ ETS).

The proposed pricing system is based on the farm-level split-gas levy designed by key representatives of the agriculture sector and the Federation of Māori Authorities as part of He Waka Eke Noa – Primary Sector Climate Action Partnership. The system has been informed by consultation and engagement with Māori, the agriculture sector and public submissions.

The proposed system is designed specifically for the agriculture sector to be practical to implement and to ensure it is most effective at reducing emissions in line with Aotearoa New Zealand's emissions reduction targets. The system is also designed with a view to maintaining a viable and productive agriculture sector. Where possible, it will be aligned with other regulatory systems to minimise the compliance burden on farmers and growers.

The proposed pricing system has the following features:

- A farm-level split-gas levy for agricultural emissions that would price emissions from biogenic methane and nitrous oxide (including from fertiliser) separately.
- The legal point of responsibility for reporting and paying for emissions would be GST-registered business owners who meet the emissions thresholds (equivalent to ~200 tonnes CO2-e per year).
- Reporting could be done at either the individual farm level or via a collective.
- It is proposed that relatively low, unique prices could be set initially for both biogenic methane and nitrous oxide for five years based on set criteria.
- It is proposed a price pathway for both biogenic methane and nitrous oxide would be set for five years, with a review after three years.
- The price of nitrous oxide would be capped for the first five years at a level that the sector would be no worse off than if the sector had entered the NZ ETS at this point.
- Payments would be available to reward the uptake of incentives and eligible sequestration (removals).
- The NZ ETS would be reformed and interested parties incentivised to conduct science and research to include new categories of sequestration into the New Zealand Greenhouse Gas Inventory and NZ ETS.
- An interim approach would be taken for rewarding sequestration through a declaration-based system from 2025, followed by a transition to the NZ ETS. At the minimum, sequestration from riparian plantings and from increases in carbon from indigenous forest linked to specific management interventions will be included from 2025.
- A sequestration strategy would be developed to determine the details of how sequestration is accounted for and rewarded within the pricing system.
- Revenue raised from the levy would be recycled back in the system, in line with a strategy outlining spending priorities to mitigate agricultural emissions and operate the system.

The strategy would include operating costs, incentive and sequestration payments, and a dedicated fund for Māori landowners.

- Oversight of the pricing system would include the Climate Change Commission (the Commission) and an Oversight Board with representation from the agriculture sector and Māori.
- Implementation of the pricing system could involve agencies such as the Ministry for Primary Industries, Ministry for the Environment and Inland Revenue.
- Information requirements would be detailed in primary legislation and regulations.
- An interim, processor-level levy would be proposed only as a transitional step if the farm-level pricing system could not be operationalised by 2025.

The proposed pricing system design will continue to be developed following Treaty of Waitangi|Te Tiriti o Waitangi (Te Tiriti) analysis and conversations with Māori, and further consideration of submissions received during public consultation.

This paper outlines further progress on the proposed pricing system. Cabinet will make final policy decisions on the agricultural emissions pricing system in early 2023, followed by legislation to give effect to those decisions.

Purpose

This report has been prepared to meet the requirements of section 215 of the Climate Change Response Act 2002 (CCRA).

Climate Change Response Act 2002

215 Ministers to report on alternative pricing system for farm-level agriculture emissions

1. The Minister and the Minister of Agriculture must prepare a report that outlines a system to put a price on emissions from agricultural activities (including, but not limited to, the activities listed in Part 5 of Schedule 3) as an alternative to the emissions trading scheme currently provided for in this Act.

2. The report must be prepared and made publicly available by 31 December 2022.

3. The report must discuss the following matters in relation to the emissions trading scheme and the alternative system outlined under subsection (1):

    (a) how emissions from those activities would be priced and accounted for:

    (b) whether other activities or participants would be included in the system:

    (c) what methodologies would be used for calculating emissions and removals:

    (d) what assistance, if any, would be given to participants:

    (e) how emissions of methane would be treated relative to other greenhouse gases, including whether, how, and what types of removals would be recognised:

    (f) what information participants would need to provide and how that information would be used, shared, or made publicly available:

    (g) how participants and relevant industry groups would be engaged with in designing, implementing, and operating the system:

    (h) who would be responsible for administering the system:

    (i) what amendments would need to be made to legislation to enable the system to work.

4. Before preparing the report, the Ministers must—

    (a) request a report from the Climate Change Commission under section 5K about what assistance, if any, should be given to participants; and

    (b) consider that advice.

5. In this section, Minister of Agriculture means the Minister of the Crown who, under the authority of a warrant or with the authority of the Prime Minister, is responsible for the administration of the Commodity Levies Act 1990.

Background

A decision was made in 2019 to price agricultural emissions, following prior proposals in 2002 and 2008. To give effect to this decision, the Government added requirements to the CCRA to either:

- develop an alternative pricing system for farm-level agricultural emissions, or
- price agricultural emissions via the NZ ETS.

Section 215 of the CCRA sets out an obligation for the Minister of Climate Change and Minister of Agriculture (the Ministers) to report on an alternative agricultural emissions pricing system to the NZ ETS.

This section 215 report must include certain matters (see 'Purpose' section), including consideration of advice provided by the Climate Change Commission (the Commission). The Ministers must prepare and make the report available by 31 December 2022.

To ensure a system is in place by 2025, Cabinet will make final policy decisions on the agricultural emissions pricing system in early 2023. The Government will then prepare legislation to support this system.

Climate Change Commission advice and consideration of advice

As required under section 215(4) of the CCRA, Ministers have sought advice from the Commission about what assistance, if any, should be given to participants in an agricultural pricing system.

The advice in this report[1] has been considered by the Ministers. In summary, the Commission advised the following:

- the Government should consider providing assistance to all farmers and growers if it expects material financial hardship to be widespread as the sector transitions to low-emissions practices
- output-based assistance is most effective at maintaining a marginal incentive on emissions intensity
- conditional financial assistance may be needed as a short-term transition measure to help mitigate severe or uneven impacts of emissions pricing, or to overcome barriers to participation.

Rather than using the Commission's recommendations for a high price to drive behaviour change, with output-based assistance to moderate impacts, the Government is proposing to accept the Partnership's recommendations for a low-price to raise revenue, which would then be used to fund incentives to drive behaviour change.

[1] A copy of the report and associated documents can be found on the Climate Change Commission website. Retrieved from https://www.climatecommission.govt.nz/our-work/advice-to-government-topic/agricultural-emissions/agricultural-assistance/ (accessed 8 December 2022).

Officials advise that structured assistance (which is provided to all participants on the same basis) using an output-based form of assistance is too complex to implement by 2025. They also advise that it would take considerable time to work through the challenges related to distributional impacts across the agricultural subsectors.

Conditional financial assistance is eligibility-based and therefore less complex to implement. The Government is exploring conditional financial assistance in the form of transitional support (see section A5).

Partnership with Māori and Māori views

As a partner to the Treaty of Waitangi | Te Tiriti o Waitangi (Te Tiriti), the Government recognises the importance of the principles of partnership, participation and protection. These principles will be vital throughout the transition to a low-emissions, climate-resilient economy.

Māori play an important part in this transition, having an intrinsic relationship with te taiao. The Government recognises the close connection through whakapapa between tangata and whenua.

The agriculture sector also plays a significant part in the Māori economy. An agricultural emissions pricing system will have impacts on Māori and Māori communities.

The Government has heard from recent engagement that the Crown must do more to uphold Te Tiriti. Concerns were raised about the consultation approach, including a desire for changes to the pricing system to address historical disadvantages and manage disproportionate impacts on Māori and Māori communities. Five top areas of concern were raised during consultation:

1. **Sequestration.** Categories of eligible sequestration should be broadened to recognise efforts of Māori as kaitiaki.
2. **Transitional assistance.** Assistance is needed due to the unique characteristics, historical barriers, inability to change land use, and economic restrictions leading to underdeveloped whenua Māori for Māori owners.
3. **Governance and revenue recycling.** There is a desire for true partnership with government, and for Māori to make decisions for Māori. There is support for a ringfenced fund for Māori within the pool of revenue raised by the pricing system.
4. **Point of obligation.** Some preference exists for a landowner point of obligation. Submitters highlighted concerns with leased land arrangements capturing whenua Māori that would not meet reporting thresholds independently.
5. **Collectives**. Māori landowners need to be able to act collectively in managing their climate change obligations. This includes the ability to trade sequestration between participating properties and collectives.

Further Te Tiriti analysis and conversations with Māori are needed before Cabinet decisions in early 2023.

Public consultation and consideration of feedback

Public consultation on the proposed agricultural emissions pricing system ran for six weeks between 11 October and 18 November 2022.

Officials from the Ministry for the Environment and the Ministry for Primary Industries held 28 online and in-person events across the consultation period. Almost 23,000 submissions on the proposal were received.

A full summary of submissions from consultation will be published in 2023. The submissions will inform final Cabinet policy decisions on the agricultural emissions pricing system. However, emerging themes from initial analysis of the submissions and broader consultation feedback are summarised in the relevant sections of this report.

Part A: Proposed alternative farm-level, split-gas pricing system

Overview

A farm-level, split-gas levy for agricultural emissions, including biogenic methane and nitrous oxide emissions from livestock and nitrous oxide emissions from fertiliser, is proposed as an alternative to the NZ ETS.

While final decisions on establishment costs have not yet been made, the ongoing operation of the proposed pricing system would be self-funding and fiscally responsible. The pricing system would require decisions on levy rates, the scope and rate of sequestration and incentives for mitigation technologies (higher levy rates would allow higher sequestration and incentive rates). The funding levels for ongoing research and development would also need to be balanced. The proposed alternative farm-level pricing system includes the following core features:

- agricultural emissions (biogenic methane and nitrous oxide) would be priced differently, with separate levy rates
- payments would be available for the uptake of incentives and eligible sequestration
- revenue raised from the levy would be recycled back in the system, in line with a strategy outlining spending priorities to mitigate agricultural emissions and operate the system. The strategy would include operating costs, incentive and sequestration payments, and a dedicated fund for Māori landowners
- the Commission would advise Cabinet on levy rates after consultation with the Oversight Board (that has representation from the agriculture sector and Māori). Māori, the agriculture sector and the public at large would then also be consulted.

The proposed system is designed specifically for the agriculture sector to ensure it is most effective at reducing emissions, practical to implement, and will maintain a viable and productive agriculture sector.

Section A1: How emissions of methane would be treated relative to other greenhouse gases, including whether, how and what types of removals would be recognised

It is proposed that agricultural emissions would be priced via a farm-level, split-gas levy where biogenic methane and nitrous oxide gases would be priced differently. Biogenic methane and nitrous oxide emissions from livestock and nitrous oxide emissions from the use of fertilisers

would be priced at the farm level. Carbon dioxide emissions would not be included in the pricing system.[2]

Sequestration (removals) would initially be a part of the pricing system, along with incentives to reduce gross emissions in the short-to-medium term. The intention is for recognition of sequestration to transition to the NZ ETS as soon as possible.

Section A2: What activities or participants would be included in the system

The proposed farm-level pricing system would capture approximately 23,000 farmers and growers, which is around 96 per cent of the agriculture sector's emissions. Primary legislation would specify the point of legal responsibility for reporting a farm's emissions and paying the associated levy.

The legal point of responsibility would lie with GST-registered business owners who meet the following emissions thresholds (equivalent to ~200 tonnes CO_2-e per year):

- 550 stock units (inclusive of sheep, cattle and deer, calculated on a weighted annual average basis), or
- 50 dairy cattle, or
- applying over 40 tonnes of nitrogen through fertiliser.

It is proposed to exclude minor-emitting sectors (including swine, poultry, goats, horses, alpacas, llamas, mules and asses) from the pricing system in 2025. Over time, changes in emissions profiles could be addressed by reviewing exclusions and amending thresholds.

Business owners would be able to appoint an agent such as a farm manager or an accountant, who would be empowered to make enquiries, complete forms, receive statements and arrange payments on behalf of a business owner.

Levy payers could also fulfil reporting and payment obligations on a collective basis (see 'Collectivising emissions reporting and payment' section).

Different legal structures (eg, partnerships) could either choose to report as a collective or identify a specific trustee/partner as the point of obligation, depending on their contractual agreements and preferences.

Legislation could specify the point of legal responsibility for more complex business structures such as sharemilking and lease-holder arrangements.

Submissions showed general support for the business owner as the point of legal obligation. However, some Māori consider that the landowner should be the point of obligation, as this would support a te taiao approach and recognise efforts as kaitiaki.

The Government is continuing to work on opportunities to address the impact of the pricing system on Māori which could include transitional arrangements.

[2] Carbon dioxide accounts for around two percent of agricultural emissions that are not already covered by the NZ ETS.

Section A3: How emissions from agricultural activities would be priced and accounted for

Levy-setting process

It is proposed that nitrous oxide and biogenic methane levy prices would be set through regulations. The proposed process for pricing and accounting for emissions at the farm level is detailed below.

Factors to be considered when setting the levy prices

The overall purpose of the proposed pricing system is to achieve emissions reductions in line with Aotearoa New Zealand's legislated 2030 and 2050 targets and emissions budgets.

When setting the levy prices, it is proposed that primary consideration would be given to achieving emissions reductions in line with legislated targets and emissions budgets, with these additional factors also taken into account:

- availability and cost of (current and future) on-farm mitigations
- social, cultural, and economic impacts on farmers and growers, regional communities, households and Māori agribusiness
- best available scientific, mātauranga Māori and economic information
- emissions leakage.

Ministers would be responsible for setting and updating the levy prices based on advice from the Commission after:

- seeking advice from the Oversight Board, which would be skills-based and include Māori membership
- seeking feedback from consultation with the agriculture sector and Māori and the wider public
- considering the above factors.

Initial levy rates and reviews

Considerable feedback was received on setting the initial levy price, in particular for biogenic methane. This included providing more certainty and starting with a relatively low price. Submissions from Māori indicate support for:

- fixing the price for five years
- considering a lower price
- exempting whenua Māori captured in the system
- including factors such as social, economic and cultural when setting the price
- including Māori as a partner in the process.

It is proposed that relatively low, unique prices could be set initially for both biogenic methane and nitrous oxide, based on the factors in the above section (Factors to be considered when setting the levy prices).

It is proposed a price pathway for both biogenic methane and nitrous oxide would be set for five years, with a review after three years. There would be the ability to adjust the price in special situations such as significant variance in progress towards the emissions targets.

The price of nitrous oxide would be capped for the first five years at a level that the sector would be no worse off than if the sector had entered the NZ ETS at this point.

Review of emissions targets

Feedback received during consultation included recommendations to review the biogenic methane targets in the CCRA before the pricing system comes into effect.

Under the CCRA, the Commission must review emissions budgets every five years, starting in 2024. At the same time, it must provide independent expert advice on whether any changes should be made to Aotearoa New Zealand's legislated 2050 targets. These changes could include:

- what the targets are
- what gases the targets apply to
- when the targets must be met by
- how much can be met in Aotearoa New Zealand or paid for overseas.

The criteria that the Commission must consider are set out in section 5T of the CCRA. The review of the 2050 target is in the early scoping and planning stages.[3] Consultation on the targets review would need to be completed before December 2024.

Incentive payments and rates

A low, flat levy rate applied across a range of different farming systems can only go so far in achieving emissions reductions. Therefore, incentive payments are proposed as part of the levy, to make technology uptake more cost effective.

The uptake of mitigation technologies to achieve emissions reductions is less likely to lead to emissions leakage overseas.

In setting incentive payment rates in regulations, the Minister would be required to consider a range of factors, including:

- minimising emissions leakage
- fostering the development of mitigation technologies in general and, in particular, for groups with fewer mitigation options
- ensuring no more than a fair return on cost, investment and effort involved in the mitigation technology (for both farmer and grower participants and suppliers)
- ensuring the levy system is self-contained and fiscally sustainable.

When determining which mitigations are funded, consideration needs to be given to:

- overall funding available from the levy revenue

[3] The review is expected to look at all the relevant science, including latest research on metrics (eg, GWP*).

- avoiding unearned windfall gains
- estimated emissions reductions associated with the use of a mitigation technology
- different prices per unit of emissions for incentive payments depending on the cost, effectiveness and availability of a given mitigation technology
- development of methods to estimate emissions reductions per mitigation option as more mitigation technologies become available.

Sequestration payments and rates

Sequestration from on-farm vegetation would be recognised as part of the farm-level pricing system in 2025. This would be an interim measure, with levy funds used to pay farmers and growers for eligible sequestration.

Legislation would specify that funding sequestration is a purpose of the levy. Farmers and growers would report their eligible land area for each vegetation category at the same time as they report emissions data.

To receive the payment, farmers and growers would have to comply with requirements over a certain time period (which may be specified in legislation or via contracts with the implementation agency).

The amount of revenue available for sequestration payments would depend on the levy price, categories of sequestration rewarded and the rate of reward for sequestration.

Further details on sequestration are provided in the 'Sequestration (removals)' section and will be developed as part of the sequestration strategy.

Revenue recycling

There was overwhelming support from submitters for transparent revenue recycling that is reinvested into the agriculture sector. There were suggestions that that reinvestment could go into regenerative farming education, research, and mitigation tactics and technology.

The Government is proposing that levy revenue is used to fund emissions reductions in the agriculture sector. Revenue from the levy would be used to fund:

- system administration
- incentive and sequestration payments
- a dedicated fund for Māori landowners
- other priorities identified through the revenue recycling strategy.

A revenue recycling strategy would be developed, setting out the priorities for how to best achieve the Government's objectives for emissions reductions. A dedicated fund to support opportunities and meet the needs of Māori landowners is proposed. This fund would be administered by Māori, for Māori, with the intention to recycle the levies paid by Māori to support Māori landowners and agribusiness.

Accounting for emissions

Registration and reporting

GST-registered business owners who meet the emissions threshold outlined in legislation would be legally required to register in the system and report their farm's emissions on an annual basis. The implementation agency would be responsible for managing this process.

During consultation, the agriculture sector raised concerns about the pricing system starting on 1 January 2025 and calendar-year reporting of emissions. While the start date for pricing remains 1 January 2025, work is underway on developing reporting options that better align with farm accounting systems.

Partial-year reporting and payment could be enabled for new entrants or collectives in the levy. This could also apply to those who drop below the emissions threshold, subject to any practical, transitionary arrangements.

The Inland Revenue system could be used to undertake the registration, levy invoicing and payment functions of the levy. This would minimise the administrative costs associated with registration, as the basic farm information (including the farm location, enterprise type and key contacts) is held within the tax system. There would need to be appropriate privacy and data-sharing provisions prescribed in legislation.

Collectivising emissions reporting and payment

Both the sector and Māori expressed a preference for collective reporting and payment to be enabled for all participants from the beginning of the pricing system. Whenua Māori is often owned collectively, with individuals having interests in several and potentially non-contiguous blocks. For this reason, whenua Māori landowners expressed a need to be able to act collectively in managing their climate change obligations.

The Government is doing further work on how collectives could be enabled for all participants in the pricing system. The proposed approach for registration, levy assessment and collection would require a GST-registered, legally recognised entity as the point of obligation for collectives, just as for individual businesses.

Further considerations for enabling different types of entities to report as collectives include:

- auditing requirements related to reporting and payment as well as treatment of individual participant's emissions, sequestration and mitigation uptake
- legal requirements or agreements for entering and exiting the collective group (eg, to ensure participants are not counted twice) within a prescribed time period, and processes for collecting and distributing payments.

Collectivising the reporting and payment obligations is likely to ease administrative costs for members of the collective. Working together on reporting and payment may also be an opportunity for levy payers to collaborate on mitigations uptake and sequestration opportunities.

Section A4: What methodologies would be used for calculating emissions and removals

The following methodologies are proposed for calculating emissions and removals for the farm-level pricing system.

Emissions

The specific data requirements and full methodology for calculating emissions would be set out in regulations.

Initially, the proposed data inputs and corresponding evidence requirements include farm area, livestock reconciliation and production, and nitrogen fertiliser usage. These data requirements would be subject to further review during development of regulations, to ensure that the most appropriate data and sources of evidence are included.

The farm-level data would be combined with scientific data (such as biogenic methane emissions per unit of feed intake) to calculate emission numbers.

A more detailed emissions calculation method would be adopted over time, to recognise more mitigation actions and improve the accuracy of reporting estimates.

Sequestration (removals)

NZ Greenhouse Gas Inventory

On-farm sequestration must be scientifically valid, included in the New Zealand Greenhouse Gas Inventory (the Inventory) and be able to be counted towards New Zealand's targets and emissions budgets, including our Nationally Determined Contributions under the Paris Agreement.

Including new categories of on-farm sequestration in the Inventory will then enable them to be either used for 'in-setting' (counting against sources of emissions behind the farm gate) or including in the NZ ETS. However, sequestration recognised under the temporary interim solution in 2025 would not need to be recognised in the inventory.

NZ ETS

The NZ ETS is the most appropriate mechanism to reward all forms of eligible sequestration from vegetation. Having one system that recognises sequestration for all landowners in Aotearoa is a coherent, efficient and equitable approach.

The Government is proposing to reform the NZ ETS to encourage interested parties to invest in science and research to include further categories in the Inventory and NZ ETS. These reforms would be in place by 2025. Interested parties would be incentivised to invest in R&D early, to increase the likelihood of including additional categories in the NZ ETS as soon as possible after the new system goes live in 2025.

Farmers and growers would receive the full NZU price as a reward for eligible sequestration, once it is in the NZ ETS. Revenue from the levy could then focus more on funding activities to reduce gross biogenic methane and net nitrous oxide emissions.

There is also work underway to better understand and measure carbon in native forests, and to reduce barriers to participation in the NZ ETS. As any changes are made, landowners would be supported and encouraged to join the NZ ETS if their vegetation was eligible.

Recognising sequestration in 2025

While the new system for including additional categories of sequestration in the inventory and the NZ ETS would be up and running by 2025, it is unlikely that those new categories would themselves be through the system by 2025. Until further categories can be included in the inventory and NZ ETS, an interim system that recognises on-farm sequestration will be part of the farm-level system.

To be recognised for on-farm sequestration, farmers and growers would need to complete a declaration while inputting their emissions and sequestration.

As per the Partnership's original proposal, interim recognition for on-farm sequestration will be discounted to reflect the gap in the Inventory. Scientifically robust vegetation categories that can be included in Aotearoa New Zealand's international target accounting will transition to the NZ ETS, at full value.

The Government's proposal for recognising only some forms of on-farm sequestration was largely opposed by submitters. Feedback included views that it was inequitable for farmers and growers to be charged for their emissions but not recognised for their full range of on-farm sequestration. Some submitters expressed concern that the Government's proposed modifications to the pricing system would disincentivise planting native bush and continue the widespread conversion of farmland to monoculture exotics (eg, pine).

Māori submitters considered that:

- sequestration categories should be broadened to recognise efforts as kaitiaki
- categories should include ngahere (customary farms), pre-1990 forests and native forests not already in a steady state
- sequestration should be available to Māori landowners to avoid inequities.

The Government is committed to recognising the annual sequestration from the following types of vegetation in 2025:

- **management of indigenous vegetation**: this category recognises landowners for increases in carbon in indigenous vegetation linked to specific management interventions. It would apply to land that is wholly or predominantly in indigenous woody vegetation, either planted, regenerated or a combination.
- **riparian margins**: this category includes vegetation in riparian margins planted after 2008[4] (due to better satellite imagery being available from that date) alongside a waterway of a minimum size that includes a predominant mix of woody vegetation.

This system has trade-offs between the levy price, number of sequestration categories and the level of reward available for sequestration.

[4] Recognition would only be for sequestration that occurs in the reporting period, not backdated to 2008.

Sequestration strategy

The Government and the agriculture sector will jointly develop a sequestration strategy which would determine how sequestration is to be accounted for and rewarded within the pricing system. It will also cover off the following aims:

- sustainable land use
- resilient and thriving rural communities
- maintaining and growing food and fibre exports
- nature-based solutions
- current barriers and incentives for integrated land management
- exploring risks and opportunities presented by the interconnections between farm-level sequestration, the NZ ETS, the voluntary carbon market and the emerging system for biodiversity credits and incentives.

The strategy will investigate the following vegetation categories (non-exhaustive list):

- indigenous vegetation established before 1 January 2008
- indigenous vegetation established on or after 1 January 2008
- riparian vegetation established on or after 1 January 2008
- perennial cropland
- scattered forest
- shelter belts
- woodlots/tree lots.

Key considerations for the strategy include ensuring the pricing system remains fiscally viable, practical and scientifically robust.

Section A5: What assistance, if any, would be given to participants

It is important to ensure the speed of transition and pace of change in the agriculture sector does not risk causing significant short-term negative impacts on farmers and growers, communities, the wider economy and Māori. Transitional assistance is proposed to support the groups most affected by the pricing system.

Feedback on transitional assistance included preference for:

- easy-to-access transitional support for farmers and growers who, for example:
  - have a low level of mitigation technology uptake
  - have no access to mitigations or sequestration
  - are in the sheep, beef or deer sectors
  - are Māori farmers and growers
- mitigation of inequitable impacts on Māori due to the unique characteristics of Māori land and its owners, including:

  - historical barriers
  - inability to change land use
  - economic restrictions
- mitigation of impacts on rural communities and regional businesses
- support for extension services, including training and administrative support for Māori landowners and Māori land administrators, and free emissions advice.

Māori submitters also suggested the Crown could support Māori to face an agricultural emissions price through:

- recognition of carbon sequestration in existing native forests
- provision of financial support to establish native re-vegetation
- an increase in Ngā Whenua Rāhui funding
- recognition of carbon sequestration on whenua that is not linked to a farming enterprise and that falls outside the NZ ETS.

The proposed farm-level, split-gas pricing system includes other forms of assistance for participants within the design of the levy, such as:

- a relatively low starting price – for both biogenic methane and nitrous oxide (see 'Initial levy rates and reviews')
- incentive payments – to make technology uptake cost effective and support farmers and growers through recycling revenue back into the sector (see 'Incentive payments and rates')
- sequestration payments – to reward farmers and growers for eligible on-farm vegetation that could be used to reduce their overall emissions bill (see 'Sequestration payments and rates')
- a ringfenced fund for Māori – investment determined by Māori for Māori (see 'Māori governance').

There is a case for targeted levy relief if the relatively low levy prices still result in severe financial impact. The Government will continue to work with the agriculture sector to explore options if required.

The Government will also collaborate with Māori to work through any further measures required to mitigate the impact on Māori landowners, agribusiness and communities.

Section A6: What information participants would need to provide and how that information would be used, shared or made publicly available

Provision of information

The proposed farm-level pricing system would need to be detailed in primary legislation and regulations. Farmers and growers participating in the pricing system would need to provide information that enables:

- registration
- monitoring of emissions and sequestration
- adoption of mitigation technologies.

The information farmers and growers provide as part of the scheme would be monitored via audit and verification functions. Accordingly, such information would need to be accessible by the implementation agency to investigate non-compliance.

Audit and verification

Feedback from consultation highlighted there was a preference for a simple audit and verification system for farmers and growers. Specific details around auditing and verification would be set out in regulations.

At a minimum, there would need to be provisions in legislation that:

- set out what the implementation agency would need to report on
- enable verification through legislation and regulations
- enable verifiers to be appointed or recognised by the implementation agency.

Use, sharing and publication of information

There would be requirements for the implementation agency to publish information about the pricing system, which could include:

- publishing system-level information on the number of participants, and total emissions and sequestration
- information on enforcement activities such as the number of penalties imposed.

These requirements would come with confidentiality obligations. In general, personal information (such as data that can identify an individual) would not be publicly reported. There could be exceptions to this, such as publishing details of significant or repeated non-compliance.

Information-sharing between government agencies would also be needed. Any use, sharing and publication of information would comply with the information privacy principles set out in section 22 of the Privacy Act 2020.

Section A7: How participants and relevant industry groups would be engaged with in designing, implementing and operating the system

Policy design process for the alternative pricing system

The farm-level, split-gas levy is based on a proposal that was designed by key representatives of the agriculture sector and the Federation of Māori Authorities. These representatives formed He Waka Eke Noa – Primary Sector Climate Action Partnership (the Partnership). Following several years of policy development and engagement, the Partnership provided its recommended pricing system to Ministers in May 2022.

The Government formed a proposal based on a modified version of the Partnership's recommendations. Public consultation on the proposal was undertaken in October and November 2022, and initial analysis of the feedback provided has been included throughout this report.

Further consultation will occur as part of the select committee process on the primary legislative amendments required to implement the system.

Engagement on regulation development

In addition to primary legislation, detailed regulations will be required to implement the pricing system. These regulations will be developed in consultation with Māori, industry and farmers and growers participating in the system. This will provide participants with an opportunity to engage on the implementation of the system, including:

- the emissions calculation methodology
- setting the incentive payment rates
- determining what categories of sequestration will be rewarded
- determining the rates of reward for included sequestration categories.

Levy rates would also be set in regulations with decisions made by the Ministers. The Commission, with input from the Oversight Board, would provide advice before their final decisions. The Government would also consult with the public and affected parties during the regulation development process.

Implementing and operating the pricing system

Feedback on the role of the agriculture sector, Māori and the Commission in the implementation and operation of the pricing system was varied.

Many submitters proposed that Māori should play a larger role in the governance and implementation of the pricing system. They stated that this was required for the Government to meet its Te Tiriti obligations. Some described the need for Māori to be given equal governance representation to the agriculture sector.

Most sector submitters advocated for returning to the He Waka Eke Noa System Oversight Board, or a modification of this system that includes agriculture sector representatives. While not the view of the Government, sector submitters were of the view the Commission was not independent, and the sector was at risk of being unfairly targeted.

A few submitters proposed more direct involvement from farmers and growers, rather than agriculture sector representative groups.

Non-sector submitters largely supported the Commission playing a larger role in setting levy prices. They suggested that the agriculture sector would interfere to keep prices as low as possible.

Oversight Board

An Oversight Board with skills-based appointments is proposed, to provide oversight and monitoring of the pricing system. This would include providing advice on levy rates, setting the strategy for investment of levy revenue, including rates of reward for sequestration and incentives, and ensuring the system is self-funding.

Māori governance

Māori must have a strong voice across all pricing system advisory roles (ie, levy rates, sequestration and incentive rates and the revenue recycling strategy). The Government will collaborate with Māori to ensure the structure of advisory roles is developed in a way that is fit for purpose and future-proofed, including how Māori representation is reflected within the Oversight Board. Māori governance would be established to advise on the strategy for using funds ringfenced to support Māori landowners and agribusiness.

Section A8: Who would be responsible for administering the system

The Government is proposing that the different functions required to implement the pricing system could be undertaken by the Ministry for Primary Industries, Inland Revenue and the Ministry for the Environment. Other Government agencies with responsibilities in the land sector and environmental regulation will also be considered.

Eight core functions have been identified which would form the basis of an agricultural emissions pricing system:

- participant registration and relationship management
- emissions calculation
- levy assessment and collection
- compliance, monitoring and enforcement
- revenue recycling and reinvestment
- policy management
- governance and system stewardship
- extension services.

This approach recognises that the core capability required to implement the pricing system is likely to sit across multiple government agencies.

Section A9: What amendments would need to be made to legislation to enable the system to work

Legislation will be needed to enable the pricing system. This may require new legislation and/or amendments to existing legislation.

Amendments may be required to the following legislation:

- CCRA – including to revoke the NZ ETS requirements for agriculture
- Tax Administration Act 1994 – if Inland Revenue has an administration role in the pricing system
- National Animal Identification and Tracing Act 2012 – to enable access to National Animal Identification Tracing (NAIT) data
- Resource Management Act 1991 (or replacement) – to enable on-farm audits to be done by Freshwater Farm Plan auditors.

Section A10: Interim processor-level levy

An interim processor-level levy is proposed, only as a transitional step, if the farm-level pricing system cannot be operationalised by 2025.

Consultation revealed mixed views on whether to implement the pricing system as soon as possible or delay implementation until system settings are established. Most submitters stated the Government should prioritise developing a complete system that is workable for farmers and growers. They expressed that the Government should hold itself accountable for delivering the system on time. These submitters suggested that implementing a temporary pricing system would create uncertainty and distrust within the sector.

Part B: The NZ ETS

Overview

The NZ ETS is the Government's main tool for reducing greenhouse gas emissions. All sectors apart from agriculture have surrender obligations as well as reporting obligations. Agricultural processors have been reporting emissions via the NZ ETS since 2011. If it is decided to price agricultural emissions via the NZ ETS, there are different options for who would be required to report and pay for emissions from 1 January 2025 (ie, processors or farmers and growers).

The table below summarises the section 215 matters as they apply to agricultural participants currently described in the CCRA.

Section 215 matters		Summary
(3)(e)	Treatment of gases (methane and long-lived gases)	The NZ ETS establishes a trading market of New Zealand emission units (NZUs). The emissions metric GWP100 is used to calculate the carbon dioxide equivalent (CO_2-e) for each greenhouse gas. Businesses that carry out activities covered by the NZ ETS are required to buy and surrender to the Government one NZU for every one tonne of CO_2-e emissions they produce.
(3)(e)	Types of removals (sequestration)	The NZ ETS provides an incentive for afforestation by providing NZUs for the removal of carbon from the atmosphere by forests.
(3)(b)	Activities and participants	*Agricultural participants and activities defined in the CCRA* Processor level (some exemptions apply): • Fertiliser processors – importing or manufacturing synthetic fertilisers containing nitrogen. • Animal processors – slaughtering ruminant animals, pigs, horses, or poultry and dairy processing of milk or colostrum. Farmer level (some exemptions could apply): • Fertiliser farmers – purchasing (other than for on-selling) synthetic fertiliser containing nitrogen for application to land. • Animal farmers – farming, raising, growing, or keeping ruminant animals, pigs, horses, or poultry for a) reward b) the purpose of trade in those animals, or in animal material or animal products taken or derived from those animals.
(3)(a)	Emissions price	Participants must pay for their emissions with NZUs. The NZU carbon price is set by the market, discounted and phased down over time. Supply and demand for NZUs is a key driver of the NZU price.
(3)(c)	Emissions and removals calculation	The CCRA sets out the requirements for monitoring of emissions and removals for all activities in the NZ ETS. This requires methodologies to be prescribed in regulations so that participants can calculate the emissions and the removals from an activity. Annual emissions are currently calculated by multiplying the amount of product (eg, tonnes of synthetic fertiliser, animals slaughtered, milk solids) by the emissions factor for the activity in the calendar year.

		Forestry removals are calculated based on how much carbon is stored in the forest at the start versus the end of the period. NZUs are earned if carbon has increased or surrendered if carbon has decreased. Other removal activities are specified in Schedule 4 of the CCRA.
(3)(d)	Assistance	The CCRA sets out the requirements for free allocation to agriculture. This starts at 95% in 2025 and reduces by 1% each year. Free allocation is calculated at the same time as emissions reporting occurs, resulting in a net surrender obligation (ie, agricultural participants only pay for 5% of their emissions in the first year). Revenue from the NZ ETS is recycled into a dedicated fund for climate spending. Agriculture is eligible for recycled revenue out of this fund.
(3)(f)	Information requirements	The CCRA and associated regulations set out all the information that NZ ETS participants need to provide. The legislation also sets out how that information would be used, shared or made publicly available. This includes: • registering, monitoring of emissions and removals, submitting emissions returns and retention of emissions records • allocation of NZUs, applications for NZUs and retention of records in relation to allocation • making of regulations (and their information requirements) • requesting information from participants • information the Environmental Protection Authority (EPA) is required to publish about participants and their activities, along with confidentiality obligations.
(3)(g)	System engagement	Consultation is required on changes to the design, implementation and operation of the system in line with CCRA requirements.
(3)(h)	Administration	The EPA manages the administration of the NZ ETS, including compliance, reporting and market information. The Ministry for the Environment is responsible for managing policy development for the NZ ETS. The Ministry for Primary Industries administers the NZ ETS for forestry and provides information about agriculture.
(3)(i)	Legislative amendments to make the system work	*Required amendments to make the NZ ETS operational for agricultural participants* Processor level: • No changes are required to existing reporting requirements, as agricultural processors have been reporting their emissions since 1 January 2011. • The existing Climate Change (Agriculture Sector) Regulations 2010 (which specify the information required and the method for calculating agricultural emissions) could be amended to update emissions factors. • New regulations would need to be developed prescribing the allocative baseline (to calculate free allocation) before surrender obligations start. • An Order in Council would also be required to prevent animal farm-level reporting starting on 1 January 2024 and to start phase-down rates. Farmer level: • Animal farmers would start reporting on 1 January 2024, unless the date is deferred by Order in Council. • Fertiliser farmers would only start reporting if a date is nominated by Order in Council. • Regulations would need to be developed to define the methodologies and requirements for farmer-level reporting and surrender of NZUs.