



Te tātai utu o ngā tukunga ahuwhenua Pricing agricultural emissions

A snapshot of the consultation



Ministry for the
Environment
Manatū Mō Te Taiao

Ministry for Primary Industries
Manatū Ahu Matua



Te Kāwanatanga o Aotearoa
New Zealand Government

Putting a price on agricultural emissions

The effects of climate change are being felt across Aotearoa New Zealand. We need to reduce greenhouse gas emissions from all sectors.

The agriculture sector is an important part of Aotearoa New Zealand's economy. It is also highly exposed to the impacts of climate change, as well as to the global market's increasing expectations for sustainable, low-emissions products.

Agriculture contributes over half of our total emissions, including most of our nitrous oxide and methane emissions. Farmers and growers are already taking actions to reduce their emissions. However, further work is needed to help Aotearoa New Zealand transition to a low-emissions future.

In upholding the principles of Te Tiriti o Waitangi (the Treaty of Waitangi), the Government recognises the importance of the partnership with Māori throughout the transition to a low-emissions, climate-resilient economy.

How we got here

It's been three years since the Government, farming leaders and Māori formed the world-first He Waka Eke Noa – Primary Sector Climate Action Partnership (the Partnership) to reduce agricultural emissions.

In mid-2022, the Partnership provided the Government with its recommendations for a farm-level pricing system. He Pou a Rangī – Climate Change Commission contributed its own advice on agricultural emissions. The Government's proposals build on those recommendations and advice.

Pricing agricultural emissions at the farm level presents the best opportunity for Aotearoa New Zealand to meet its climate change targets. It enables farmers to be aware of and have ownership of their emissions, including opportunities to reduce them.

If an alternative pricing system is not implemented by 1 January 2025, the Climate Change Response Act 2002 states that agricultural emissions will be priced under the New Zealand Emissions Trading Scheme (NZ ETS).

What we are consulting on

The Government is seeking your feedback on options to price agricultural emissions. This includes how the levy will be set, governance arrangements of the system, how farmers will report and pay for their emissions, and recognising sequestration.

Your submissions will help us design a system that is credible, workable and equitable for farmers, growers, industry, businesses and the New Zealand public.

Consultation will close on 18 November 2022. Once submissions have been considered, final proposals will go to Ministers for approval in early 2023.

How the Government's proposal fits with the Partnership's recommendations

The Government supports the Partnership's recommendation of consulting on a farm-level, split-gas pricing system for agricultural emissions and the following elements:



that business owners are responsible for reporting and paying for emissions



using levy revenue to fund research and development into tools and technology to help lower on-farm emissions



incentive payments to encourage the uptake of approved mitigation technologies



how emissions are calculated.

The Government has proposed alternative approaches on some of the Partnership's recommendations where they could be difficult to implement by 2025 or risk undermining the effectiveness and credibility of the pricing system. The recommendations are:

- ▶ a core levy in 2025 with enhancements built in over time
- ▶ sequestration recognised for riparian and indigenous vegetation
- ▶ a more streamlined governance structure
- ▶ a transparent, rules-based process for setting levy prices
- ▶ a review in 2030
- ▶ some collective reporting at first
- ▶ an interim processor levy as a transitional step (if required).



What we are proposing

The Government is proposing a farm-level, split-gas levy to price agricultural greenhouse gas emissions.



Who pays the emissions price?

The Government proposes:

- ▶ including farmers and growers that are GST registered and meet certain livestock and fertiliser-use thresholds
- ▶ that business owners have a legal responsibility to report and pay for emissions annually.



Setting the price

The Government proposes that:

- ▶ separate levy prices be set for long-lived gases and biogenic methane
- ▶ Ministers, with advice from the Climate Change Commission and in consultation with the agriculture sector and iwi/Māori, set the long-lived gas¹ and biogenic methane levy prices
- ▶ long-lived gas prices are set annually and linked to the New Zealand Unit price. This price is discounted and will be phased down over time
- ▶ the biogenic methane levy would have a unique price that is adjusted based on progress toward domestic methane targets. We are seeking feedback on whether the methane levy price should be reviewed annually or every three years.



Reporting and payment requirements

The Government proposes that:

- ▶ farmers and growers provide the following information to a centralised calculator to determine their emissions bill:
 - farm area
 - livestock numbers
 - livestock production
 - nitrogen fertiliser use
- ▶ some collectives (such as Māori agribusiness, iwi, hapū and whānau groups) may be enabled from 2025 and a wider range of collectives at a later date.

¹ Long-lived gases are carbon dioxide and nitrous oxide.



Using the pricing system's revenue

The Government proposes that revenue from the pricing system funds incentive and sequestration payments. The remaining revenue will fund the administration of the pricing system and the joint government, industry and Māori revenue recycling strategy.



Incentivising emissions reductions

The Government proposes an incentive payment for a range of on-farm emissions-reduction technologies and practices when taken up by farmers and growers. These incentives will attach a value to approved mitigations, and can help farmers and growers reduce their total emissions bill. We will incorporate new practices as new science and mitigations are proven or become available.



Recognising sequestration

In the long term, the Government considers the NZ ETS the most appropriate mechanism to reward all sequestration from vegetation. To support this, we propose a system where those willing can invest or co-invest in the necessary science and measurement required to include new vegetation categories into the NZ ETS and Aotearoa New Zealand's international accounting.

In the short term, the Government proposes a simple system that sits adjacent to the farm-level pricing system, and pays farmers and growers (from levy revenue) for additional sequestration occurring in riparian vegetation and arising from managing indigenous vegetation.



Governance

The Government proposes a revenue recycling advisory body or bodies to advise on the strategy for the use of system revenue. This includes the use of funds ringfenced to support Māori agribusinesses. Ministers will be accountable for how the revenue is spent.



Emissions from synthetic nitrogen fertiliser

The Government is seeking feedback on two options:

- ▶ pricing emissions from synthetic nitrogen fertiliser at farm level and including them in a farmer or grower's on-farm emissions bill
- ▶ requiring manufacturers and importers of synthetic nitrogen fertiliser to pay for emissions via the NZ ETS.



An interim processor-level levy

While the Government is aiming to introduce a farm-level pricing system in 2025, this is likely to be challenging to achieve. As a contingency, the Government is seeking feedback on introducing an interim, processor-level levy in 2025 if the farm-level levy is not operational by then.



Support for farmers and growers

The Government proposes transitional support for specific rural and Māori communities impacted by the introduction of an agricultural emissions-pricing system. A higher level of support may be needed for sub-sectors such as sheep and beef. These sectors may require support to manage the immediate impact of emissions pricing, while they develop systems and mitigations to reduce their emissions.

The effects of pricing agricultural emissions

Modelling suggests that pricing agricultural emissions at the farm level using a split-gas levy with a low methane price could achieve sufficient reductions to meet or exceed Aotearoa New Zealand's biogenic methane target by 2030.

Emissions reductions are expected to come from:

- ▶ land-use changes to low-emissions land use (the sheep and beef sector will be the most impacted)
- ▶ emissions-mitigation technologies and increased farm efficiency.

As Aotearoa New Zealand is a large exporter of dairy and meat products, any reductions in production will have flow-on effects on the economy and communities. There are likely to be disproportionate impacts on Māori due to the large proportion of Māori ownership in the sheep and beef sectors.

Positive impacts from the levy include:

- ▶ bolstering Aotearoa New Zealand's reputation as a low-emissions provider of agricultural products
- ▶ recognition and support for farming businesses that are already reducing their emissions
- ▶ avoiding the significant cost of abatement for any emissions above Aotearoa New Zealand's Nationally Determined Contribution.

Implementation

The Government proposes appointing an implementation agency or agencies for the farm-level levy and the interim, processor-level levy.

Verification and compliance

The following components will need to be included when finalising the design of a farm-level pricing system:

- ▶ verification and auditing
- ▶ penalties and offences
- ▶ cost recovery.

Make your voice count

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Have your say on pricing agricultural emissions

The Government welcomes your feedback on the [consultation document](#). The consultation starts on 11 October 2022 and closes on 18 November 2022. To ensure your point of view is clearly understood, you should explain your rationale and provide supporting evidence where appropriate.

You can provide a submission through [Citizen Space](#), our consultation hub, by filling in the feedback form or uploading your own written submission.

We request that you don't email or post submissions, as this makes analysis more difficult. However, if you need to, please send written submissions to Pricing agricultural emissions, Ministry for the Environment, PO Box 10362, Wellington 6143 or email AgEmissionsPricing@mfe.govt.nz.

The Government will continue to work with iwi/Māori and affected stakeholders to gather information and refine the thinking on preferred options for the agricultural emissions-pricing system. The consultation document is part of ongoing engagement.

What happens next

Following the consultation, a summary will be published and all submissions will be publicly available online.

The Minister of Agriculture and Minister of Climate Change will publish a report on an alternative pricing system by the end of December 2022.

The Government will introduce a Bill to implement the agricultural emissions-pricing system in 2023 and develop initial regulations during 2024. The IT system will also be developed during this period.

There will be further opportunities to provide feedback on the pricing system during the Select Committee process and the consultation on proposed regulations.

The agricultural emissions-pricing system will take effect from 1 January 2025.

