

Agricultural Emissions Pricing Proposals

He Waka Eke Noa has released two pricing mechanisms for agricultural emissions.

The agricultural sector is currently the only sector not included in the New Zealand Emissions Trading Scheme (ETS). He Waka Eke Noa is the 'Partnership' established to create a separate emissions pricing approach for the agricultural sector, to be implemented in 2025. The aim of the Partnership is to create proposals that are practical, fair and that will incentivize farmers to make positive environmental change. These proposals are necessary to:

- avoid the sector being placed in the ETS;
- meet the Zero Carbon Act targets; and
- meet community and customer expectations.

The proposals

The Partnership has put forward two proposals consisting of a farm-level levy and a processor-level hybrid levy. The key goals of the two systems are to recognise:

- a split gas approach (the ETS does not allow for a split gas approach, only pricing carbon) to correctly identify the differing environmental impacts of methane and carbon;
- the range of carbon sequestration from vegetation on farms that is not accounted for under the ETS;
- to reinvest the revenue generated from the scheme back into the agricultural sector (as agreed between the NZ First and Labour Coalition Agreement); and
- more choice and control for different agricultural operations, rather than a one size fits all approach.

The farm-level levy

Individual farms will calculate their short-lived gases (methane) and long-lived gases (Co2) using a greenhouse gas calculator with reporting functionality. Different levy rates will apply for short-lived and long-lived gases. In this way, the farm pays for the actual emissions produced on farm, not a national average. Therefore, farmers are rewarded for farming sustainably and are incentivised to do so. This system would be the fairest for farmers, however the administration costs of calculating the emissions are the highest out of all options because of the farm by farm approach.

The processor-level hybrid levy

Individual processors would pay a fee for the emissions based on a national average for short-lived and long-lived gases, dependent on the type of product purchased (meat) or sold (fertilizer). The cost would then be borne by the farmers supplying or buying the product. Farmers would then need to arrange emissions management contracts and sequestration management contracts in order to be refunded for emissions mitigating factors on their farm. In regards to farmers who do not supply animals to a processor, such as sellers of store lambs or dairy grazing arrangements, the cost will have to be negotiated at the time of those transactions between the parties involved. Administration fees of the system are also high, albeit less than the farm-level levy.

In Common

Both systems will allow deductions for sequestration on farm and other mitigating factors. Revenue generated would be reinvested back into the sector, including financial incentives to encourage the use of mitigation technology as it becomes available. However due to the high administration costs of the two systems and payments for sequestration, the actual amount of revenue leftover to invest in research and development is proportionally small. Neither system accounts for soil

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carbon sequestration, although this could be available in the future - science and technology permitting.

Legislative backstop

If the agricultural sector fails to provide a credible solution to pricing the emissions of the sector, the Government has in place a legislative backstop that allows for the sector to be brought into the ETS before 2025 at the producer level.

Points of concern

If the agricultural sector is placed into the ETS by the Government, some points of concern will be:

- the inability to recognize that the agricultural sector predominantly emits methane, which is a short-lived gas. Consequently, the agricultural sector would pay a price for emitting based off the price of carbon;
- the sector would have no control over the price of carbon that is influenced by other sectors of the economy in combination with speculative investors. The current price of carbon per NZ unit at writing is \$81.50, more than double the price of carbon on 1 February 2021 (\$38.6);
- the only possible way to reduce emissions on farm would be to reduce the production of meat or milk (less animals) or use less fertilizer – a direct contradiction of the Paris Agreement, which stated at Article 2 (1)(b) adapting to climate change is to occur in a "manner that does not impact food production";
- all vegetation, shelter belts, and riparian areas on farms that do not meet ETS rules for sequestration will not be recognized for carbon captured;
- any revenue raised may not all go back into research and development in the agriculture sector to reduce emissions through technology;
- although the agriculture sector would receive a

95% free allocation in the NZ ETS, the free allocation would decrease an incremental 1% per annum to 2030, 2% per annum to 2040 and 3% per annum to 2050. The Climate Commission estimates the price of carbon will be \$250 per NZU by 2050.

Conclusion

If agriculture was only regulated by an emissions price within the NZ ETS, it is estimated by the Partnership that a reduction of less than 1% for methane would be achieved. The proposed options are believed to reduce methane emissions by 4.3% for the farm-level levy and 3.9% for the processor-level levy. This is because they incentivize improved farming practices and have a split gas approach.

The Partnership is currently undertaking roadshows around the country to consult with farmers and other industry professionals. Anderson Lloyd will be following the developments closely over the coming year.

It seems likely that the Partnership will opt to start with a processor-level hybrid levy and then transition to the farm-level levy over time. The Partnership must provide the final advice of options to the Minister of Environment James Shaw and Minister of Agriculture Damien O'Connor by 30 April 2022.

Want to know more?

If you have any questions about the ETS or the proposed agricultural pricing mechanisms, please contact our [specialist commercial team](#) or [David Goodman](#) and [Peter Sangster](#)