

He Waka Eke Noa partnership releases discussion document outlining proposals for an agricultural emissions pricing scheme

Following on from the release of the Government's "Emissions Reduction Plan" discussion document in October, the He Waka Eke Noa partnership has now released its first discussion document outlining its proposals for an agriculture sector-specific emissions pricing scheme.

In 2019, the Climate Change Response Act 2002 (**Act**) was amended with multi-party support to establish a framework under which New Zealand would look to meet its international obligations to address climate change.

The Act set a target of net zero domestic greenhouse gas emissions (except biogenic methane) by 2050. To achieve this, it established a framework under which the Government would set five-yearly "emissions budgets" (**Budgets**) to which an independent Climate Change Commission would monitor adherence. The Government would also be required to release an "Emissions Reduction Plan" (**ERP**) prior to the commencement of each Budget outlining the policy that would be used to achieve that Budget's targets.

A key tool currently used by New Zealand to assist in the reductions of emissions is the Emissions Trading Scheme (**ETS**). Currently, the agricultural sector (**Sector**) is the only sector not captured by the ETS. When amending the Act in 2019 the Government sought advice on adding the Sector to the Scheme. Sector leaders then proposed that the Government work in partnership with them and iwi/ Māori to develop a Sector-specific emissions pricing scheme.

The Government accepted this approach, leading to the creation of *He Waka Eke Noa* (**Partnership**), a joint action group between the Sector, the Government, and

iwi/Māori created with the intention of developing a suitable emissions pricing scheme for the Sector. The Partnership must deliver its advice on this scheme to the Government by April 2022.

The Government's consent to this industry-led approach comes with a large caveat – if it believes that the proposals put forward by the Partnership are unsatisfactory, it will simply add the Sector to the ETS.

Proposals put forward

The Partnership has affirmed that it does not believe the ETS approach is appropriate for the sector and has put forward two alternative options – a farm-level levy and a processor-level levy.

Farm-level Levy

Under this levy, each individual farm would calculate its own emissions and would then pay the required charges for those emissions.

Such an approach would reward individual farmers who have both already taken steps to reduce and mitigate emissions and those who are planning to take steps in the near future as it would reduce the costs they incur under the scheme.

The key disadvantage of such an approach are the significant administrative costs associated with applying the levy against each individual farm in New Zealand. These administrative costs are estimated to be \$113m annually.

Processor-level Levy

Under this levy, emissions would be calculated at the meat, milk and fertilizer processor levels based on the quantity of product the processors receive (or sell) to farms.

A processor-level levy would be significantly simpler to administer, resulting in lower administrative costs. The Partnership has identified it as a possible stepping-stone towards an eventual farm-level scheme.

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This levy has some key disadvantages when compared to the farm-level levy as it:

- Fails to recognise the efforts of farmers who have already taken steps to reduce or mitigate their emissions;
- May decrease the perception of urgency for some farmers to take steps to reduce or mitigate their emissions; and
- Will likely result in processors simply passing off their costs to farms, increasing costs to farms.

Common features of the proposals

Both proposals draw a distinction between short-lived gases (such as methane) and long-lived gases (such as carbon dioxide and nitrous oxide) allowing for the classes of gasses to be priced separately. This would not occur under the current ETS.

Neither of the plans would reduce emissions by more than 1% of 2017 levels, which appears inconsistent with the Government's recent pledge at COP26 in November to reduce methane emissions by 10% of 2017 levels by 2030.

Rather than reducing emissions in the short term, the document proposes increased investment in research and development and the provision of incentives to assist farmers to become more emissions efficient in the long term.

Any revenue earned through the levies would be reinvested back into the agricultural sector to assist in achieving further emissions reductions.

What if the Government is unhappy with the proposals?

Should the Partnerships' proposals be deemed as ineffective or unworkable, the Government has the ability to simply add the Sector to the existing ETS.

The key features of this approach would be as follows:

- It would apply at the processor level (to meat, milk and fertiliser producers). This would also likely result in processors passing the costs onto farmers.
- Initially only 5% of emissions from the Sector would be priced, with this figure increasing by 1% each year thereafter.
- All gasses would be treated equally, with no distinction drawn between short-lived and long-lived gasses.
- Administration costs would be significantly lower than either of the Partnership's proposals, estimated to be \$10m annually.

Any revenue raised from the Sector through the ETS would similarly be reinvested back into the Sector.

The Sector will be automatically added to the ETS in 2025 if a new scheme has not been established. The Government also has the ability to bring this date forward to as early as 2022 if it feels as if the Sector is moving too slowly.

Want to know more?

If you have any questions about the potential implications of the proposed changes on you, please contact [David Goodman](#) or [Tom Mohammed](#) of our specialist Commercial Team.