



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Consultation on the Government's Proposed Pricing System for Agricultural Emissions

Portfolios Agriculture / Climate Change

On 3 October 2022, following reference from the Cabinet Economic Development Committee, Cabinet:

The government needs to consider the Partnership and the Commission's advice before publishing a report outlining an alternative agricultural emissions pricing system by the end of 2022

- 1 **agreed** that the discussion document Pricing Agricultural Emissions (the discussion document), attached to the paper under CAB-22-SUB-0422, serve as a draft of the alternative system design as required for the Climate Change Response Act 2002 (CCRA) section 215 report, with a final report to be prepared and published following consultation;
- 2 **authorised** the Prime Minister, the Minister of Agriculture and the Minister of Climate Change to approve publishing the final report required under section 215 of the CCRA outlining an agricultural emissions pricing system as an alternative to the New Zealand Emissions Trading Scheme (NZ ETS) before 31 December 2022;

A core split-gas farm-level pricing system to commence in 2025 with enhancements to improve effectiveness built in over time

- 3 **agreed** to consult on the proposed core design of a split-gas farm-level pricing system as an alternative option for pricing agricultural emissions in 2025, including the following key design elements:
 - 3.1 the business owners above a fertiliser use or stock number threshold have the legal responsibility to report emissions annually using a single calculation engine and simple reporting method;
 - 3.2 separate levy prices are set for long-lived gases and methane;
 - 3.3 long-lived gas prices are set annually and linked to the New Zealand Unit (NZU) price, discounted and phased down over time;
 - 3.4 methane levy prices are reviewed periodically based on progress against emissions targets and advice from the Climate Change Commission (the Commission);

- 3.5 incentive payments are funded through revenue raised and available for a range of technology uptake and practice changes to reduce emissions. These incentives will act as a proxy for assistance and provide an opportunity to offset liabilities owed through the pricing system. Detailed reporting and a wider range of mitigations will be introduced over time;
- 3.6 any revenue raised from the pricing system, once incentive payments are netted off, would be used for administration where it is appropriate, and remaining funds would be subject to the revenue recycling strategy;
- 3.7 a proposed pathway for how sequestration from on-farm vegetation could be recognised in 2025 and in the medium to long term via the NZ ETS;
- 3.8 an advisory body (or bodies) is in place consisting of Māori and sector representatives to advise on the use of system revenue and funding to support Māori landowners and agribusinesses. Ministers will be accountable for how the revenue is spent;

Consultation on a methane market

- 4 **noted** the Minister of Climate Change's concerns regarding uncapped emissions, a low marginal price, and the risk of emissions reduction targets being traded off against other considerations when prices are set;
- 5 **noted** the Minister of Agriculture's view that a simple farm-level pricing system should achieve the government's goals of an effective, practical and equitable system to reduce New Zealand's agricultural greenhouse gas emissions, subject to regular price adjustments;
- 6 **agreed** to only consult on the farm-level split-gas farm-level pricing system;

An interim processor-level levy as transitional step if the farm-level system is not ready in 2025

- 7 **agreed** to consult on a processor-level levy as an interim step if it is not possible to implement farm-level pricing by 2025;

Options for pricing synthetic fertiliser

- 8 **agreed** to consult on the following two options for the treatment of nitrous oxide and carbon dioxide from synthetic nitrogen fertiliser:
 - 8.1 pricing emissions associated with the application of synthetic nitrogen fertiliser emissions via the farm-level pricing system;
 - 8.2 pricing emissions associated with the application of synthetic nitrogen fertiliser at the processor level in the NZ ETS;

Pathway for how sequestration from on-farm vegetation could be recognised

- 9 **agreed** to consult on the NZ ETS with international backing as the long-term goal for recognising sequestration;
- 10 **agreed** to consult on an interim system to ensure farmers are rewarded for sequestration from 2025;

The Minister of Climate Change's proposed additional consultation points

- 11 **agreed** that officials investigate whether the principle of revenue recycling should be applied equally between energy and industrial emissions and agricultural emissions and Climate Emergency Response Fund (CERF) appropriations to agricultural emissions programmes, to be recovered from agricultural emissions pricing as revenue allows;
- 12 **noted** that if Aotearoa New Zealand does not meet its emissions reduction targets and/or Nationally Determined Contributions (NDC), the government will have choices about how to recoup resulting costs across economic sectors;
- 13 **agreed** to also consult on a mechanism for the agricultural sector to contribute to the cost of abatement in the event its emissions do not meet targets;

Implementation and review

- 14 **noted** that the Minister of Agriculture and the Minister of Climate Change will explore options to monitor gross emissions reductions in a more regular and timely manner including through data collected by processors;
- 15 **noted** that a decision on the lead implementation agency/agencies and governance structures is needed in 2022 to deliver an emissions pricing system in 2025;
- 16 **noted** that Ministers have not yet received any advice on options for the lead implementation agency, supporting agencies or any new institutional arrangements, and that officials will provide advice to Ministers on these issues, in parallel with the consultation process;
- 17 **agreed** that the Climate Response Ministerial Group make in-principle decisions on the lead implementation agency/agencies and governance structure before December 2022 to progress the development of the detailed business case needed to implement the pricing system;
- 18 **invited** the Minister of Agriculture and the Minister of Climate Change to report back to Cabinet in 2030 with a post-implementation review of the agricultural emissions pricing system;

Political consultation

- 19 **noted** that the Green Party:
 - 19.1 was consulted on the proposals in the paper under CAB-22-SUB-0422 and supports the Minister of Climate Change's recommendations;
 - 19.2 believes agricultural emissions pricing must be fair compared to other sectors of the economy, with a sinking lid on total emissions aligned with targets under the CCRA;
 - 19.3 is concerned about the time that farm level emissions pricing will take to implement;
 - 19.4 has a preference is for emissions prices to be set independently, rather than by Cabinet;
- 20 **noted** that the Cooperation Agreement between the Labour and Green Parties does not restrict Green Party Ministers from noting where government decisions differ from Green Party policy, including in areas where they hold Ministerial responsibility;

s 9(2)(h)

Consultation strategy

- 22 **agreed** to the release of the discussion document referred to in paragraph 1 above for public consultation between October and November 2022;
- 23 **authorised** the Prime Minister, the Minister of Agriculture and the Minister of Climate Change to make decisions on any subsequent minor amendments to the discussion document not inconsistent with the Cabinet's decisions;
- 24 **invited** the Minister of Agriculture and the Minister of Climate Change to report back to Cabinet in February 2023 on the outcome of the consultation and with final policy proposals to inform the drafting of legislation needed to implement an agricultural pricing system.

Rachel Hayward
Acting Secretary of the Cabinet