

PROACTIVE RELEASE COVERSHEET

Minister	James Shaw	Portfolio	Climate Change
Name of package	Final policy decisions for action on agricultural emissions	Date of issue	

List of documents that have been proactively released		
Date	Title	Author
6 September 2019	19-C-0480 Final policy decisions for action on agricultural emissions	Office of the Minister for Climate Change
12 September 2019	Cabinet paper appendix - A3 Option 1 v Option 2 Pros + Cons	MfE
12 September 2019	ENV-19-MIN-0047 Minute of Decision: Action on Agricultural Emissions: Final Policy Proposals	Cabinet Office
16 September 2019	CAB-19-MIN-0480 Cabinet Minute of Decision: Action on Agricultural Emissions: Final Policy Proposals	Cabinet Office

Information withheld

Some parts of this information release are not appropriate to be released and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified and are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Section of the Act	Reason for withholding
s9(2)(f)(iv)	maintain the confidentiality of advice tendered by Ministers of the Crown and officials
s9(2)(g)(i)	maintain the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty
s9(2)(h)	to maintain legal professional privilege



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.

Action on Agricultural Emissions: Final Policy Proposals

Portfolio **Climate Change**

On 16 September 2019, following reference from Cabinet Environment, Energy and Climate Committee (ENV), Cabinet:

Background

- 1 **noted** that the Interim Climate Change Committee (Interim Committee) made several key recommendations for action on agricultural emissions;
- 2 **noted** that short, focused consultation on the government's proposed response to the Interim Committee's recommendations occurred over 16 July–13 August 2019, which prompted a total of 3,976 submissions;
- 3 **noted** that the Parliamentary Counsel Office (PCO) is preparing preliminary drafting on the basis of legislative proposals that were agreed by Cabinet for short and focused consultation [ENV-19-MIN-0039];

A farm-level emissions pricing scheme

- 4 **noted** that there was general support across all stakeholder groups for a farm-level price on emissions as part of a broader policy package to incentivise agricultural emissions reductions, provided that all on-farm emissions removals could be counted as well as sources;
- 5 **noted** that the Act currently defines agricultural participants and activities that may face obligations and receive free allocation at both the processor and farm level,
- 6 **noted** that agricultural processors (including dairy factories, abattoirs and fertiliser manufacturers and importers) are already required under the Climate Change Response Act 2002 (the Act) to report emissions from certain agricultural activities in a calendar year, but the Act currently prohibits obligations in the NZ ETS in relation to these activities;
- 7 **noted** that the Act allows for obligations on both livestock and fertiliser emissions to be swapped from processor level to farm level by Order in Council;
- 8 **noted** the policy intent to price livestock emissions at the farm level and fertiliser emissions at the processor level from 2025, with flexibility to review the eventual farm-level pricing mechanism and design, as well as the requirement that both livestock and fertiliser emissions are priced at the processor level in the New Zealand Emissions Trading Scheme (NZ ETS) if farm-level pricing is not deemed feasible or cost-effective by 2025;

- 9 **noted** that flexibility around timeframes in legislation is required, given the core farm-level policy design features are yet to be determined and there are some concerns around the feasibility and cost-effectiveness of implementing farm-level pricing;
- 10 **agreed** to amend the Climate Change Response Act 2002 (the Act) to:
- 10.1 apply farm-level surrender obligations on livestock emissions and processor-level obligations on fertiliser emissions, for emissions from the year beginning 1 January 2025;
 - 10.2 in the event that farm-level surrender obligations on livestock emissions are not implemented by 2025, apply surrender obligations for livestock emissions at the processor level;
 - 10.3 require mandatory farm-level reporting obligations on livestock emissions in the NZ ETS, for emissions from the year beginning 1 January 2024;
 - 10.4 amend the level of free allocation to agriculture in the Act from 90 percent to 95 percent, as per the Labour-New Zealand First Coalition Agreement;
 - 10.5 require free allocation to be calculated at the same time as emissions reporting occurs, with the resulting allocation net off against the relevant surrender obligation, thereby resulting in a net surrender obligation;
 - 10.6 enable the proposed timeframes in paragraphs 10.1 and 10.3 to be deferred by Order in Council by any period and as many times as necessary, in which case processor-level surrender obligations would apply from 2025 under the same settings (including paragraphs 10.4 and 10.5 above);
- 11 **noted** that there may not be enough time to establish regulations to support voluntary farm-level reporting from 2023 (in the lead-up to farm-level pricing of livestock emissions from 2025), but this could be facilitated by establishing guidelines;
- 12 **agreed** to amend the Act to require the Minister for Climate Change and the Minister of Agriculture to table a report in Parliament by 31 December 2022 on the farm-level pricing scheme for both livestock and fertiliser emissions, which must consider the most appropriate:
- 12.1 farm level pricing mechanism, including surrender obligations in the NZ ETS or a different levy/rebate scheme;
 - 12.2 definitions of farm-level participants and agricultural activities (who should be a participant and which activities should be covered);
 - 12.3 methodologies for calculating emissions and removals;
 - 12.4 level, method of calculation and phase-out rate of free allocation (or rebate process in an equivalent levy/rebate scheme), which must be informed by advice obtained by the Minister for Climate Change from the independent Climate Change Commission (the Commission);
 - 12.5 mechanisms for calibrating methane relative to other greenhouse gases and recognising removals, including but not limited to on-farm forestry, vegetation and plantings;

- 12.6 data and information requirements to run the scheme, including how that data is used, shared or published by the administrator;
- 12.7 processes, materials and tools to guide engagement with the scheme;
- 12.8 organisation(s) with responsibilities for administration;
- 12.9 any legislative and regulatory amendments, if required;
- 13 **noted** that the Act currently provides for a phase-out of free allocation to agriculture at one percent per year after the first year of surrender obligations, but this is currently temporarily suspended until a date to be confirmed by Order in Council;
- 14 **noted** that, as part of the changes proposed through the Climate Change Response (Emissions Trading Reform) Amendment Bill (the Bill), the Commission will advise on the phase-out of industrial allocation to other sectors;
- 15 **noted** that there is a specific risk of over-allocation to the agricultural sector if allocative baselines for agricultural activities are not periodically updated to account for the sector's ongoing improvements in emissions intensity;
- 16 **noted** that:
- 16.1 **Withheld under s9(2)(h)**
- 16.2 **Withheld under s9(2)(h)**
- 16.3 the sector is currently exempt from 100 percent of its emissions pricing for methane and nitrous oxide emissions;
- 16.4 under the proposals, the sector would become exposed to a price for five percent of these emissions **Withheld under s9(g)(i)**
- 17 **agreed** to amend the Act to:
- 17 require that, before regulations are made in future affecting the level of free allocation to agriculture:
- 17.1.1 the Commission must prepare advice on phase-out and provide the Minister for Climate Change and the Minister of Agriculture with a report detailing its recommendations for those regulations;
- 17.1.2 the Minister must consider the recommendations of the Commission prior to making regulations affecting the level of free allocation to agriculture;
- 17.2 require the Minister for Climate Change to:
- 17.2.1 set allocative baselines for agricultural activities through regulations;
- 17.2.2 consider and update those allocative baselines through regulations no later than five years after the date in which they are last updated;

17.2.3 in setting those allocative baselines through regulations, have regard to the most recent available greenhouse gas inventory;

18 **noted** that the above proposals apply only to agricultural activities and are not intended to apply to other activities or participants eligible for industrial allocation;

19 **noted** that agricultural processors have been reporting livestock and fertiliser emissions in the NZ ETS since 2012, allowing adequate time for those participants to become familiar with NZ ETS reporting requirements;

20 **agreed** to amend the Act:

20.1 so that agricultural processors (for both livestock and fertiliser emissions) would be subject to NZ ETS penalties regimes from their first year of surrender obligations in the NZ ETS;

20.2 to retain the transitional provisions for penalties to farmers (for both livestock and fertiliser emissions), meaning they are not subject to these penalties in their first year of surrender obligations in the NZ ETS but would be subject to penalties from their second year of surrender obligations;

A joint and integrated Action Plan towards farm-level pricing

21 **noted** that an integral part and challenge of implementing a farm-level pricing scheme will be building the capability of farmers, growers and other land users;

22 **noted** that Budget 2019 allocated \$229 million to a Productive and Sustainable Land Use Package, which specifically includes \$122 million to:

22.1 provide information, tool and on-the-ground advice to support farmers and Māori agribusinesses making change to more environmentally sustainable and higher-value production;

22.2 improve on-farm emissions data and upgrade decision and regulatory tools;

22.3 protect high-value food exports and update our official assurances system;

23 **noted** that the overlap between the proposals in the paper under CAB-19-SUB-0480 and the Essential Freshwater package and the need for an integrated on-farm approach;

24 **agreed** that officials develop a joint Action Plan with the agricultural sector and iwi/Māori, which will be administered by the Ministry for the Environment and Ministry for Primary Industries, to build the necessary on-farm systems and capability to support farm level pricing from 2025, including:

24.1 a climate change module in any requirement for integrated farm plans;

24.2 tools for estimating emissions at the farm level;

24.3 increased farm advisory capacity and capability;

24.4 incentives for early adopters;

24.5 recognition of on-farm mitigation (e.g. small plantings, vegetation);

24.6 increased research and development;

Withheld under s9(2)(f)(iv)

- 29 **noted** that the Minister for Climate Change and the Minister of Agriculture have directed officials to report back in six months' time on how emissions pricing in the NZ ETS (or a separate policy mechanism) could account for non-forestry offsetting, including shelterbelts and other on-farm planting;
- 30 **noted** that the Action Plan will seek to embed a commitment to the unique Crown-Māori relationships and will include early engagement with key iwi/Māori representatives, involving the Office for Māori Crown Relations (Te Arawhiti) to set clear expectations and agree the principles of partnership in the Action Plan;
- 31 **Withheld under s9(2)(f)(iv)**

Interim action on agricultural emissions

- 32 **noted** that the short, focussed consultation over July-August included the following two options proposed by the government for a interim policy measure to encourage agricultural emissions reductions in line with New Zealand's climate change targets and to support the transition to farm-level pricing from 2025:
- 32.1 Option 1: process farm-level pricing in the NZ ETS;
- 32.2 Option 2: form a sector-government agreement;
- 33 **agreed** that the preferred interim option is to develop a modified version of Option 2 as set out in the paper attached to CAB-19-SUB-0480;
- 34 **authorised** a group of Ministers comprising the Prime Minister, Deputy Prime Minister, Minister for the Environment and the Minister for Climate Change to have Power to Act to take decisions on the details of the preferred interim option;
- 35 **invited** the Minister for Climate Change to report back to Cabinet on the decisions taken by the group of Ministers with Power to Act;

Financial implications

- 36 **noted** that the economic impacts and fiscal implications of farm-level pricing will depend on the final design of the scheme and are, therefore, yet to be determined;
- 37 **noted** that economic modelling suggests current emissions prices with 95 percent free allocation would likely result in modest additional costs to milk, meat and fertiliser production;

Crown/Māori Relationships

- 38 [Redacted]
[Redacted]
[Redacted]
- 39 [Redacted]
[Redacted]
[Redacted]
- 40 **noted** that there will be early engagement with key iwi/Māori representatives, including with the involvement of Te Arawhiti, to set clear expectations and agree the principles of partnership in the Action Plan;

Legislative implications

- 41 **invited** the Minister of Climate Change to issue drafting instructions to the PCO based on the agreed decisions above;
- 42 **noted** that a number of regulatory amendments are likely to be required throughout 2023/24 to enable mandatory farm-level reporting from 2024 and farm level pricing from 2025 for livestock emissions;
- 43 **authorised** the Minister for Climate Change, in consultation with the Minister of Agriculture as appropriate, to further clarify and develop policy matters relating to the agreed decisions above, in a way not inconsistent with Cabinet's decisions;
- 44 **noted** that the decisions on the paper under CAB-19-SUB-0480 will be introduced in two stages in order to ensure the scope of the Bill is broad enough to permit inclusion of the proposed amendments for agriculture either through Select Committee or a supplementary order paper (SOP):
- 44.1 at introduction on 23 September 2019, the Bill will include farm-level obligations on livestock emissions and processor-level obligations on fertiliser emissions at 2025;
- 44.2 during Select Committee, the draft text will include the decisions on the interim option, as well as any other consequential improvements;
- 45 **agreed** that legislative drafting will be introduced to the House of Representatives for inclusion in the Bill no later than 31 October 2019;
- 46 **agreed** that, to facilitate timely implementation of Cabinet's decisions, the Minister for Climate Change may share the paper under CAB-19-SUB-0480, drafts of further Cabinet papers on related issues, drafting instructions to the PCO, subsequent drafts of amendments and related documents with the EPA as a key agency in the proposed amendments;
- 47 **noted** that amendments to secondary regulations will also be required, including updating emissions factors and setting allocative baselines;
- 48 **noted** that the Minister for Climate Change will return to Cabinet in 2020 to seek agreement to the proposed amendment regulations for consultation with affected stakeholders;

- 49 **invited** the Minister for Climate Change to return to Cabinet in 2020 for approval to consult on the updated emissions factor regulations in 2020.

Michael Webster
Secretary of the Cabinet

***Secretary's note:** This minute has been revised to correct the paragraph cross-reference in paragraphs 10.6 and to correct the wording of paragraph 47.*

Hard-copy distribution:

Prime Minister
Deputy Prime Minister
Minister for the Environment
Minister of Agriculture
Minister for Climate Change