


 Ministry for Primary Industries
 Manatū Ahu Matua


29 May 2019

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Response to the New Zealand Primary Sector Leader's Group proposal on climate change

Purpose:

This briefing provides information and analysis to support you to engage with the New Zealand Primary Sector Leaders Group's proposal for an Agreement on climate change and agriculture, and seeks your agreement to the next steps.

Minister	Action Required:	Minister's Deadline
Minister of Agriculture	Note and agree the recommendations contained in the briefing.	As soon as possible.
Minister for Climate Change		

Contact for telephone discussion:

	Name	Position	Work
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Key Messages

1. The Interim Climate Change Commission provided you their report on policies to reduce biological emissions from agriculture at the end of April. Their recommendations included:
 - specifying in law a farm-level levy/rebate scheme to price livestock emissions, with mandatory reporting by 2023 and obligations by 2025;
 - pricing livestock emissions in the New Zealand Emissions Trading Scheme (NZ ETS) at processor level in the interim; and
 - pricing fertiliser emissions in the NZ ETS at processor level.
2. On 22 May the Primary Sector Leaders Group met with the Prime Minister and other Ministers and proposed an alternative to the Interim Climate Change Commission's recommendations, in the form of an Agreement.
3. The Primary Sector Leaders Group (Leaders Group) were formed in 2017 as a forum for leaders of a number of New Zealand agriculture sector organisations to discuss issues around climate change, and form joint public positions where the organisations have common ground.¹ Each organisation is represented by their Chair (within the Chairs Forum), and their Chief Executive (within the Chief Executives Forum; who are responsible for preparing policy positions and public statements). The group is chaired by Mike Petersen, a sheep and beef farmer from the Hawkes Bay who separately serves as New Zealand's Special Agriculture Trade Envoy. Processor companies (such as Fonterra, AFFCO and Synlait) do not sit within the Primary Sector Leaders Group, but their industry organisations do (e.g. DCANZ & MIA).
4. In order to consider the Leaders Group's proposal, you have directed us to provide:
 - an assessment of the initial material provided by the New Zealand Primary Sector Leaders Group (the Leaders Group)² [section 1]; and
 - consideration of what the content of an Agreement with the sector should include, should one come to pass [section 2].
5. At the heart of the Leaders Group's proposal, is a request to begin a joint work programme between the sector and government to design and implement a farm-based pricing instrument for biological emissions, instead of pricing these emissions at the processor level in the interim. You have therefore also directed us to consider the:
 - likely pre-requisites needed for a farm-level emissions scheme to be possible / desirable [section 3]; and
 - potential criteria for assessing whether to move to a farm-level scheme as plans evolve over time [section 4].

¹ Current member organisations: are Federated Farmers, DairyNZ, DCANZ, Beef+Lamb New Zealand, Meat Industry Association, Irrigation NZ, Apiculture NZ, Foundation of Arable Research, Deer Industry NZ, Federation of Māori Authorities, and Horticulture NZ.

² The Leaders Group have referred to themselves as the 'Primary Sector Leaders Group' in their most recent proposal, but have also been referred to publicly as the 'Farming Leaders Group' in 2018.

6. Officials consider that the material provided by the Leaders Group is a useful starting point for discussion. However, the proposals from the sector do not represent firm commitments, but are rather presented as targets. We recommend you direct us to work with the Leaders Group over the next week, to enable them to submit a revised proposal by Friday 7 June. Doing so would provide an opportunity for the Leaders Group's to increase the ambition of their proposal, including by turning its aspirational targets into firm commitments.
7. Their revised proposal also could address major elements currently missing from their initial proposal, including:
 - agreement to price emissions from 2025 (at farm level if possible / desirable and at processor level if not) and acknowledgement that the Government would include this requirement in legislation in 2019;
 - a clear description of how early adopters (and emissions reductions) would be rewarded and incentivised;
 - some detail on how components of an on farm pricing scheme would be piloted and evaluated; and
 - a commitment for all farmers to have and actively use a Farm Environment Plan by 2025 and consideration of these as a tool to inform an effective pricing mechanism at a farm level.
8. If Ministers decide to pursue a revised proposal from the Leaders Group, a work programme would need to be developed over the next few months, including with joint governance between the sector and officials.

Recommendations

9. The Ministry for Primary Industries and Ministry for the Environment recommend that you:
- a) **Note** the Primary Sector Leaders Group is an informal grouping of senior leaders representing a number of New Zealand agrifood sector organisations, and is facilitated by Mike Petersen, who separately holds the role of New Zealand Special Agriculture Trade Envoy.
Noted
 - b) **Agree** to provide officials with comments on this briefing at your earliest convenience.
Agreed / Not Agreed
 - c) **Agree** to direct officials to work with Mike Petersen in his role as facilitator of the Primary Sector Leaders Group in developing a revised proposal, and to invite the Primary Sector Leaders Group to provide a revised proposal to Ministers to consider by 17:00 Friday 7 June, at the very latest.
Agreed / Not Agreed
 - d) **Note** officials consider it would be useful to test the concept of an Agreement with other stakeholders, beyond the membership of the Leaders Group.
Noted
 - e) **Agree** to forward a copy of this briefing to the Prime Minister, Hon Grant Robertson, Hon David Parker and Hon Shane Jones.
Agreed / Not Agreed
 - f) **Note** engaging the Primary Sectors Leaders Group on their proposal and inviting them to submit a revised proposal would enable Ministers and Cabinet to decide how to take forward the recommendations of the Interim Climate Change Committee, and the proposal of the Primary Sector Leaders Group.
Noted

- g) **Note** the Primary Sectors Leaders Group have discussed a further meeting with Ministers on climate change. If you agree to the proposals above, officials consider the earliest this could occur is in the week starting 10 June, with Cabinet consideration of public consultation material in late June or early July.

Noted



Charlotte Denny
Director, Environment and Communities
Ministry for Primary Industries

Hon Damien O'Connor
Minister of Agriculture

/ / 2019



Janine Smith
Director, Climate Change
Ministry for the Environment

Hon James Shaw
Minister for Climate Change

29 / 5 / 2019

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Section 1: Initial assessment of the Leaders Group proposal

10. The Leaders Group proposal – especially in the detail of the A3 provided – is very useful and shows a level of thinking and commitment to the task at hand. It covers a range of areas that are relevant, including around:
 - Measurement (all farmers knowing their farm emissions by 2022);
 - The use of Farm Environment Plans (all farms utilising FEPs by 2025);
 - Extension and engagement (increasing awareness and acceptance of the issue);
 - Innovation and uptake;
 - Support for on-farm planting;
 - Adaptation strategies (not the primary focus of this work but critically important); and
 - International and market engagement.
11. The outcomes and targets set out in the Leaders Group’s five-year programme signal positive intent from industry (eg, targeting in 2022 that all farmers know their farm emissions numbers). The Leaders Group’s support for a net-zero 2050 target for nitrous oxide and carbon dioxide, five-year emissions budgets, and an independent climate commission are also positive grounds for working together with the sector. However, the proposals from the sector do not represent firm commitments, but are rather presented as targets.
12. The Leaders Group proposal is not a work programme, but has many of the needed elements of a work programme. As a priority, if Ministers wish to proceed with the proposal (or a variant of it), a work programme through to 2025 needs to be developed.
13. Major elements missing from the proposal are that there is no strong description of how early adopters (and emissions reductions) would be rewarded / incentivised. Further, there is not a clear description of how a farm level environment plan could be translated into an effective pricing tool at a farm level. On this last point, there are a number of design details to work through, so expecting full clarity at this point is not realistic.
14. It is unclear what the Leaders Group position is on farm level pricing by 2025. While some of the actions in the programme are helpful to support future farm level pricing, they fall short of the actions needed to successfully develop, test and pilot a farm level pricing policy by 2025.
15. On allocations, the proposal does not address whether and how allocations would be utilised under a future farm-level pricing scheme. The Coalition Agreement between the New Zealand Labour Party and New Zealand First included a commitment, that if agriculture is to be included in the NZ ETS, then upon entry, allocation to the sector would be 95 percent but with all revenues from this source recycled back into agriculture in order to encourage agricultural innovation, mitigation and additional forestry planting. If agriculture does not enter the NZ ETS until 2025, the question arises whether consideration would need to be given

to the appropriate level of any free allocation and its alignment with the Government's climate change targets.

16. The proposals in the paper include a number of areas where Government agreement prior to detailed analysis may impose costs on the Crown

Withheld under
s9(2)(j)

17. Many of the actions set out by the Leaders Group will be helpful to support future emissions reductions, however these actions on their own will not be sufficient to encourage discernible behaviour change on farm prior to 2025. Therefore any agreement with the Leaders Group should look to consider how these actions (as part of the Agreement) would support New Zealand in achieving its climate change targets (e.g. the 2030 target under the Paris Agreement).
18. The Leaders Group commitment of having no additional warming by 2050 is not consistent with the targets proposed in the Zero Carbon amendments to the Climate Change Response Act. The Government should reserve its position on this while that Bill is proceeding through the House.

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Section 2: Content of a Possible Agreement with the Primary Sector Leaders Group

19. If an Agreement with the agriculture sector is pursued by the Government, the immediate task over the next week is to develop what an Agreement might cover if it were to come to pass; not to develop the details of the Agreement itself. These details could subsequently be fleshed out over the next three months, in partnership with the sector.
20. The scope for what an Agreement on climate change might cover is set out in two sections below; firstly directional elements (in brief detail), and secondly examples of functional elements that would need to be set out in forming the Agreement.

Directional elements

Preamble and Vision

21. Commitment for the agricultural sector to play its part in the climate change challenge of reducing global emissions, and to assist the primary sector in meeting its fair share of emission reductions consistent with the Zero Carbon legislation targets. This is consistent with the move of the New Zealand economy to a more sustainable footing, and ensuring New Zealand operates in high-value markets.
22. It is fully recognised that this poses a challenge to the primary sector, and that the willingness of the sector to enter into this challenge is critical. A transition of both policy and practice is required. This transition will be an ongoing process.

A range of tools are necessary

23. There are a series of policies and practices that are needed to support the transition of the primary sector to a low emission future. This includes the measurement of emissions and their mitigation (to an appropriate level of accuracy), with sufficient auditing and verification systems, plus also working on a series of enablers to assist the primary sector to make the transition to a low-emissions future (this includes ensuring there are strong incentives for early adopters and movers).
24. The Agreement would also include a commitment for all farmers to have and actively using a Farm Environment Plan by 2025.

Recognise the importance of price as a tool to reduce emissions efficiently, whilst noting that price is only one of a number of measures that are important

25. Government sees that pricing agricultural emissions is necessary, and accepts the argument that pricing at farm level is preferable to pricing at the processor level (as a general statement). There is a shared commitment to work towards pricing at a farm level by 2025, but if this proves not to be possible or desirable, agricultural gases will enter the NZ ETS at a processor level from 2025.

Developing a detailed work programme – with clear decision points – is necessary

26. Should Ministers decide to progress an Agreement, a detailed work programme will be developed and agreed by 31 August 2019. This will include decision points (with a critical one being late in 2022) as to whether a farm-level obligation by 2025 is possible / desirable, or whether it is best to focus efforts on moving to a processor level obligation instead. The work programme is a key appendix to the Agreement – to be signed by 31 August.
27. Whether or not a farm-level obligation is possible / desirable in 2025, a durable direction of travel for policy to reduce emissions from agriculture is necessary, including to enable long-term investment decisions to start being made now. Consequently, legislation should be passed now to specify that biological emissions from agriculture will enter the NZ ETS in 2025:
- a. at the farm-level if specified pre-requisites are met; and
 - b. if not, at the processor-level.

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

Functional Elements

31. Examples of functional elements that are necessary to develop an Agreement include consideration of the confidentiality of discussions, what reviews and review mechanisms are put in place, and the scope of the parties to the Agreement.

Section 3: Pre-requisites for Implementing a Successful Farm Level Scheme

32. Officials consider that there are a range of pre-requisites for implementing a successful farm-level scheme. These are split out below into functional pre-requisites and a series of enablers to assist the transition.

Functional Pre-requisites

- a) On-farm measurement developed and tested (consistent with, or as a module of, mandatory integrated environmental plans).
- b) Monitoring, reporting and verification regime developed and implemented.
- c) Penalty regime designed and in place to deal with non-compliance.
- d) Administrative system developed and tested, including interface with the farmers.
- e) Work on rules for distribution of the free allocation completed.

Necessary Enablers

33. Necessary enablers are supporting actions taken to ensure that farmers know what they can do and what options are available to them to meet any obligations they may have under a farm-level pricing scheme. These include:
- a) Extension and engagement approaches well developed.
 - b) Capability of rural professionals developed (including through and building on the 2019 Budget Sustainable Land Use package).
 - c) Ongoing efforts regarding innovation and uptake.
 - d) Approaches regarding on-farm planting support implemented and well understood.
 - e) Market value-add activities and international presentation of New Zealand's approach well developed.
 - f) Funding is available to support this transition and the activities identified above.
 - g) Continuous government-industry investment in research and development, including long-term funding commitments.
 - h) Practical options identified for reducing on-farm emissions.

Section 4: Criteria for Assessment of proposals to move to a farm-level scheme

34. Officials consider that there are a range of criteria that should be used to assess proposals for a move to an effective farm-level scheme. Some key criteria are set out below:

- Equitable, including with other sectors across the economy.
- Creates meaningful incentives for behaviour change for the majority of farmers.
- Cost-effective for the emissions reductions that might ensue, including up-front costs in establishing an effective framework for addressing emissions.
- Alignment with the ambition needed to achieve New Zealand's climate change targets.
- Simple for farmers and workable for the regulator.
- Aligns with, and supports, other government and sector initiatives – especially around freshwater.
- Sector has confidence that the policies are fair, workable and do not impose an unreasonable burden.
- Sets clear direction of travel to allow farmers to anticipate and plan for future change.

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