

## Summary of alternative emissions pricing system for farmers

**Both the Minister of Climate Change and Minister of Agriculture have released a report to meet requirements under the Climate Change Response Act 2002 (CCRA). The report outlines an alternative system to price agricultural emissions compared to the New Zealand Emissions Trading Scheme (NZ ETS).**

### Background

In 2019, the Government amended s 215 of the CCRA so that agricultural emissions could either be priced:

- under the NZ ETS, or
- under an alternative system.

The alternative system was designed by He Waka Eke Noa, the Primary Sector Climate Action Partnership. Consultation and feedback was given by the Climate Change Commission (CCC) and whenua Māori before the report was released.

### Alternative system summary

At its core, the alternative system comprises a farm-level, split-gas levy for agricultural emissions, including biogenic methane and nitrous oxide emissions from livestock and fertilisers. It is designed specifically for the agriculture sector in order to ensure effective emission reduction, practicality of implementation and maximisation of sector productivity. It is set to commence in 2025.

**The proposal seeks to answer 10 key questions across its sections:**

### How will emissions of methane be treated compared to other greenhouse gases? What removals are recognised?

As mentioned above, pricing of emissions is split into biogenic methane and nitrous oxide emissions from both livestock and fertilisers. Carbon dioxide emissions are not included under the proposal.

Sequestration will initially be included under the proposal before transitioning to the NZ ETS as soon as possible. Incentives to reduce emissions will also feature in the short-to-medium term.

### Who is captured under the system?

The system looks to capture 23,000 farmers and growers (96% of the agriculture sector's emissions). Captured participants include GST-registered business owners who emit the following emissions thresholds (equivalent to ~200 tonnes CO<sub>2</sub>-e per year):

- 550 stock units (inclusive of sheep, cattle and deer, calculated on a weighted annual average basis), or
- 50 dairy cattle, or
- 40 tonnes of nitrogen via fertiliser.

Minor emitting sectors (swine, poultry, goats, horses, alpacas, llamas, mules and asses) are set to be excluded under the proposal.

### How are emissions priced and accounted for?

Pricing will be calculated to achieve emissions reductions in line with New Zealand's legislated 2030 and 2050 targets and emissions budgets.

The proposal seeks to set relatively low initial pricing of both biogenic methane and nitrous oxide for the first five years, with a review after three years to allow for any adjustment. During this period, the price of nitrous oxide will be capped no greater than the price of an emission unit (NZU) under the NZ ETS.

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## Summer of alternative emissions pricing system for farmers (Continued)

Revenue under the proposal will look to be recycled back into the industry, with a dedicated fund for whenua Māori.

Both incentive and sequestration payments will be made to farmers and growers who uptake mitigation technologies and demonstrate evidence of removals.

Emissions will be reported on an annual basis, starting in 2025. Inland Revenue was suggested as a potential agency to undertake registration, invoicing and payment functions of the levy. Collectivisation of emissions reporting and payments was also a highlighted feature of the system but was stated to need further work.

### **What methodology will be used for calculating emissions and removals?**

The full methodology for calculating emissions is yet to be revealed and will be set out through future regulations. For removals, until sequestration can be properly integrated into the NZ ETS, an interim system will be established to recognise on-farm sequestration. Sequestration must be scientifically valid and is split into two types:

- Management of indigenous vegetation: This recognises actively managed carbon increases in wholly or predominantly indigenous woody vegetation, either planted or regenerated.
- Riparian margins: This includes vegetation in riparian margins planted after 2008 alongside waterways with a predominant mix of woody vegetation.

### **What assistance is given to participants?**

Easy-to-access transitional assistance will be provided to all farmers and growers upon implementation. Additional assistance is provided through low starting levy rates, incentive and sequestration payments and a ringfenced fund for Maori.

### **What information do participants need to provide under the system?**

Information will need to be provided to enable registration and monitoring of emissions. Auditing and verification will also be performed on-farm. While system level information will be made public, personal information will not be publicly reported except in cases of repeated non-compliance.

### **How will participants and relevant industry groups be engaged in designing, implementing and operating the system?**

Design of the system was undertaken by key representatives of the agriculture sector and has already been subject to public consultation. Further consultation will be made with whenua Māori, industry farmers and growers to create further regulations to assist primary legislation. These regulations seek to establish an emissions calculation methodology, setting of incentive payment rates as well as categories of sequestration and their rates of reward.

An oversight board, with skills-based appointments, will be established to provide oversight and monitoring of the pricing system. This will seek to have adequate Maori representation reflected.

### **Who is responsible for administration of the system?**

Different functions of the system will likely be undertaken by a range of government agencies including the Ministry for Primary Industries, Inland Revenue and the Ministry for the Environment.

### **What amendments need to be made to legislation to enable the proposal to work?**

To enable the pricing system, either new legislation and/or amendments of existing legislation is needed. Amendments will likely need to be made to the CCRA, Tax Administration Act 1994, National Animal

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## Summer of alternative emissions pricing system for farmers (Continued)

Identification and Tracing Act 2012 and Resource Management Act 1991.

### **Will there be an interim processor-level levy?**

If the farm-level pricing system cannot be operationalised by 2025, an interim processor-level levy has been proposed. This would mean emissions are priced on a national average rather than on an individual farm basis.

### **What now?**

The system will now undergo further Treaty of Waitangi | Te Tiriti o Waitangi analysis and public consultation. Cabinet will make final policy decisions on the system in the first half of this year before legislation is drafted and enacted.

### **Want to know more?**

If you have any questions about future pricing of agricultural emissions, please contact our [commercial team](#), [David Goodman](#) or [Peter Sangster](#).