Playing our part: He Waka Eke Noa

Key timeframes

February 2022 - Consultation

April 2022 - provide recommendations to the Government on an alternative framework.

2025 – introduction of the He Waka Eke Noa pricing mechanism, subject to agreement with Government.

The He Waka Eke Noa partnership

The He Waka Eke Noa partnership was established following the Government's determination to bring agriculture into the Emissions Trading Scheme (ETS). After the passage of the Zero Carbon Bill, the primary sector worked together to convince the Government to work with the sector and Māori on an alternative approach for managing our emissions.

The Government has made it clear that if we do not meet certain milestones, it will bring agriculture immediately into the ETS – they have already passed the legislation that would allow it to do this.

Saying no to emissions pricing isn't an option. The Government has committed to pricing agricultural emissions and we need to ensure that this is done in a fair and workable way – we have one shot at this.

The He Waka Eke Noa partnership includes other primary sector organisations such as MIA, Beef + Lamb New Zealand, DairyNZ, Federated Farmers and Horticulture New Zealand, alongside the Ministry for Primary Industries, FOMA and the Ministry for the Environment.

The objectives driving MIA's engagement on climate change issues are:

- Ensure processors avoid costs that could undermine profitability
- Protect the sector's social licence
- Ensure the sector's production base is maintained
- Ensure a unified sector
- Ensure the transition from fossil fuels to renewables is at minimal cost

OUR KEY OBJECTIVE

The ultimate vision is to come up with an agricultural-specific emissions pricing framework through He Waka Eke Noa to ensure agriculture stays out of the ETS and design an alternative farm-level emissions pricing approach which is practical, fair and will incentivise farmers to make positive changes to reduce emissions.

As processors and exporters, we want a system that proves to New Zealanders and to our customers that we are committed to providing environmentally-sustainable products.

Why not the ETS?

MIA and the other primary sector organisations have been consistently opposed to agriculture being put into the ETS. In the ETS, processors would pay the ETS price (less a free allocation) for emissions on meat processed. The costs and risks of this would be passed onto farmers. On-farm sequestration outside of ETS rules is not counted. The ETS price will increase over time and will bear no relation to what the agriculture sector is doing or recognise the positive changes individual farmers are making. Farmers would have no control over the costs they bear. The independent analysis commissioned by He Waka Eke Noa showed that by 2030, if agriculture was in the ETS, emissions would reduce by less than one percent. But average sheep and beef farm profitability would fall by 17.5 percent with some farms hit harder than others.

Under the Climate Change Response Act, agriculture will go into the ETS before 2025 unless the agriculture sector can agree on an alternative pricing system that will achieve emissions reductions.

Two options for consultation

The He Waka Eke Noa partnership has considered many alternative options to the New Zealand ETS to price agricultural emissions but have decided to progress two pricing options for consultation with farmers: the farm-levy and processor-level hybrid levy.

1. Farm-Level Levy:

The key features of farm-level levy are:

- A body with farmer representation sets the levy rates for farm methane (CH_4) and nitrous oxide (N_2O) emissions.
- Emissions are calculated at farm level using farm-specific data. The farm then pays a price for its net emissions.
- A split-gas approach to pricing would be applied, which means that different levy rates would apply to CH_4 and N_2O and CO_2. This approach reflects that CH_4 is not required to reduce to net zero.
- Rewards eligible on-farm sequestration and can offset some of the cost of the emissions levy.
- Any revenue raised through the levy would be invested back into the agricultural sector to generate further emissions reductions through research and development, incentives to uptake technology, or to reward actions on-farm that help reduce emissions.

Pros:

- The price falls on all farmers based on their level of emissions – high emission farmers pay more while farmers who have low emissions pay less.
- Enables a split-gas approach (treats N_2O and CH_4 differently).
- Calculates emissions at farm level which recognises a greater number of efficiencies and mitigations that could be taken up by farms.
- Gives farmers control of managing their emissions.
- Funds will be used to incentivise farmers who lead the way in adopting new technologies, and so drive faster emissions reductions.
- Farms who have taken early action to maintain and increase sequestration will be rewarded because future sequestration from existing vegetation will be recognised (if it meets He Waka Eke Noa requirements).

Cons:

- Significant costs for farms to calculate and report emissions, and for operation costs of a levy system.

2. Processor-Level Levy:

The key features of the processor-level hybrid levy are:

- A body with agriculture representation sets the levy rates for CH_4 and N_2O emissions.
- Emissions are calculated at the meat, milk, and fertiliser processor level, based on the quantity of product received from farms, or in the case of fertiliser, sold to farms.
- Processors would likely pass on the cost to farms based on the quantity of product processed, or fertiliser bought (probably as a deduction on the kill sheet in the case of meat).
- A split-gas approach to pricing would be applied, which means that different levy rates would apply to short and long-lived gases. This approach reflects that CH_4 is not required to reduce to net zero.
- Any revenue raised through the levy would be invested back into the agricultural sector to generate further emissions reductions through research and development, incentives to uptake technology, or to reward actions on-farm that help reduce emissions. One option considered for revenue recycling is an Emissions Management Contract (EMC).
- Farms can apply be rewarded for sequestration through a Sequestration Management Contract.
- Farms (individually or in collectives) could choose to enter into an EMC to get a payment for reducing emissions based on a historical benchmark or for specific on-farm actions that reduce emissions.

Pros:

- Enables a split-gas approach (treats N_2O and CH_4 differently).
- Administration costs for processor-level hybrid levy are likely to be less than farm-level levy.
- Could provide a transitional step towards a farm-level pricing system.
- Funds will be used for EMCs, so those farmers who achieve emissions reductions can be rewarded.

Cons:

- A processor-level price signal is blunt, and does not recognise individual farms for the actions they take to reduce emissions.
- A processor-level price only applies to farms that sell directly to processors. It is not fair as it does not capture many farmers that are part of the supply chain (e.g. breeders).
- EMCs may require the use of a historical benchmark, which could disadvantage those who have taken early action to reduce.

The MIA position:

We recognise that to continue to position New Zealand beef and lamb as a premium product, we have to ensure that customers know they are buying an environmentally sustainable product.

- We share the common goal of keeping agriculture out of the ETS and developing a fair pricing system which balances rewards for emissions reduction and support for uptake of new technologies.
- We believe this is the only way to ensure the New Zealand sheep and beef sector can continue to be a global leader in climate action while remaining profitable and vibrant.
- We believe that New Zealand farmers are innovative and adaptable – the best way to achieve change is to empower farmers to manage their farms and livestock in a way which reduces emissions.
- Meat processors are fully committed partners to He Waka Eke Noa and have encouraged farmers to use the Beef + Lamb NZ Greenhouse Gas Calculator through the 'Know your number' campaign (ghgnumber.co.nz) as a critical first step to managing their emissions.
- Meat processors are also participating in the development of pricing of emissions as an alternative to the ETS.
- We believe bringing the red meat sector into the ETS would be a mistake because farmers would have no incentive to reduce their emissions and it would not result in the outcomes the Government or New Zealand is seeking.
- With the price of NZUs in the ETS increasing, we believe this would have a devastating impact on the red meat sector.
- However, if we don't agree on an alternative through He Waka Eke Noa, then that is what will happen.
- We believe that the purpose of any price of on farm emissions has to be to support farmers to reduce their emissions.
- Many sheep and beef farmers are already sequestering carbon through trees on their land that is outside the ETS. We believe that those farmers should have this recognised as part of their contribution to addressing the climate.
- We want a system that will recognise and reward emissions efficient farmers (including for their sequestration) and support them to take up new technologies because producing low emissions products is the way of our future and is crucial for our future positioning with customers.
- We urge farmers to engage with the road-show because we need their input in designing a system where farmers pay for their emissions.
- Doing nothing is not an option – the Government has demanded action and the public expect it.

For these reasons, we support a price for on farm emissions paid at the farm-level at a rate kept as low as possible, with the money raised used to support the uptake of new technologies that reduce emissions and support better farm management.

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