



# Submission

*18 November 2022*

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**Ministry for the Environment**

ON THE

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**Consultation on proposals to price  
agricultural greenhouse gas emissions**

BY

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**Beef + Lamb New Zealand Ltd**

## Submission on proposals to price agricultural greenhouse gas emissions

**To:** Ministry for the Environment

**Date:** 18 November 2022

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This submission is on behalf of an organisation.

- Region not applicable - national organisation
- Agricultural process or representative

### Consent to release submission

B+LNZ consents to this submission being published on the MFE website.

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# 1. Introduction

The following submission sets out Beef + Lamb New Zealand's (B+LNZ) responses to the Government's proposals and makes recommendations to ensure it becomes a more equitable and fair proposal for sheep and beef farmers of New Zealand.

B+LNZ's recommendations support others in the agricultural sector in directing the Government back to the He Waka Eke Noa system that generates incentives and opportunities to reduce agricultural emissions, while maintaining the viability of the sector, underpinning the vibrancy of rural communities, and protecting export revenue for the wellbeing of all New Zealanders.

B+LNZ rejects the Government's proposal as it fundamentally alters the balance of what was proposed by the He Waka Eke Noa Partnership and disproportionately impacts on the sheep and beef sector.

B+LNZ requests that the Government adopts in full the He Waka Eke Noa Partnership proposal presented in May 2022, with the changes outlined in their submission in November 2022. B+LNZ's submission provides further insight and rationale to support the He Waka Eke Noa proposal. Our feedback also reflects nine core principles agreed by DairyNZ, B+LNZ and Federated Farmers, which we believe are critical to ensure positive outcomes for farmers and the agriculture sector.

Following the release of the Government's proposal for Pricing Agricultural Emissions, B+LNZ has held 21 face-to-face meetings and hui and nine joint webinars with DairyNZ, which were attended by around 1,173 farmers. B+LNZ has also arranged several smaller "wool-shed" meetings across Southland, spoken at a range of meetings organised by other organisations such as District Councils and received a significant number of phone calls and emails from farmers on the Government's proposal.

When presented with the Government's proposal B+LNZ did not have a single farmer who voiced support for it. Rather the responses were concern, despair, anger, fear, hurt, uncertainty, disbelief, abandonment, and despondency. This is a reflection that the Government's proposal has severely missed the mark with our farmers and rural communities.

Farmers saw the Government's proposal as unfairly and inequitably threatening the viability of their businesses, undermining rural communities, needlessly reducing food production and associated export revenue, so critical to New Zealand's economic and social well-being.

Our Māori farmers, with unique landholding, ownership, and governance structures, have also expressed significant concern that the Government's proposal has shown no appreciation of the status, structure and challenges faced. While we have alluded to some of these in our submission it is critical that the government immediately gain a deeper understanding and appreciation of Māori concerns. One particular concern of Māori farmers'

is need for a complete reinstatement and recognition of sequestration, as proposed by the He Waka Eke Noa Partnership, and the criticality of a low price on both methane and nitrous oxide, to not undermine their viability.

Farmers do not understand why a sector which has reduced its emissions by 30 percent since 1990, is close to carbon neutral, has doubled export revenue since 1990, and has protected 1.4 million ha of native bush, while also being a backbone employer in rural communities, and underpinning the economy during covid has seemingly been abandoned or even punished by the Government's proposal.

The Government's proposal fundamentally shifts the balance of the He Waka Eke Noa model, by moving away from an integrated package of options, carefully balanced to develop solutions, incentivises, and reward change, to a proposal with a much greater emphasis on price as a key driver of change. Furthermore, a significant reduction in sequestration options for farmers severely undermines the proposal.

In contrast, the price settings of He Waka Eke Noa's focused on collecting enough revenue to fund sequestration, research and development (R&D), provide incentives and contribute to administration costs. This model was shown to be effective in achieving a fair transition towards a low-emissions primary sector. The effect of the Government's proposal is a reversion to a 'stick', rather than a 'carrot -and -stick' based approach proposed by the Partnership.

We want to be very clear that the Government's proposal is not a tweak on He Waka Eke Noa's recommendations, but rather a fundamental unwinding of it. What was carefully crafted over nearly three years of intense and detailed work by eleven Partners and two government departments has been replaced by a hurriedly and poorly constructed proposal, which will not assist in achieving New Zealand's climate change goals.

The following submission sets out B+LNZ's response to the Government's proposals. In Part A, we summarise our key concerns and required changes. In Part B, we provide background information on the sheep and beef sector, which is critical context to our recommendations. In Part C, we systematically respond to the Government's specific consultation questions. Some of our key concerns and recommendations do not align directly with the Government's questions, hence ensuring these are captured in Part A. Finally, in Part D, we list the nine core principles agreed by DairyNZ, Federated Farmers and B+LNZ.

B+LNZ's key concerns and recommendations cover:

- Sequestration
- Methane price
- Nitrous oxide price
- Price-setting criteria
- Governance
- Transitional arrangements
- Farm level pricing for fertiliser
- Nitrous oxide slope in reporting
- Collectives

- Revenue recycling, collection and use
- Interim processor levy
- Government modelling
- Cap-and-trade model for methane

Whilst outside the direct consultation, there are two policy areas that have a fundamental impact on this framework and on farmers. Those two policy areas are the methane targets and the Emission Trading Scheme (NZ ETS) settings, that currently allow 100 percent offsetting of forestry. These matters are addressed in Part A and Part C.

## Part A

### 2. Summary of concerns and recommendations

#### Sequestration

**B+LNZ strongly opposes the Government’s proposal on sequestration.**

**B+LNZ requests that the government reinstate all seven categories of sequestration originally set out in the He Waka Eke Noa recommendations and adopt the further recommendations of the He Waka Eke Noa November submission on the Government’s recent proposal with respect to a Declaration sitting behind the calculator.**

The Government’s proposed changes to sequestration were one of the main areas of concern for farmers during our recent round of meetings. This is a key equity and justice issue for farmers. If farmers are to pay for their emissions, then all their areas of permanent and cyclical vegetation should be acknowledged.

This point was also one of the nine core principles agreed upon by Federated Farmers, B+LNZ and DairyNZ: *“All sequestration that can be measured and is additional should be counted. We stand by what is proposed by the He Waka Eke Noa Partnership on sequestration.”*

The Government’s proposal to restrict sequestration categories to just two has understandably angered sheep and beef farmers, and very particularly Māori farmers, as a subset of our sector. It is unacceptable to B+LNZ.

More widely, enabling a fuller range of sequestration options not only incentivises farmers but makes sense for the country, as it encourages farmers to optimise sequestration within their business. Integrated sequestration within food production businesses is win-win for New Zealand. There is a comprehensive outline of our concerns about the Government’s sequestration proposal and need for change in **Question 8, Part C**.

#### Methane price

**B+LNZ reiterates its position that a cautious approach needs to be taken to the setting of the price and requests the Government provide greater assurances around this, consistent with the language in the He Waka Eke Noa November submission which is set out below.**

This was one of the core principles agreed by Federated Farmers, B+LNZ and DairyNZ: *“The methane price should be set at the minimum level needed and be fixed for a five-year period to give farmers certainty.”*

The He Waka Eke Noa Partnership’s original recommendation was for the Government to set a cap on the methane price in its initial years and hold it for several years. The Government’s proposal did not include any indications of this. B+LNZ and the He Waka Eke Noa Partnership reiterate its request for a cap to be set, but considering the Government’s recent modelling, is requesting stronger guidance in this area be taken up. The Partnership is now recommending the following for price setting:

- Set at the level required to incentivise emissions reductions while maintaining the viability of the primary sector
- Set at the minimum level needed to balance the factors outlined in 1. above, provide for incentives, research and development and administration costs, and
- For the first five years capped at no more than 8 cents per kg of methane in 2030, with a starting level of no more than 5 cents in 2025 (noting that there is expected to be fewer mitigations and therefore less funding required for incentives at the outset).

The Government, He Waka Eke Noa and B+LNZ modelling all show the sheep, beef and deer sector is particularly sensitive to pricing and that the viability of significant numbers of sheep and beef farms is challenged with too higher pricing. A cautious approach therefore must be taken to pricing, by starting as low as possible and keeping the price low, while monitoring impacts.

The Government’s own modelling suggests that a methane price of 8 cents per kilogramme of methane could lead to greater emission reductions than are necessary, to meet the current biogenic methane target of a 10 percent reduction by 2030, hence the adjusted recommendations from the Partnership.

We also note that in the early years of He Waka Eke Noa that there will not be a significant number of mitigation technologies available for uptake and therefore the levy revenue requirements will be lower. This is another reason to start off conservatively. **For further discussion see Question 5, Part C**

### **Nitrous oxide price**

**B+LNZ strongly opposes the Government’s proposal to link the nitrous oxide (N<sub>2</sub>O) levy to the carbon price within the Emission Trading Scheme (NZ ETS) and supports He Waka Eke Noa’s November submission to set a unique price for nitrous oxide.**

He Waka Eke Noa recommended setting a unique price for agricultural long-lived gas emissions, at a level required to fund the total amount of sequestration recognised in the system, fund incentive discounts for approved actions of nitrous oxide reduction, fund research and development for nitrous oxide reduction and cover a share of administrative

costs. In contrast, the Government's proposal is to link the levy price for long-lived agricultural gases, including nitrous oxide emissions, to the price of NZUs in the NZ ETS market.

In their advice to Government, the Climate Change Commission set out illustrative scenarios of what budget achievement could entail across the different greenhouse gases. These illustrative scenarios show carbon dioxide emissions from the industrial processing, transport and energy sectors are expected and need to make significantly deeper cuts than nitrous oxide emissions to meet net zero emissions of long-lived greenhouse gases, by 2050. Across the three budget periods, carbon dioxide is recommended to make cuts of 10, 26 and 56 percent respectively, while nitrous oxide cuts required are 5, 11 and 17 percent. The separate trajectory for reductions of nitrous oxide means that linking the price of nitrous oxide emissions to the carbon price makes no sense and will provide a more onerous burden on nitrous oxide than is necessary to meet the emissions budget and net zero 2050 target.

The Government's own modelling shows that scenarios linked to NZ ETS unit prices result in significantly higher emissions reductions than required by targets or the emissions budget and with substantial negative impacts on production levels. Further, linking the nitrous oxide price to the wider carbon market through the NZ ETS disconnects the nitrous oxide price setting mechanism from the key principles of the He Waka Eke Noa. For more detail **see Question 5, Part C.**

### **Price setting criteria**

**B+LNZ does not support the Government's proposal to give primacy to progress towards emissions reduction targets when setting the methane levy price. B+LNZ supports the updated and broader criteria set out in the He Waka Eke Noa November submission. This should apply to both methane and nitrous oxide.**

The singular purpose of the Government's pricing proposal is to meet carbon budgets and emissions targets with no due consideration for other consequences. This is a significant shift from the original He Waka Eke Noa Partnership recommendations.

He Waka Eke Noa focused on setting prices to create a circular fund that would be used to pay for the sequestered carbon, mitigation technology and other incentives that would help drive emissions changes on-farm. The Government's model effectively proposes to set a price for methane that will force farmers to destock or change land use away from livestock farming.

In essence, the Partnership approach is to incentivise change, using farmers' levy revenue to create behaviour change and enable technical advancement. The Government approach is a blunt policy response by pricing out marginal farmers through a tax that will force them away from farming.

He Waka Eke Noa recommended a broader set of criteria for levy setting because of concern that the targets may not be achievable, in a way that is economically sustainable for the country, and/or in a way that lowers global agricultural emissions (at least based on current assumptions about mitigation technology).



In its November submission, the He Waka Eke Noa Partnership put forward a broader set of criteria to be considered when setting the levy rates, which B+LNZ strongly supports. B+LNZ requests these criteria be embedded in legislation.

These are:

- Trajectory of emissions reductions towards emissions targets
- Availability and cost of (current and future) on-farm mitigations
- Social, cultural, and economic impacts on farmers, regional communities, and Māori agribusiness
- Best available scientific, mātauranga Māori, and economic information
- Emissions leakage from production moving offshore,
- Impact on food security (both domestically and internationally).

We note that these criteria are consistent with one of the core principles agreed to by Federated Farmers, DairyNZ and B+LNZ: *“We will not accept emissions leakage. The way to prevent that happening is by getting the targets, price, sequestration, incentives, and other settings right.”* See **Question 5, Part C for more information.**

### **Governance**

**B+LNZ opposes the Government’s proposed changes to Governance and requests the Government adopt the original He Waka Eke Noa governance proposals, reiterated in their November submission.**

The Government’s proposal for pricing agricultural emissions fundamentally changes the role of the sector as outlined by He Waka Eke Noa. It moves away from a model of enhanced collaboration to one of partial consultation.

The impact of this is that it diminishes the agriculture industry from being a partner with Government in reducing emissions to being little more than a bystander directed by Government. Given the impact the pricing of agriculture emissions will have on the sector, and the economy, B+LNZ believes it is unacceptable to relegate the sector in such a way.

We note that this was also a core principle agreed to by Federated Farmers, DairyNZ and B+LNZ *“The future price should be set by the Minister on the advice of an Independent Oversight Board appointed by all He Waka Eke Noa Partners.”*

Partners have been consistent throughout the He Waka Eke Noa process that the most important objective in designing decision-making processes is that good-quality evidence and science-based decisions are made. Considerable expertise, technical knowledge, and real-world data sit within the agricultural sector, and this must be leveraged to support modelling, the understanding of potential impacts, and ultimately effective decision-making. This will increase the confidence of those affected due to better decisions and better overall outcomes.

It is recommended an Independent Oversight Board is established that would work closely with the Independent Māori Board and sector bodies to provide advice to Ministers on the appropriate levy rates, the price of sequestration, and the value of incentive discounts used to incentivise the adoption of mitigation technologies. This board will also have a key role in driving how recycled revenue will be used.

Ministers will still have the final say in these key areas, but the He Waka Eke Noa proposal ensures the agricultural sector is appropriately involved in the process. **See Question 5, Part C for more information.**

### **Transitional arrangements**

**B+LNZ is deeply concerned about the potential impacts of the agricultural pricing system on extensive sheep, beef, and deer farmers. B+LNZ and the Government’s modelling highlight the risks to the sector of a price on agricultural emissions, coupled with the impact of afforestation driven by the carbon price. It is vital that we get the overall architecture right.**

**B+LNZ therefore supports the transitional levy relief measures which are elaborated on in the He Waka Eke Noa November submission. This is a significant priority for sheep, beef and deer farmers.**

Individuals should be able to apply for temporary levy relief, if the viability of their business is severely impacted by the levy cost. For example, we know that access to mitigation technologies and sequestration is not uniform across the sector, either due to remoteness, the natural character of the land, or in some cases local government regulation. This means any transitional support/relief must be appropriately targeted.

This issue was also one of the core principles agreed to by Federated Farmers, DairyNZ and B+LNZ, *“Farmers who don’t have access to mitigations or sequestration should be able to apply for temporary levy relief if the viability of their business is threatened.”*

B+LNZ reiterate the Partnership’s position that detailed design of the transitional price relief mechanism has not been possible in the time available during the consultation period, and He Waka Eke Noa Partners stand ready to work with government in this to find a fair and practical solution in this area. For more discussion **see Question 7, Part B.**

In recognition of the potential impact of pricing on sheep and beef farmers, B+LNZ also strongly endorses the amendments to the pricing of, and criteria for, methane and nitrous oxide emissions in the He Waka Eke Noa Partnership November submission; the need for a separate price for nitrous oxide; and that the Government adopt the Partnership’s sequestration proposals in full.

In addition B+LNZ also strongly supports the annual reporting of emissions reduction at the sub-sector level, which is a new proposal included in the He Waka Eke Noa November submission. This is something B+LNZ advocated for. By tracking emissions reductions at the sub-sector level we will be able to identify whether one sector is being dis-proportionately

affected and whether any changes are needed to overall pricing or levy relief. We can also assess the impact of other policies such as afforestation.

B+LNZ acknowledges the support of the Partners in making the amendments.

The combination of these measures is intended to provide safeguards to all farmers, but particularly extensive sheep, beef and deer farmers. If the Government deviates from even one of these proposals, there remains the risk of disproportionate impacts occurring and B+LNZ reserves the right to revisit some of the agreements reached in the Partnership.

### **Farm-level pricing for fertiliser**

**B+LNZ request the Government include fertiliser in the farm-level system, consistent with the He Waka Eke Noa November submission.**

Farmers overwhelmingly told us that they support a farm-level levy system that includes fertiliser. B+LNZ recommends fertiliser it is included in the farm-level-levy system for a range of logical reasons, these include:

- It better supports whole-of-farm GHG emissions reduction decision-making
- It puts the feedback loop at the decision-making level (the farm) as processor levies don't drive farm management choices
- It allows for **all** nitrous oxide emissions to be priced and reported independently of the NZ ETS (consistent with our position that there be a unique price for nitrous oxide)
- It will better encourage and reward farmers for making good on farm fertiliser use decisions within different farming systems
- It allows farmers to understand and balance all their emissions against offsets or incentives, within their own business – a key factor in driving behaviour change
- It would better integrate with other farmer tools such as farm environment plans to make on farm decisions. **See Question 3, Part C for more information.**

### **Nitrous oxide slope in reporting**

**The Government's proposal to remove slope as a factor for reporting on nitrous oxide emissions is unacceptable to B+LNZ.**

**B+LNZ request the Government include slope in the nitrous oxide reporting methodology from the outset. This request is also supported in the He Waka Eke Noa Partnership November submission.**

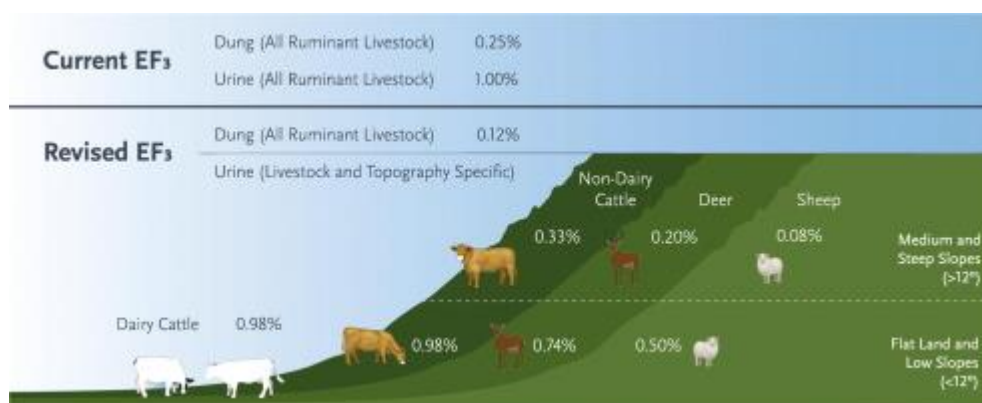
Slope is key factor influencing the level of emissions from a farm, see Figure 1, below. Recent science has proven that urine patches on slopes emit significantly lower nitrous oxide emissions than on flat land. This is reflected in the national greenhouse gas inventory. There is no barrier to it being included in the calculator, the technology and methodology exists.

Excluding slope will significantly disadvantage sheep and beef farmers, as approximately 79 percent of sheep and beef farms are classed as medium (12–24 degrees) or steep (greater than 24 degrees)<sup>1</sup> slope.

Using the best science to calculate emissions is the right thing to do and leaving out slope criteria in the calculations would significantly overestimate the nitrous oxide emissions for sheep and beef farmers and unfairly penalise them. Given how sensitive sheep and beef farmers are to a price on emission this is unacceptable.

The Government proposed removal of slope is a further example of how it has changed the recommendations of He Waka Eke Noa without thinking through the wider impacts on the sheep and beef sector. **See Question 4, Part C for more information.**

Figure 1 Differential emissions factors in relation to slope.



## Collectives

**The Government’s proposal to delay the ability of all farmers to report collectively is unacceptable. B+LNZ request the Government provide all farmers with the right to report collectively from the commencement of the system consistent with the recommendations of the He Waka Eke Noa Partnership.**

This is also consistent with a core principle agreed to by Federated Farmers, DairyNZ and B+LNZ *“Farmers should be able to form collectives to measure, manage, and report their emissions in an efficient way”*.

There is no operational, technical, or logical reason why farmers should be excluded from this option, given that the Government has rightly recognised and provided a collective pathway for Māori. All system participants should have access to collective reporting from the outset, as proposed by the Partnership. **See question 4, Part C for more information.**

<sup>1</sup> Ministry for the Environment. 2022. *New Zealand’s Greenhouse Gas Inventory 1990–2020*. Wellington: Ministry for the Environment

## Revenue recycling, collection, and use

**B+LNZ rejects Government’s proposal regarding revenue recycling. All revenue generated by the levy must be invested back into the primary sector and the sector should have a role in deciding what that is spent on.**

The Government has made several changes to the collection, and use of revenue recycling that B+LNZ does not support. We support the He Waka Eke Noa November submission on these issues. We also note this was a core principle agreed to by Federated Farmers, DairyNZ and B+LNZ: *“Any levy revenue must be ringfenced and only be used for the administration of the system, investment in R&D, or go back to farmers as incentives. Administration costs must be minimised.”*

In particular, the Government’s proposal creates unnecessary surplus levy money due to the changes it has made to what the levy can be spent on, including less sequestration. Farmers should not have to pay more than is necessary to make changes and fund incentives.

The Government has also proposed using the surplus generated for areas outside of what is proposed by He Waka Eke Noa, such as funding already announced Government investments in the agriculture sector and possibly buying offshore abatement or overseas carbon credits.

B+LNZ cannot accept the Government’s proposal that retroactively directs farmer levies to pay for existing, unilateral budget commitments. Using the levy revenue for wider climate change funding is outside the principles put forward by the He Waka Eke Noa Partnership.

The Government proposal has also watered down the industry’s input into an advisory body for Government’s consideration, and therefore the industry’s buy-in and influence on what mitigations and incentives will work best on-farm. During our consultation with farmers, they wanted to see the sector driving this process.

B+LNZ supports the industry’s strong involvement in setting strategy for the use of farmer levy money as per the recommendations in He Waka Eke Noa. The system should not intend to create a surplus, all revenue should be reinvested back into the agricultural sector and not on other activities. **For further discussion see Question 6, Part C.**

## Interim Processor Levy

**B+LNZ does not support an interim processor levy as proposed by the Government. We support the He Waka Eke Noa recommendations on how a farm-level system can be set up and functioning in 2025.**

In recognising that there are challenges in getting the system up and running by 2025 the He Waka Eke Noa Partnership worked through how these might be overcome. Effectively, we are proposing a simplified version of a farm-level levy starting in 2025, transitioning to a full farm-level levy in 2027.

B+LNZ are confident that it can be done. Getting the system up and running by 2025 is critical to building confidence in the system, as farmers are concerned that the Government's processor back-stop proposal seems predetermined and an easy out option for the Government at a cost to the farmers.

A key piece of feedback from farmers during our recent consultation is that they want a system that will reward them for undertaking actions that reduce their on-farm emissions. A processor levy does not do this. The disadvantages of the processor levy system have been well-traversed, and it would be the wrong thing to do in terms of getting farmers on the journey.

This position is consistent with the Federated Farmers, B+LNZ, DairyNZ core principle that *"The system must incentivise farmers to uptake technology and adopt good farming practices that will reduce global emissions"*

B+LNZ and farmers have no interest in setting up two systems, as this would be inefficient, more expensive and delay farmers from being incentivised or rewarded for making on-farm changes. It would also require a different system for rewarding sequestration which doesn't make sense. **For more discussion see question 9, Part C.**

### **Government-led modelling**

**While B+LNZ have questions about the Government's modelling there are some important take-outs from their work that are consistent with independent modelling B+LNZ released in June 2022.**

The Government modelling:

1. Reinforces the vulnerability of sheep, beef and deer farmers to pricing;
2. Reinforces that targets can be achieved at lower levy prices particularly when the levy system does not generate unjustified and unneeded surpluses; and
3. Reinforces the importance of full sequestration recognition, especially for sheep and beef farmers to underpin the viability of their business under emissions charges.

Importantly, the Government modelling reinforces why it is vital that the Government listen to the sector, through this and the He Wake Eke Noa submissions,

Given the potential financial impacts B+LNZ requests the Government take a cautious approach and reconsider how it is both engaging with industry and working through elements of its proposal, starting with:

- Setting as lower as possible initial price settings
- Ensuring the full range of sequestration options
- A wide range of factors for methane price determination
- Comprehensive transitional arrangements
- Farm level nitrous oxide levy system and
- The Government make the investment in getting the system up and running by 2025 and not relying upon an interim levy. **See question 15, Part B for more information.**

## **Cap-and-trade proposal**

**B+LNZ request the Government not take further any consideration of a cap-and-trade model.**

The Government's proposal puts forward an option of a cap-and-trade model for methane.

B+LNZ has significant concerns about a cap-and-trade approach and requests the Government does not further pursue this option. A cap-and-trade system could potentially have a negative impact and undermine the viability of the sheep and beef sector. B+LNZ concerns around cap-and-trade include:

- The challenge of making initial allocations and the potential impact grandparenting existing emissions could have on sheep and beef. This would be unfair to new entrants to the market or those with development plans
- The need to keep refining and altering the market, for example, recent concerns about the Australian Water Market raised by the Australian Productivity Commission, and the perverse and negative outcomes they can generate, such as the NZ ETS now driving rapid afforestation
- The market, could leave the sheep, beef and deer sector exposed to competing with other agricultural sectors with higher marginal returns and a greater ability to outsource their emissions reduction through the market, creating an imbalance within agriculture and bringing with it a range of potential social and community impacts
- A simple cap-and-trade system could undermine the Partnership, balance and equity achieved within the He Waka Eke Noa proposal.
- If the decision were taken to create subsector markets this could reduce the equity issues identified above but would significantly increase the complexity. Many sheep and beef farmers run diverse operations and would therefore likely need to engage in several markets at the same time
- If a cap-and-trade was introduced for methane, we would also need a separate system for nitrous oxide, because we want a unique price for this outside of the NZ ETS. This would further add to the complexity for farmers operating in multiple systems for the different gases. **See Question 2, Part C for more information.**

## **Urgent review of the place of forestry within the NZ ETS**

**B+LNZ reiterates its call for limits to be placed on forestry offsetting within the NZ ETS and for this to be in place by 2025.**

While outside the scope of the pricing of agricultural emissions consultation, a key concern for farmers raised during our consultations in October and November is the rapid increase in the sale of sheep and beef farms into forestry, which is being driven by the carbon price.

New Zealand is currently the only country to allow fossil fuel emitters to offset 100 percent of their emissions. As the carbon price has risen, we have seen a surge in sheep and beef farms being brought by forestry and carbon interests for fossil fuel offsetting, instead of

reducing emissions. Carbon farmers and foresters can pay significantly more for sheep and beef land because there is effectively a subsidy from the carbon price.

Farmers are concerned that the sheep and beef sector will be vastly more impacted by a price on agricultural emissions because of this policy situation. The decrease in sheep and beef revenue caused by a price on agricultural emissions could lead to more farmers' exiting the sector and these farms are likely to be bought up by carbon induced forestry, rather than sheep and beef farmers.

The Climate Change Commission, Parliamentary Commissioner for the Environment and many environmental non-governmental organisations (NGOs) agree there is a problem and a calling for limits to be placed on forestry offsets in the NZ ETS. It is vital that this policy issue is resolved before a price on agricultural emissions comes into place in January 2025. **See further discussion in Question 15.**

### **Methane targets**

**B+LNZ reiterates its position that the current methane targets are too high and that they must be reviewed using the latest warming science, including GWP\*.**

While greenhouse gas targets are not the subject of this consultation, they are inextricably linked to the price agricultural greenhouse gases, by virtue of the Government's intention to meet both them and the Climate Change Commission's five yearly carbon budgets. It is therefore vital that we review and amend the methane targets before the pricing of agricultural emissions begins in 2025.

We note that this was a core principle agreed to by Federated Farmers, DairyNZ and B+LNZ: *"The current methane targets are wrong and need to be reviewed. Any target should be science-based, not political, and look to prevent additional warming."*

The 2024 review of Zero Carbon Act targets will be an important time to reassess what we know about New Zealand's efforts and the latest science regarding the treatment of methane as a short-lived gas. We have made some progress in terms of getting the overall architecture right, but the methane targets are an important part of the puzzle that still needs to be revised.

The Government has recognised a split gas approach within the pricing system itself, by agreeing that agriculture should not be part of the NZ ETS. If agriculture was in the NZ ETS, the methane price would be linked to the carbon price, and we would effectively face a net zero target for methane. The Government has also agreed not to use the GWP100 metric for methane in the pricing framework, and the price is based on the weight of methane. While these are all necessary, this is not the end of the story. The targets also need to be reviewed because pricing will need to deliver on the trajectory of methane reductions out to 2050.

B+LNZ seeks that the target range specified for biogenic methane by 2050 is 'fair' and 'equitable' given the warming impact of methane as measured by an appropriate metric such as GWP\* for short-lived gases.



## Part B

### 3. Background – Sheep and Beef Industry

The Government's proposal showed a lack of knowledge and understanding of the sheep and beef sector. Therefore, B+LNZ request that officials read this section to further their understanding and allow it to provide context to enable better advice to decision-makers.

B+LNZ invests farmer levies in programmes that support the sheep and beef industry. We actively deliver numerous environmental programmes that aim to:

- Build farmer capability and capacity in environmental management,
- Support sustainable product development, and
- Assist evidence-based and equitable policy development.

People are at the core of New Zealand's sheep and beef sector and significantly contribute to regional communities and New Zealand's economy. There are approximately 23,000 sheep and beef farm holdings in New Zealand of which 9,200 are estimated to be commercial. Over 90 percent are owner operated and qualify as small to medium enterprises (SMEs) and 68 percent have 1-3 full time equivalents (FTEs) with 11 percent having 3 or more FTEs<sup>2</sup>.

The red meat industry (including both the livestock production and red meat processing sectors) supports over 92,000 jobs in New Zealand, which is approximately 4.7 percent of the New Zealand workforce. This is made up of approximately 35,700 FTEs directly and more than 56,700 FTE jobs being underpinned by the industry because of flow-on impacts.

The red meat sector's contribution to employment is even more pronounced at a regional level. For example:

- In Taranaki, Manawatu, and Whanganui combined, the livestock production sector supports over 4 percent of the workforce – approximately 1,960 jobs directly and a further 4,000 underpinned by the sector because of flow-on impacts. While the red meat processing sector supports approximately 8 percent of the FTE workforce – approximately 3,200 jobs directly and a further 8,100 underpinned by the sector because of flow-on impacts.
- In Canterbury, the livestock production sector supports over 5 percent of the workforce – approximately 3,860 jobs directly with more than 10,000 jobs being underpinned by the sector, because of flow-on impacts. While the red meat processing sector supports approximately 4 percent of the FTE workforce – approximately 3,200 jobs directly and a further 7,500 underpinned by the sector because of flow-on impacts.
- In Otago and Southland combined, the livestock production sector supports 7 percent of the workforce – 3,200 jobs directly and almost 6,800 underpinned by the sector, because of flow-on impacts. While the red meat processing sector

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<sup>2</sup>Economic contribution of the New Zealand red meat industry, June 2020

<https://beeflambnz.com/sites/default/files/news-docs/Economic-Contribution-of-the-NZ-Red-Meat-Industry.pdf>

supports approximately 10 percent of the FTE workforce – approximately 4,500 jobs directly and 10,200 that are underpinned by the sector because of flow-on impacts.

The sector is a significant contributor to New Zealand's economic well-being. Exports of red meat (excluding wool and deer products, including sheep meat, beef, and co-products) totalled around \$12 billion in the year ending September 2022, with raw wool adding another \$421 million. This was 18 percent higher than in the same period a year earlier, and equivalent to 17 percent of total merchandise exports<sup>3</sup>.

The red meat industry's exports are crucially important to the broader New Zealand economy, helping the nation lift revenue, increase jobs, raise the standards of living, and increase foreign currency reserves – allowing New Zealand to pay for imports the nation needs. B+LNZ forecasts that exports of lamb, mutton, beef, and veal from the red meat industry will earn New Zealand nearly \$30 million per day on average in 2022-23<sup>4</sup>.

Since 1990, sheep numbers have more than halved falling from 58 million in 1990 to 25.7 million in 2021. Over the same period, beef cattle numbers have fallen from 4.6 million to 4 million. The fall in sheep numbers has been accompanied by huge productivity improvements with lambing performance (lambs/100 ewes) increasing from 102 in 1990 to 130 in 2021 while the average lamb carcass weight increased from 13.9 kilogrammes to 19.1 kilogrammes. Combined these developments, which represent significant productivity improvements, have resulted in per-ewe lamb production more than doubling – from 9.8 kilogrammes in 1990-91 to 21.3 kilogrammes in 2021-22. These productivity improvements mean total lamb production over this period has only decreased 14 percent from 411,000 tonnes to 354,000 tonnes.

The reduction in sheep numbers and productivity improvements correspond with reductions in absolute greenhouse gas (GHG) emissions of more than 30 percent since 1990. This includes a 43 percent reduction in total sheep emissions from 14,558 kilotonnes carbon dioxide-equivalent (CO<sub>2</sub>-e), in 1990 to 8,271 kilotonnes CO<sub>2</sub>-e in 2020. Per tonne of production in carcass weight equivalents there has been a 35 percent reduction for sheep from 27.5 tonnes CO<sub>2</sub>-e in 1990 to 17.9 tonnes CO<sub>2</sub>-e in 2020 and a 7 percent reduction in beef from 13.9 tonnes CO<sub>2</sub>-e to 12.9 tonnes CO<sub>2</sub>-e over the same time.

At the farm gate, New Zealand is one of the most efficient lamb producers in the world. Based on GWP100 GHG accounting methodology and including transport, the total carbon footprint of a kilogramme of New Zealand lamb sold averages 14.7 kilogramme CO<sub>2</sub>-e, which is lower than domestically produced lamb in most markets that New Zealand exports to. Using GWP\*, which is a truer reflection of emissions-based on warming impacts, New Zealand lamb is arguably climate neutral, the carbon footprint of a kilogramme of sheepmeat (to farm gate) is 2.13 kilogramme CO<sub>2</sub>-e per kilogramme sheepmeat, when sequestration by trees on-farm is added to the calculation (balancing emissions and net removals) the carbon footprint of New Zealand sheepmeat is -0.34 kilogramme CO<sub>2</sub>-e per kilogramme sheepmeat, even when

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<sup>3</sup> Lamb, mutton, beef & veal, edible offal, other meats, hides & skins, tallow, animal oils & fats, crude animal materials, leather & dressed skins, meat meal, animal feeds, & waste from [VALUE OF NEW ZEALAND EXPORTS](#), which is B+LNZ analysis of Statistics NZ data.

<sup>4</sup> <https://beeflambnz.com/sites/default/files/data/files/New-Season-Outlook-2022.pdf>

including processing and shipping<sup>5</sup>. This reinforces the importance of getting the right measures in place.

New Zealand beef producers are also among the most efficient in the world. Again, using GWP100, the total carbon footprint of New Zealand beef shipped from farm-to-table averages 21.9 kg CO<sub>2</sub>-e per kilogramme, which is at the lower end for beef produced in those markets and from other exporters to those markets<sup>6</sup>.

Sheep and beef farmers contribute significantly to native biodiversity management and conservation in New Zealand. Approximately 2.8 million hectares of native habitat, including 1.4 million hectares of native forest, are on sheep and beef farms. This is the second largest holding of native forest in the country, representing almost 25 percent of New Zealand's remaining native vegetation<sup>7</sup>. New Zealand sheep and beef farmers are second only to the Crown estate as kaitiaki of New Zealand native vegetation.

On-farm woody vegetation consists of 1.52 million hectares of native forest and 0.48 million hectares of exotic vegetation. While estimates vary, the Ministry for the Environment estimates that this woody vegetation is offsetting about a third of the red meat sector's GHG emissions. As will be noted later in this submission, farmers are currently not being recognised and rewarded for much of this and the Government's proposal severely undermines equitable, fair, and practical steps taken by the He Waka Eke Noa proposal to do this. In addition to sequestering carbon, this vegetation delivers more comprehensive benefits for New Zealand's biodiversity and freshwater ecosystems<sup>8</sup>.

Sheep and beef farmers actively plant and maintain vegetation to control erosion, provide native habitat, provide shade, and shelter for their animals, and limit their impact on freshwater health. Through catchment groups, regional councils, and their initiative, landowners planted over 19 million indigenous trees and close to 37 million exotic trees thanks to the support of the One Billion Trees Programme.

Sheep and beef farming has always been important to New Zealand and is a vital part of New Zealand achieving its objectives in the management of GHG emissions. For the sector (and New Zealand) to remain resilient, farm businesses must continue to be able to adapt, innovate, and respond to a changing climate, changing markets, and changing personal circumstances.

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<sup>5</sup> Carbon footprint of New Zealand beef and sheep exported to different markets (2021) Dr Stewart Ledgard, Shelley Falconer, and Dr Andre Mazzetto. AgResearch.

[https://beeflambnz.com/sites/default/files/levies/files/BLNZ\\_review\\_report.pdf](https://beeflambnz.com/sites/default/files/levies/files/BLNZ_review_report.pdf)

<sup>6</sup> Carbon footprint of New Zealand beef and sheep exported to different markets (2021) Dr Stewart Ledgard, Shelley Falconer, and Dr Andre Mazzetto. AgResearch.

[https://beeflambnz.com/sites/default/files/levies/files/BLNZ\\_review\\_report.pdf](https://beeflambnz.com/sites/default/files/levies/files/BLNZ_review_report.pdf)

<sup>7</sup> David Norton and Jennifer Pannell (2018) Desk-top assessment of native vegetation on New Zealand sheep and beef farms. University of Canterbury. Website:

<https://beeflambnz.com/sites/default/files/FINAL%20Norton%20Vegetation%20occurrence%20sheep%20beef%20farms.pdf>

<sup>8</sup> Case, B and Ryan, C (2020) An analysis of carbon stocks and net carbon position for New Zealand sheep and beef farmland. Auckland University of Technology. Website: [https://beeflambnz.com/sites/default/files/news-docs/BL\\_Carbon\\_report\\_for\\_review\\_final\\_submit.pdf](https://beeflambnz.com/sites/default/files/news-docs/BL_Carbon_report_for_review_final_submit.pdf)

## Part C

### 4. Addressing the Government's specific questions

#### Question 1

Do you think modifications are required to the proposed farm-level levy system to ensure it delivers sufficient reductions in gross emissions from the agriculture sector?

**Yes, change is essential.**

#### B+LNZ recommendation

Beef + Lamb New Zealand (B+LNZ) strongly requests that a range of modifications are made based on the specific recommendations set out in this submission and the submission by the He Waka Eke Noa Partnership.

While not directly in the scope of the agricultural pricing framework, B+LNZ reiterates its position that there needs to be a review of the methane targets based on the latest science including GWP\* and the targets reduced appropriately, prior to the commencement of a price being placed on emissions.

#### Reasoning

#### **A suite of proposed changes is made to the proposed farm level system:**

It is vital that the Government's proposal is amended in line with critical elements of the Partnership's recommendations.

B+LNZ seeks to rebalance the policy options outlined in the Government's proposal and regain farmer and sector confidence in how agricultural emissions are to be managed by:

- Re-broadening the sequestration categories to align with what was originally proposed by the He Waka Eke Noa Partnership, supported by a "Declaration" rather than "Contract" system
- Setting the nitrous oxide price independently from the carbon price of the New Zealand Emission Trading Scheme (NZ ETS)
- Ensuring that factors other than progress against methane reduction targets are given equal weight in the setting and review of the methane price, with a wider list of criteria than what was originally proposed
- A revised proposal for a cautious initial approach to the methane price
- Providing farmers access to temporary levy relief if the viability of their business is threatened based on an inability to reasonably access mitigation or sequestration options
- Ensuring the system's settings are such that unnecessary additional revenue is not collected
- Providing industry participation in the governance, and ongoing, price-setting processes
- Ensuring that activities funded by levies on agricultural emissions directly supports agriculture's adaptation to a lower emissions system

- Allowing farmers to form collectives to measure, manage, and report their emissions efficiently
- Providing a diverse range of incentives to support farmers' investment in technology and practice change
- Tracking of annual emissions reductions at the sector level to ensure that equitable reductions in emissions are occurring and no sector's viability is being undermined
- That the Government work in partnership with industry and ensure the work is done to deliver a simplified or basic farm-level pricing system, as recommended by the Partnership
- Rejecting the idea of a cap-and-trade methane quota.

### **Review of the methane targets**

B+LNZ does not agree with the current methane reduction targets which are too high and that are asking agriculture to do more than what is being asked of carbon dioxide - that of no additional warming.

The Partners are united in their view that the methane targets must be reviewed based on the latest scientific knowledge, including GWP\*, and look to prevent additional warming from livestock emissions. This review must be completed prior to pricing commencing in 2025 and should be reflected in the set-up of the emissions pricing system.

### Question 2

Are tradeable methane quotas an option the Government should consider further in the future?

**No**

### B+LNZ recommendation

**B+LNZ absolutely rejects the establishment of a cap-and-trade system for methane quota and recommends no further work is undertaken on this option.**

### Reasoning

Cap-and-trade models are a poor way of addressing the issues surrounding externalities such as methane.

B+LNZ concerns around cap-and-trade include:

- The challenge of making initial allocations and the impact grandparenting existing emissions could have on sheep and beef). This would be unfair to new entrants to the market or those with development plans
- The need to keep refining and altering the market, for example recent concerns about the Australian Water Market raised by the Australian Productivity

Commission and the perverse and negative outcomes they can generate, such as the NZ ETS now driving rapid afforestation

- The market could leave the sheep, beef and deer sector exposed to competing with other agricultural sectors with higher marginal returns and a greater ability to outsource their emissions reduction through the market, creating an imbalance within agriculture and bringing with it a range of potential social and community impacts
- A simple cap-and-trade system could undermine the partnership, balance and equity achieved within the He Waka Eke Noa proposal.
- If the decision was taken to create subsector markets, this could reduce the equity issues above, but having a lot of subsectors (e.g. dairy, sheep, beef, deer, arable etc) would significantly increase the complexity of the framework. Many sheep and beef farmers have diverse operations and would therefore likely need to engage in several markets at the same time
- If a cap and trade was introduced for methane, we would also need a separate system for nitrous oxide, because we want a unique price for this outside of the NZ ETS. This would further add to the complexity for farmers operating in multiple systems for the different gases.

In direct advice to the Government on the 29 September 2022, the Climate Change Commission's Chairperson Dr Rod Carr, cautioned the Environment Select Committee that "though a cap-and-trade on methane appears attractive, those agricultural groups that have a higher margin would buy the rights. The minute you don't like an inequality and start to correct this with other means, you complicate the system".

The impact of the NZ ETS is a further clear and present example of how tradable quota systems oversimplify the social, economic, and cultural complexities inherent in choices around emissions management. For example, the NZ ETS is currently generating a range of perverse and negative outcomes, such as the rapid conversion of land to pine monocultures. A factor the Government is acutely aware of and are now trying to remedy. This mistake must not be repeated.

B+LNZ argue a better and fairer model is to build a wider set of incentives and programmes that drive technological innovation and practice change. B+LNZ strongly endorses the He Waka Eke Noa Partnership option for methane pricing and levy utilisation.

### Question 3

Which option do you prefer for pricing agricultural emissions by 2025 (a) farm-level levy system including fertiliser (b) farm-level levy system and fertiliser in the New Zealand Emissions Trading Scheme (NZ ETS) (c) processor-level NZ ETS?

**(a) farm-level levy system including fertiliser**

B+LNZ recommendation

## **B+LNZ supports the inclusion of fertiliser in the farm-level system.**

### Reasoning

Farmers overwhelmingly told us that they support a farm-level levy system that includes fertiliser. Of the farmers who attended feedback meetings in October and November, the clear majority wanted synthetic fertiliser emissions priced within the farm level levy.

B+LNZ supports the inclusion of fertiliser in the farm-level system because:

- It better supports whole-of-farm GHG emissions reduction decision-making
- It puts the feedback loop at the decision-making level (the farm) as processor levies don't drive farm management choices
- It allows for **all** nitrous oxide emissions to be priced and reported independently of the NZ ETS
- It will better encourage and reward farmers for making good on-farm fertiliser use decisions within different farming systems
- It allows farmers to understand and balance all their emissions against offsets or incentives, within their own business – a key factor in driving behaviour change
- It would better integrate with other farmer tools such as farm environment plans to make on-farm decisions.

Linking the fertiliser to the NZ ETS in effect generates a punitive or cost/price model for driving change, this is a stick approach, as the price of nitrous oxide simply rises based on the carbon market and is not based on changes made at the farm. B+LNZ cannot support this.

**Note.** The Government's proposal is that if synthetic fertiliser was to be captured through the NZ ETS the revenue from those emissions would go into the general NZ ETS scheme and not towards reducing agricultural emissions. This is also not an acceptable approach. He Waka Eke Noa's approach, endorsed by B+LNZ, is that all levies collected from farmers should be utilised within the industry for research and development (R&D), recognising sequestration, supporting technology uptake and other mitigation options.

### ***Farmer feedback***

Of the farmers who attended feedback meetings around 70 percent wanted synthetic fertiliser emissions are priced within the farm level levy.

### Question 4

Do you support the proposed approach for reporting of emissions?

### **In part**

### B+LNZ recommendation

**While B+LNZ strongly supports farm level emissions reporting (see question 3) as proposed by the He Waka Eke Noa partnership, we further recommend the following changes:**

- **Include slope in the nitrous oxide reporting methodology from the outset**

- Allow the option for all system participants to report as collectives from the outset
- If partial year reporting is required before the detailed reporting method is available, do a report for the full year and then pro-rata the emissions for the required period.

**B+LNZ continues to recommend that a two-phased approach be taken to pricing for agricultural emissions. A simple, low-cost model that reflects the availability of mitigations for most farmers as well as the science on methane’s contribution to warming. This should be followed by a more granular approach as technologies allow.**

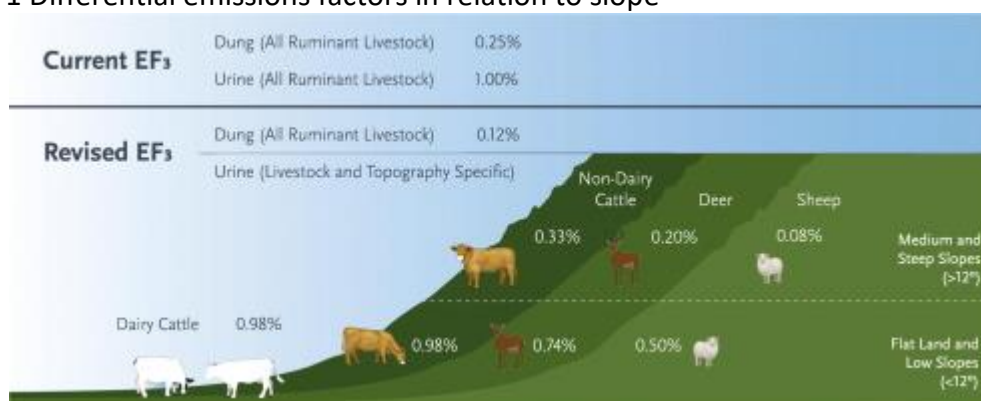
## Reasoning

### Slope in nitrous oxide reporting

A key concern of B+LNZ is the suggested removal of slope. This is of vital importance to ensure our farmers get a fair deal that is science-based when reporting their emissions. Excluding slope from nitrous oxide reporting significantly disadvantages sheep and beef farmers, as sheep and beef farms have a greater proportion of their farming system on sloping land. Excluding slope means nitrous oxide emissions from urine released on steep slopes is significantly over estimated.

This overestimation impacts sheep and non-dairy cattle systems, which are predominantly run on medium to steep slopes (>12 degrees), see Figure 1. Approximately 79 percent of sheep and beef farms are classed as medium (12–24 degrees) or steep (greater than 24 degrees)<sup>9</sup>.

Figure 1 Differential emissions factors in relation to slope



Further, research demonstrates that the current use of a consistent emissions factor for urine of 1 percent for all ruminant livestock is not a true reflection of emissions patterns. This is because the emissions factor for urine should be specific to livestock class and topography. For example, the recommended emissions factors for urine are 0.5 percent for sheep on flat land and low slope (<12 degrees) and 0.08 percent for sheep on medium

<sup>9</sup> Ministry for the Environment. 2022. *New Zealand’s Greenhouse Gas Inventory 1990–2020*. Wellington: Ministry for the Environment



and steep slopes (>12 degrees) and 0.98 percent for non-dairy cattle on flatland and low slope (<12 degrees) and 0.33 percent for non-dairy cattle on medium and steep slopes (>12 degrees)<sup>10</sup>.

The Government's view that slope data links with nitrous oxide emissions will not be available prior to 2025, is incorrect. It is a well-grounded and easily measured characteristic of landform today. The New Zealand Greenhouse Gas Inventory report 2022, states nitrous oxide emission factors for dung and urine disaggregated based on livestock type (for dairy cattle, non-dairy (beef) cattle, sheep, and deer) and hill slope category. A 'nutrient transfer model' is then able to be used to calculate the amount of dung and urine deposited onto the different hill slope categories, giving a reliable estimate incorporating slope. This robust methodology already exists through the national inventory. As such it is not credible to argue that data is unavailable, or systems are not able to be developed in time.

The majority of nitrous oxide emissions from sheep and beef farms is from urine deposition so it's vital that we recognise the impact of slope on those emissions. . Having the correct metrics as part of a reporting and emission profile is vital, if sheep and beef farmers are to remain as a thriving part of our economy and our hill country farmers are to avoid being overcharged for their nitrous oxide emissions.

### **Collective reporting**

B+LNZ also does not support the Government's proposal to delay the ability of a farmer to report collectively. There are not operational, technical, or logical reasons why farmers should be excluded from this option, given that the Government has rightly recognised and provided for a collective pathway for Māori. All system participants should have access to collective reporting from the outset, as recommended by the Partnership. This is a simple issue for the Government to address and one that is well supported by sheep and beef farmers. Of the farmers who attended recent feedback meetings, the overwhelming response was that the option to report collectively should be available to them.

### **Reporting partial year reporting**

The recommendation that the system begin with a partial year on 1 January 2025 causes concern for B+LNZ. This date does not align with the farm business reporting year, which would allow for improved accuracy and verification. The move to obtain a stock reconciliation to the 1 January when it is not normally done will add complexity and cost due to completing a partial year report.

Starting emissions pricing from July 2025 would enable alignment with the farming calendar and effectively extend the timeframe for implementation by a year. The data-reporting requirements for the simple emissions pricing methodology strongly align with

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<sup>10</sup> van der Weerden, Noble, Luo, de Klein, Saggarr, Giltrap, Gibb & Rys (2020), Meta-analysis of New Zealand's nitrous oxide emission factors for ruminant excreta supports disaggregation based on excreta form, livestock type and slope class

a farms financial reporting data. Most farms in New Zealand have a financial balance date of May 31 (dairy) or June 30 (sheep and beef). Aligning with this would avoid the need for farmers and growers to collect data from 2023/24, and then undertake a part-year analysis.

The shifting of pricing from a start date of January to a start date of June/July is a pragmatic solution and would be inconsequential in terms of emissions reductions.

#### Question 5

Do you support the proposed approach to setting levy prices?

**No**

#### B+LNZ recommendation

**B+LNZ strongly supports methane having a separate price, as it is short-lived gas with a different impact on warming to carbon dioxide.**

B+LNZ support the Partners new proposal in its November submission that levy rates should be:

- Set at the level required to incentivise emissions reduction while maintaining the viability of the primary sector
- Set at the minimum level needed to balance the factors outlined in the partnership’s revised price-setting criteria, provide for incentives, R&D and administration costs, and
- For the first five years capped at no more than 8 cents per kg of methane in 2030, with a starting level of no more than 5 cents in 2025. Noting that there is expected to be fewer mitigations and therefore less funding required for incentives at the outset.

**B+ LNZ rejects the primacy the Government’s proposals** give to the criteria of progress towards emissions reduction targets in determining the recommended methane price and supports the broader set of criteria set out in the He Waka Eke Noa November submission.

**B+LNZ strongly opposes** the Government’s proposal to link the nitrous oxide price to the carbon price within the NZ ETS and supports the Partnership’s proposal of a unique price for nitrous oxide.

**B+LNZ also reiterates the recommendations of the He Waka Eke Noa submission** and that an Independent Oversight Board is established and that the agricultural sector has input into the price setting process.

#### Reasoning

**Methane price (including initial price ceiling)**

The Partnership made several recommendations about initial price setting that the Government ignored in its proposal in relation to the methane price and initial price ceilings.

A key concern, driver of anxiety and lack of confidence in the pricing framework for farmers during our recent consultation, was uncertainty around the price and where it could head in the future. It is critical to minimise price uncertainty to give farmers confidence to invest in the activities that will support emissions reductions and farm viability.

The Government has only sought feedback on whether the biogenic methane levy should be updated annually or every three years.

Considering the Government's modelling which shows potentially significant impacts of a price on emissions, the Partnership has revised its proposals around the methane price setting and B+LNZ strongly urges the Government to accept these.

The Government needs to make clear that it will only set the price at the level required to incentivise emissions reduction while maintaining the viability of the primary sector and aligned with the revised He Waka Eke Noa criteria, i.e. the minimum needed to fund incentives, R&D and administration costs

Our strong recommendation also is that the levy rate is for the first five years capped at no more than 8 cents per kg of methane in 2030, with a starting level of no more than 5 cents in 2025 (noting that there is expected to be fewer mitigations and therefore less funding required for incentives at the outset).

Setting a range enables flexibility to adjust as needed to avoid build-up of levy surplus or deficit. This would be consistent with the way the Government manages other levy income accounts. Changes to methane prices within the range could be made in consultation with the oversight advisory body within the five-year period.

Government has indicated that it is considering allowing Ministers to make out-of-cycle levy adjustments in exceptional circumstances if a review cycle is longer than one year. Partners would like to work with Government to establish and agree clear criteria for any adjustment due to 'exceptional circumstances', noting that the primary role of pricing is to fund the activities that will support farmers and growers to make the changes needed to reduce emissions.

Regarding the price ceiling, the Government's own modelling suggests that a methane price of 8 cents per kilogramme methane could lead to greater emission reductions than necessary to meet the 2030 biogenic methane target. Further, He Waka Eke Noa modelling indicated that a lower methane price of around 5 cents per kilogramme would still generate enough income to support incentives, fund R&D, and contribute to administration costs. He Waka Eke Noa sequestration would be paid for from the revenue raised through the nitrous oxide levy (and that was set to cover the cost of the sequestration recognised in the system, fund incentive discounts for approved actions for

nitrous oxide reduction, fund research and development for nitrous oxide reduction, and cover a share of administrative costs). This system avoids raising the estimated \$100-\$140 million 'surplus' levy flagged in the government proposals.

### **Price Setting Criteria**

Consistent with the Partnerships' recommendation B+LNZ strongly supports methane having a separate price, as it is a short-lived gas with a different impact on ongoing warming than a long-lived GHG.

B+LNZ **does not, however**, support the Government's proposal to give primacy to the criteria of progress towards emissions reduction targets, in determining the recommended methane price. This idea is a significant shift from the ideas and practice established by He Waka Eke Noa.

The weighting to emissions reduction targets, at the expense of socio-economic impacts, is too narrow a focus to determine price. Decisions on the setting of a methane price should be de-politicised but needs to look beyond targets alone and consider the domestic and international context. If we do not look at international and domestic policy considerations, we are at risk of harming New Zealand for little global gain. In fact, the Government's modelling suggests it would be to the global detriment regarding sheep-meat.

Rather, B+LNZ supports the revised He Waka Eke Noa recommendation in its November submission that a much broader range of factors be included in determinations of price, including:

- Trajectory of emissions reduction towards emissions targets
- Availability and cost of (current and future) on-farm mitigations
- Social, cultural, and economic impacts on farmers, regional communities, and Māori agribusiness
- Best available scientific, mātauranga Māori, and economic information
- Emissions leakage from production moving offshore
- Impact on food security (both domestically and internationally).

The recommendation reflects work by the He Waka Eke Noa Partnership that found price could not be the sole driver without driving a collapse of the agriculture sector. Incentive payments to encourage the use of new technologies as they become available will be more effective in achieving emission reductions and would achieve the 2030 targets set under the Climate Change Response Act. Having the right criteria for determining price will be critical to farmers' ongoing support and delivering on fairness, equity and a just transition to a low emissions economy.

### **Farmer Feedback**

That the pricing criteria for methane should consider broader factors than just progress towards emissions targets was supported by 94 percent of those farmers who attended our feedback meetings.

## Nitrous Oxide Price

**B+LNZ strongly opposes** the Government's proposal to link the nitrous oxide levy to the carbon price within the NZ ETS. In its advice to government on [emissions budgets](#), the Climate Change Commission set out illustrative scenarios on what budget achievement could entail across the different greenhouse gases.

These illustrative scenarios show carbon dioxide emissions from the industrial processing, transport and energy sectors is expected to make significantly deeper cuts than nitrous oxide emissions to meet net zero emissions of long-lived greenhouse gases by 2050. Across the three budget periods carbon dioxide is expected to make cuts of 10, 26 and 56 percent respectively, while nitrous oxide cuts expected are 5, 11 and 17 percent.

This separate trajectory for reductions of nitrous oxide means that linking the price of nitrous oxide emissions to the carbon price does not make sense and could provide a more onerous burden on nitrous oxide than is necessary to meet the emissions budget and net zero 2050 target.

Further, linking the nitrous oxide price to the wider carbon market through the NZ ETS disconnects the nitrous oxide price setting mechanism from a key principle of the He Waka Eke Noa Partnership recommendations.

All modelling on pricing (the Government's, He Waka Eke Noa, and B+LNZ) showed that too high a price (i.e. the stick) would devastate rural businesses and in particular sheep, beef and deer business (which often exit together within one farm).

Modelling by B+LNZ based on the B+LNZ Sheep and Beef Farm Survey indicates that linking the nitrous oxide price to the carbon dioxide price could see the payment for nitrous oxide emissions exceeding the payment for methane once the carbon price gets above \$160/tonne CO<sub>2</sub>-e, despite nitrous oxide being a relatively small proportion of a sheep and beef farmer's overall emissions – on average.

Much like petrol excises, the point at which price alone would lead to unacceptable socio-economic impacts. Therefore, the He Waka Eke Noa Partnership puts greater emphasis proposing a 'carrot' approach, and one in which the agricultural emissions management system should collect no more than necessary to fund R&D, incentive payments, sequestration, and a contribution towards administration costs.

What is clear is that the Government's proposals in this area are not a tweak on what was recommended by He Waka Eke Noa. In fact, it would have massive consequences for the emissions levy obligation of sheep and beef farmers over time. We cannot have the viability of sheep and beef farmers challenged by wrongly connecting the nitrous oxide price with the NZ ETS price. The financial impacts sheep and beef farmers of the Government's proposal are significant, so ensuring a balanced and incentive focused package it critical.

### ***Farmer Feedback***

The pricing of nitrous oxide independent of the NZ ETS is the supported by 93 percent of farmers, as at our recent feedback meetings.

### **Governance - Climate Change Commissions role**

**B+LNZ does not** support the Government's Proposed role for the Climate Change Commission being the only body providing advice to ministers and supports the original Partnership proposal on this.

B+LNZ was consistent throughout the He Waka Eke Noa process that the most important objective in designing decision-making processes is that decisions are based on good-quality science and economic evidence. The sector has considerable expertise, technical knowledge, and real-world data and B+LNZ asks that this is leveraged to support modelling, the understanding of potential impacts, and ultimately effective decision-making to provide confidence to those affected by the decisions and better overall outcomes.

It is recommended an Independent Oversight Board is established that would work closely with the Independent Māori Board and sector bodies to provide advice to Ministers on the appropriate levy rates, the price of sequestration, and the value of incentive discounts used to incentivise the adoption of mitigation technologies. The Independent Oversight Board will also have the predominant role in providing advice on how recycled revenue will be used. The Independent Oversight Board members should be appointed:

- In accordance with a skills matrix agreed by industry and Government; and
- By an appointments committee whose members are jointly agreed by industry and Government.

The agreed skills matrix and the appointments committee process seeks to provide industry with confidence in the process while maintaining independence of the Independent Oversight Board. The Independent Oversight Board should include specific experience and expertise including:

- Primary sector knowledge
- Farms systems and farm management (dairy, horticulture, arable, deer, sheep, and beef)
- Independent Māori Board representation (iwi, hapū and whānau perspectives and Māori agribusiness)
- Agricultural economics
- Knowledge of agricultural science, research and development and adoption needs
- A commercial understanding of the markets in which New Zealand produce is sold.

It is important to emphasise that the establishment of the Independent Oversight Board is not about the sector setting prices for itself. Instead, its key focus will be to call for and assess information and data from the sector to develop high quality advice to the Government.

The Independent Oversight Board will have the capabilities required to make high-quality evidence and science-based recommendations to the Government. This will support confidence of those affected by the decisions and lead to better overall outcomes.

Ministers will also receive advice from the Independent Māori Board and the Climate Change Commission. This approach ensures the independence and transparency of the decision-making process. The sole focus of the Independent Oversight Board and Māori Board on the implementation of the system, complements input by the Climate Change Commission that could be expected to reflect its broader mandate and functions.

Ministers would still be the ultimate decision-makers after taking account of advice by the Independent Oversight Body, the Independent Māori Board, and the Climate Change Commission. The critical thing for the sector is that Ministers have the benefit of expertise and sector-specific knowledge to inform their decision-making.

#### Question 6

Do you support the proposed approach to revenue recycling?

**No**

#### B+LNZ recommendation

**B+ LNZ strongly rejects Government’s proposal regarding revenue recycling.**

**B+LNZ reconfirms its clear position that revenue generated by the levy must be invested back into the primary sector as supported by the He Waka Eke Noa Partnership.**

#### Reasoning

B+LNZ argues that only sufficient revenue should be raised to fund sequestration, incentives, R&D, and administration of the system administered by an Independent Oversight Board and should be removed from political interference. Disappointedly, the Government proposal would raise more revenue than needed and has also signalled other intended uses for this surplus revenue, such as offshore abatement or CERF fund. The Government's proposal sets in place a system that, by the Government’s own admission will generate excess revenue of between \$100 and \$140 million annually.

The Government’s own proposal says that this would go towards meeting pre-existing Budget commitments for climate change response. These are outside the principles put forward by the He Waka Eke Noa Partnership. B+LNZ cannot accept the Government’s

proposal that could retro-actively levying sectors to pay for existing, unilateral budget commitments. The Government has already publicly said that it is committing \$338 million to climate change-related support and Government should fully fund that support rather than capture farmer levies to fund a part share by regulatory coercion. As well as being unfair this would totally undermine industry's confidence that the Government truly is committed to helping the sector to a lower carbon economy.

### **Farmer Feedback**

Sheep and beef **farmers overwhelming did not support** the use of levy revenue to purchase credits offshore or repay government investment in science and technology for mitigating emissions from agriculture at the feedback meetings B+LNZ held.

B+LNZs recent meetings indicates that 98 percent do not support levy revenue being spent outside the agriculture sector and 99 percent say farmers should have control and say over the re-investment of the farm-level levy back into the sector.

### Question 7

Do you support the proposed approach for incentive payments to encourage additional emissions reductions?

**In part**

### B+LNZ recommendations

B+LNZ supports the proposed **incentive mechanism** that provides for an uptake of actions (practices and technologies) to reduce emissions that is a direct discount off the levy bill as outlined in the He Waka Eke Noa recommendations and further support additional incentive payment added as outlined in the He Waka Eke Noa submission on the Government's proposal.

B+LNZ understand that the Government has accepted the He Waka Eke Noa original recommendation but seek specific confirmation that this is the case.

### Question 8

Do you support the proposed approach for recognising carbon sequestration from riparian plantings and management of indigenous vegetation, both in the short and long term?

**No – the full range of sequestration recommended by He Waka Eke Noa should be recognised and rewarded**

### B+LNZ Recommendations

**B+LNZ request that the Government reinstate all seven categories of sequestration originally set out in the He Waka Eke Noa recommendations and adopt the further**



**recommendations in the He Waka Eke Noa November submission to the Government's recent proposal with respect to a 'Declaration' sitting behind the calculator.**

Reasoning

The Government's proposal is unfair and inequitable. Farmers were rightly outraged by the Government's removal of categories and felt a strong degree of injustice. Given the co-benefits of planting and good management for New Zealand, farmers could not understand the government's rationale. It severely undermined farmers' confidence in government and the whole emissions pricing scheme. If farmers are to face a price on their emissions, then they want to get proper recognition for the sequestration that is happening on their farms.

He Waka Eke Noa programme and B+LNZ modelling indicate that at the farm-scale indigenous vegetation offset potential will make a considerable difference to the emissions cost faced for some farms, and that riparian vegetation also creates an opportunity to alleviate the impact of the emissions cost. Also, while the eligible cyclical categories make up only small areas, when combined they provide a notable benefit, particularly for red-meat farms.

Examples include hill-country farms with small areas of multiple categories, e.g. scattered small areas of remnant indigenous forest, dense shelterbelts used to block southerly winds, and newly fenced and planted riparian areas to exclude stock; and hill-country farms with large areas of one category, e.g. large areas of spaced poplar plantings to control slip erosion on hillsides along with areas of spaced willow plantings to control gully erosion.

The cost benefit of including the cyclical categories is a reason given for not including them. However, as the sequestration declaration system will likely involve some user-pays, the administration setup costs for the system are effectively the same regardless of the number of categories added, and the methodologies are largely already defined at the level required for a declaration-based system. Adopting an approach that allows an individual farm to undertake the cost benefit, rather than excluding specific categories that may be significant for some farms, is the more pragmatic approach.

Adding the seven categories recommended by He Waka Eke Noa allows farmers to obtain proper recognition for the sequestration happening on their farms, within a single system. The recognition of additional sequestration is an important balancing element in the agricultural pricing system. For example, different farm classes and systems have different categories of vegetation. Flat land farms may have more shelter belts or riparian strips while hill country more scattered forest is likely. Table 1 provides support and points to the potential loss of sequestration opportunities and incentive of the Government's proposal compared to He Waka Eke Noa.

Table 1: Woody vegetation types and sequestration rates under the Partnership compared to the Government’s proposal, from B+LNZ

Woody vegetation type	Sequestration categories and rate proposed by Partnership	Sequestration rate proposed by Government
	t CO <sub>2</sub> /ha	t CO <sub>2</sub> /ha
Riparian areas (post-2008)	3.5	4.0 – fenced only
Pre-1990 native (fenced)	1.83	0.5
Post 1990 Native regenerating (unfenced)	6.5	nothing
Native regenerating post-2008 fenced	6.5	0.5
Commercial manuka (fenced)	6.5	0.5
New regenerating*	6.5	4
Scattered forest and shelterbelts	Pre 1990 – 1.83 Regenerating – 6.5 Exotic – MPI look-up tables	Not included
Woodlots and tree-lots 0.25-1 ha	Exotic – MPI look-up table Native – 6.5	Not included
Perennial croplands		Not included

The Government’s justification for restricting sequestration classes does not match the evidence. B+LNZ does not accept that the cost of administration outweighs the benefit of recognition, nor does it reflect B+LNZ’s understanding of the situation. For example, from a complexity perspective, we do not see how a riparian strip is any easier to map than a shelter belt. Further, technology-based systems utilising LiDAR (light detection and ranging) and hyperspectral imaging (currently in use in NZ) can be coupled with artificial intelligence and offer a growing number of cost-effective options for accurately mapping, measuring, and categorising vegetation and its sequestration rates. **Surely this must be part of being world leading emissions reduction system - we can’t just be world-leading in extracting a price.**

The quality of these systems is constantly improving, making it more viable to include smaller and more diverse areas of vegetation in sequestration calculations. These technologies are expected to lower the administrative burden for both farmers and Government - see AgriTechNZ’s submission on the Government’s Pricing Agricultural

Emissions proposal. Finally making the full seven categories available within the agricultural system is good public policy as it will further stimulate innovation and investment into these tools, to the longer-term benefit of New Zealand.

The Climate Change Commission's argument that the additional categories create inequity because they are only available to participants in the agricultural pricing system and no other landowners is misconstrued. It is not an inequity because the additional sequestration rewards available to participants in the agricultural pricing system are paid for by participants of that same system.

B+LNZ believes the Government's preference for only providing credit for carbon removals that gain recognition in the international inventory is a matter of convenience and not a recognition of the reality of emissions management practice. New Zealand can also provide recognition for additional removals that are occurring that aren't in the international inventory, as part of its domestic emission management approach. This is something other countries are also able to do. Just because it's not in the inventory doesn't mean that the additional removals are not occurring in the real world.

He Waka Eke Noa Partners agree that a co-investment approach should be enabled to support the introduction of new sequestration categories into the NZ ETS, this should be for initial research purposes only. Once the science is known, i.e. that the vegetation sequesters carbon at a given rate, it's the governments responsibility to translate this into the NZ ETS (develop the methodology) in a timely manner, and not for sectors or individuals to bear this cost.

Further, the Government's proposal of a general native category with no date for which farmers would receive sequestration for the "additional" sequestration achieved through "active" management is ambiguous and unlikely to act as a substantial incentive. Rather B+LNZ supports the recommendations put forward in the He Waka Eke Noa submission on the Government's proposal.

### ***Farmer feedback***

Of the farmers who attended B+LNZ feedback meetings on the Government's proposal, 99 percent agree that more on-farm vegetation categories should be recognised, and 83 percent say the Government's current proposal will not incentivise them to plant additional on-farm vegetation or actively manage existing vegetation.

### Question 9

Do you support the introduction of an interim processor-level levy in 2025 if the farm-level system is not ready?

**No**

### B+LNZ Recommendation

**B+LNZ Recommends that:**

- 1. The system should go to the farm level in one step, not through an interim processor step.**
- 2. The Government should be held to account for the implementation.**
- 3. The Government should share the scheme's set-up and operation costs, like they did for the NZ ETS.**
- 4. To reduce emissions on-farm, farmers need to be able to account for farm system changes to reduce emissions.**

### Reasoning

In effect, the proposal is a statement that the Government itself wants the choice to reprioritise effort away from achieving an operative farm level pricing by 2025 if needed. This is unacceptable to B+LNZ and unacceptable to farmers.

The He Waka Eke Noa Partnership recommended a simple farm-level system implemented in 2025. Responsibility for delivery should sit with Government, with industry support. A fit-for-purpose, detailed system should be implemented by 2027. The He Waka Eke Noa Partnership, directly in discussions with the Government, has provided the Government with the view that a simplified or basic farm-level pricing system could be implemented by 2025. This position is also supported by the Climate Change Commission, as the Government recognises in its proposal.

In response to the Government's proposal, He Waka Eke Noa has put forward that a farm-level levy should be established by 2025 and Government should meet shorter timeframes for the development of legislation, regulations, and the IT system build. To reduce the risks associated with this, the Partners are proposing getting started from July 2025 with mandatory reporting on 2024/25 emissions, followed by the pricing of 2025/26 emissions from July 2026; a simplified approach to the farm-level levy would be used for these.

Further, the Government's proposal does not provide effective and full split gas reporting and pricing, a key priority for the industry, the Partnership and B+LNZ. In this context B+LNZ strongly opposes a farm-level levy system with fertiliser emissions placed within NZ ETS and strongly opposes a processor level NZ ETS levy for fertiliser.

At worst the Government's proposal opens a pathway for delay and prevarication on the necessary work to develop and put in place a system to deliver farm level levy rates for methane and nitrous oxide that are independent of the carbon price and operation of the NZ ETS. At best it is a duplication of effort that will be redundant upon the 2025 completion of a farm level pricing system based on a poor justification and against advice. Focus should remain on getting farm level pricing up and running.

B+LNZ and farmers are concerned that the Government's processor back-stop proposal seems predetermined. Finally, the addition of mid-2023 decision on whether to implement is unrealistic and provides little chance to demonstrate progress on a system that won't be decided, at the very earliest until early-2023. The Government of NZ needs

to be held to account for the implementation of the scheme, and should share the set-up and operation costs, like they did for the NZ ETS.

### ***Farmer Feedback***

Farmers are concerned that the Government's processor back-stop proposal seems predetermined. Of the farmers who attended recent feedback events 79 percent said they did not support the interim processor level backstop option.

### Question 10

Do you think the proposed system for pricing agricultural emissions is equitable, both within the agriculture sector and across other sectors, and across Aotearoa New Zealand generally?

**None of the above**

### B+LNZ Recommendation

**B+LNZ in the clearest possible terms states that the Government's proposal is inequitable both between agricultural sectors, and between agriculture and the society more widely. This is due to the changes that the Government made to the He Waka Eke Noa recommendations, and which is why B+LNZ strongly supports the Government accepting in full the proposed changes to their proposal. Given the price sensitivity of the sector, small changes in several areas can add up to major impacts overall.**

**In addition, it is inequitable for Māori landowners and Māori in general who would be disproportionately impacted through flow-on effects on rural communities and increased food prices.**

**To ensure equity B+LNZ also supports the Transitional Levy relief which is elaborated on in the He Waka Eke Noa November submission, and also supports the new proposal of annual monitoring of emissions reductions at the sub-sector level, including the drivers of emission reductions, to inform price setting and any transitional levy price relief.**

### Reasoning

The Government's current proposal disproportionately impacts on sheep, beef and deer farmers and all the proposed changes need to be adopted in full.

It is clear, across a range of the elements, the Government's proposal has a disproportionate impact on sheep and beef farmers and more particularly Māori sheep and beef farmers as a subset.

While B+LNZ has some questions about the Government's modelling, both the Government's modelling and independent modelling released by B+LNZ in June 2022 ([find our report here](#)) all point to an unwarranted and disproportionate impact on the sheep and beef sector.

This is not acceptable to B+LNZ and sheep and beef farmers, nor should it be acceptable to the Government or New Zealanders. The main elements that have a dispositional impact on the sheep and beef sector and those farmers and families that depend on it, include:

- The restriction on sequestration categories, impacting sheep and beef farmers as they are most likely to rely on the excluded categories
- The greater focus on progress to the methane targets when setting the price of methane, reduction in price setting criteria and ignoring of the partnership's proposal of an initial ceiling on the price
- The proposal to exclude slope from the nitrous oxide reporting, directly affecting sheep and beef farmers who hold the greatest area of sloping lands
- The linking the nitrous oxide price to the NZ ETS means that the total levy price is linked to the carbon price. A high carbon price results in a high nitrous oxide cost. This will disproportionately impact sheep and beef farmers as they have, on average, a lower farm profit before tax, than other farming systems such as dairy. This means that the potential for the emissions levy to result in a farm operating at a financial loss is greater. This has been shown by B+LNZs own analysis looking at the impact on 452 commercial sheep and beef farms
- The potential consideration of a cap-and-trade for methane, putting at risk those farmers with lower marginal returns - yes sheep and beef farmers.

Wider climate change policy concerns that also disproportionately impact the sheep and beef sector, and which need to be addressed include:

- The need to urgently review the methane targets. High targets impact those least able to afford change the hardest. B+LNZ requests that the methane targets are reviewed utilising the most recent science including GWP\* prior to the pricing scheme commencing in 2025 and that a lower target should be the result of that review
- Beginning the use of annual reporting on warming in addition to emissions across government to better measure the impact of warming, and more accurately reflecting the impact of sheep and beef production on warming
- The need for limits on forestry offsets in the NZ ETS given the perverse outcomes that are now occurring in rural areas through the current NZ ETS carbon price and associated policy settings. There is a need for the Government to reflect urgently upon the status quo and develop and implement an overarching strategy for sequestration in NZ.

B+LNZ also supports the submission of Te Tumu Paeroa, Office of the Māori Trustee description of the inequitable impacts on Māori land and Māori landowners (paragraphs 4-14 of their submission).

### **Transitional Levy Relief**

Farmers who don't have access to mitigations or sequestration should be able to apply for temporary levy relief if the viability of their business is severely impacted by the levy cost.

B+LNZ agree that it is not the role of the pricing system to shelter fundamentally unprofitable or unsustainable farming enterprises, but that it is appropriate to look at ways farms that meet specific criteria could be supported to transition to lower emissions systems in a way that allows them to remain viable.

We know farmers' access to mitigation technologies and sequestration is not uniform across the sector. This means any transitional support/relief must be appropriately targeted.

There are some important principles that Partners agree on, such as:

- The transitional support mechanism should not shelter fundamentally unprofitable or unsustainable farming enterprises, but that it is appropriate that farms that meet specific criteria be supported to transition to lower emissions systems in a way that allows them to remain viable. This will help to mitigate the impact of unintended consequences for farming and wider rural communities
- Transitional support/relief must be appropriately targeted to farms that meet agreed criteria
- Taking a sub-sector, or species approach would result in an approach that is too broad brush as it might capture some diverse businesses that have options but have not taken action to reduce their emissions.

Levy relief could be accessed based on strict eligibility criteria that includes where:

- Access to sequestration (both NZ ETS and He Waka Eke Noa) is severely restricted by national and local body regulation; and
- There is no access to, or ability to implement, effective mitigation technologies; and
- Where emissions pricing is forecast to have a severe impact on the viability of otherwise viable farming operations.

To address potential administrative inefficiencies in a case-by-case approach, further exploration is needed into a mechanism that enables groups of farms that meet the agreed criteria and have similar characteristics for example, location and climate, farm type, species mix, and regional rules, to receive levy relief.

The key concern for B+LNZ is to design this in a way that is not unnecessarily wide and broad-brush and is appropriately targeted to those farms who need support to transition to lower emissions farming systems and remain viable.

#### **Annual monitoring of emissions reductions at the sub-sector level**

B+LNZ strongly supports the additional recommendation of annual reporting on sub-sector emissions.

Sub-sector monitoring that helps to identify sub-sector tracking toward targets and the source of emissions reductions (e.g. land-use change, improving productivity, or uptake of next mitigation technologies). This must happen to understand the effectiveness and any unintended consequences of emissions pricing (e.g. emissions leakage) and other policies.

This will be used to inform system improvements e.g. price settings, incentives, and transitional price relief. It could also inform related policy areas e.g. NZ ETS forestry settings.

#### Question 11

In principle, do you think the agricultural sector should pay for any shortfall in its emissions reductions?

**No**

#### B+LNZ Recommendation

**B+LNZ does not support the use of levy revenue to purchase credits offshore if there is a shortfall in its emissions reductions or repay government investment in science and technology for mitigating emissions from agriculture.**

#### Reasoning

B+LNZ does not support any use of ring-fencing of farm levies collected through a farm-level levy to offset any of the Government's \$338m existing commitment to climate change research and adaptation. This funding was committed by the Government and the Government should follow through with the investment of this amount in its entirety.

B+LNZ does not consider under any circumstances levy revenue should be used to purchase emissions reductions offshore. Investing levy revenue back into the sector would be the best way to achieve Partners' shared objectives of reducing agricultural greenhouse gas emissions and increasing integrated sequestration on farm while supporting a profitable and productive agriculture sector.

#### Question 12

What impacts or implications do you foresee because of each of the Government's proposals in the short and the long term?

#### B+LNZ Response

In its current form the Government's proposals on Pricing Agricultural Emissions are unacceptable. This consultation document is not what the industry recommended in He Waka Eke Noa after two years of working together and is putting the sheep and beef sector as well as rural communities at risk.

Sheep and beef farmers and particularly some Māori sheep and beef farmers are the most vulnerable to the Government's proposal and there is absolutely no justification for undermining an industry or group with this pricing proposal. It absolutely undermines the Government's principle of a just transition.



The loss of sheep and beef farms within a rural community has a knock-on effect not limited to; closing of schools, the financial viability of businesses that provide direct support services to farms. Less money flows through the rural community leading to a greater urban and rural social-economic divide. Jobs will be lost, people will move away, and businesses will go under. Communities will be gutted, and the spirit of rural New Zealand is lost. Importantly a downturn across this sector impacts Māori, as Māori are estimated to represent 28 percent of the red meat sector and 60 percent plus in the shearing industry.

The red meat industry's exports are crucially important to the broader New Zealand economy, helping the nation grow because they increase revenue, boost jobs, raise the standards of living, and lift foreign currency reserves, and in doing so, allow New Zealand to pay for imports the population needs. New Zealand's beef and lamb exports are sold overwhelmingly (over 90 percent) in foreign currency, adding to New Zealand's reserves. The red meat industry, comprising livestock (beef cattle and sheep) production and red meat (beef and dairy cattle and sheep) processing and exporting, accounts for over 92,000 New Zealand (full-time equivalent) jobs, nearly \$12 billion in industry value added and \$4.6 billion in household income, including direct and flow-on effects.

Research commissioned by B+LNZ in June 2020 assessed the national impact. Cessation of the red meat industry in aggregate could potentially result in a cut of almost \$12 billion in contribution to gross domestic product, a doubling of the unemployment rate, and a fall in net New Zealand Government revenue (loss of personal and corporate taxation revenue plus increased expenditure on social welfare and health) of up to \$1.6 billion.

The Government's proposal will speed up afforestation of sheep and beef farms as financial viability is threatened. Given the topography of many farms, diversification to another form of food production is not an option, which in turn increases the risk of food insecurity domestically and internationally.

### Question 13

What steps should the Crown be taking to protect relevant iwi and Māori interests, in line with Te Tiriti o Waitangi?

**The Crown should develop a stronger and more robust understanding of the effects that Māori landowners, hapū, iwi and hāpori will face due to this pricing system.**

### Recommendation

**B+LNZ asks that the Government focus on the understanding of these effects which may mean that policy and regulation development is slowed down or stopped until Māori landowners, hapū, iwi and hāpori are sufficiently consulted. Capacity support to those groups mentioned will need to also be developed directly.**

### B+LNZ Response

It's clear from B+LNZ's perspective that tangata whenua and tangata tiriti will be affected differently across a variety of business models, communities, and locations. It's also clear that many people could be significantly affected and may well need more time than others to adjust to the system. For example, they may have limited sequestration options, the scale and nature of the mitigations may not yet be available or practicable.

Given the complex nature and potentially significant impacts the introduction of an agricultural emissions pricing system is likely to have, at least for some, it's a matter of good public policy to have a specific and well-considered system of support to help Māori landowners, farmers, and growers within the system. The scale of impact is significant and could affect in the order of 150,000ha of Māori land. This land and its owners' interests are at considerable, inequitable, disproportionate risk from the current settings of the Government's proposal, and this is unacceptable to Māori as a Tiriti partner.

B+LNZ supports the Awhina Group and many Iwi, Māori Agribusinesses in that "members strongly believe that sequestration needs to include all carbon in the country that is available. This includes customary farms (pre-1990 Ngahere areas owned by Māori). Sequestration for pre-1990 whenua should be recognised at 1.83tC/ha/yr as proposed in the He Waka Eke Noa proposal. The Government's current proposal fails to recognise Māori landowners with native blocks and undeveloped land and penalises early adopters and this is unacceptable to Māori as a Tiriti partner".

#### Question 13

How should the Crown support Māori landowners, farmers, and growers in a pricing system?

B+LNZ asks the Government to open a more constructive and genuine dialogue with Māori landowners, farmers, and growers about how they can be supported. This needs to be a more meaningful attempt than a single question in the six-week consultation period given for the Government's Agricultural Emission Pricing proposal.

The scale of impact is significant and could affect in the order of 150,000ha of Māori land. These interests are across a wide variety of communities and landscape and so will require support solutions that match these factors.

B+LNZ, through this submission and as a Partner of He Waka Eke Noa, has put forward several recommendations that will work to support Māori landowners, farmers, and growers in a pricing system by making that system fairer and focused on supporting change.

#### Question 14

Do you support the proposed approach for verification, compliance, and enforcement?

#### **In Part**

#### B+LNZ Recommendation

**B+LNZ supports the original recommendations by the He Waka Eke Noa Partners in their November submission. B+LNZ want to see a system that keeps cost to a minimum, as well as ensuring fair and due process within any verification, compliance, and enforcement approach.**

Reasoning

The Government's proposed processes for verification, compliance, and enforcement is generally based on reasonable principles and follows principles consistent across Government.

B+LNZ supports audit and verification processes that are cost-effective and aligned with other existing and planned farm-audit systems, as far as practicable, for on-farm audits.

This is an area that we will continue to work with Government on to ensure these principles are met.

Question 15

Do you have any other priority issues that you would like to share on the Government's proposals for addressing agricultural emissions?

**Yes**

B+LNZ Recommendation

**B+LNZ reiterates its call for limits to be placed on forestry offsetting within the NZ ETS and for this to be in place by 2025.**

Reasoning

While outside the scope of the pricing of agricultural emissions, a key concern for farmers raised during our consultations in October and November is the rapid increase in the sale of sheep and beef farms into forestry which is being driven by the carbon price.

New Zealand is currently the only country to allow fossil fuel emitters to offset 100 percent of their emissions. As the carbon price has risen, instead of reducing emissions, we have seen a surge in sheep and beef farms being brought by forestry and carbon interests for fossil fuel offsetting. Carbon farmers and foresters can pay significantly more for sheep and beef land because there is effectively a subsidy from the carbon price.

Farmers are concerned that the sheep and beef sector will be vastly more impacted by a price on agricultural emissions because of this policy situation. The decrease in sheep and beef revenue caused by a price on agricultural emissions could lead to more farmers' exiting the sector and these farms are likely to be bought up by carbon induced forestry rather than sheep and beef farmers.

The Climate Change Commission, Parliamentary Commissioner for the Environment and many environmental NGOs agree there is a problem and a calling for limits to be placed on forestry offsets in the NZ ETS. It is vital that this policy issue is resolved before a price on agricultural emissions comes into place in January 2025.

An independent report by Orme & Associates, commissioned by B+LNZ, shows more than 52,000ha of land was purchased by forestry interests in 2021, a 36 percent increase on the previous two years, and up from 7,000ha in 2017. Converting productive farmland to pine plantations for carbon credits means fewer jobs in that region – [research by BakerAg in 2019](#) found forestry, and especially carbon farming, supports far fewer jobs than the red meat sector in that region.

This is far more than the 25,000ha a year of exotics that the Climate Change Commission has said are needed to achieve New Zealand’s climate change objectives. Of the 175,000ha of land purchased for afforestation over the last five years, about 134,500ha (three-quarters) is grassland suitable for planting in forestry.

If 100 percent of this suitable land was planted, B+LNZ expects this would lead to a decline of around 1 million stock units, equating to an annual farm production loss of \$170 million at the farm gate and a cumulative production loss of \$540 million from progressive planting from 2017 to 2022. Downstream from the farm gate a further 44 percent of value is added from processing which at 2021-22 export prices equates to lost export receipts of \$245 million annually and \$775 million from progressive planting from 2017 to 2022.

Sources:

- [Carbon footprint of New Zealand beef and sheep exported to different markets](#), AgResearch May 2021.
- [Economic and social contribution of the New Zealand red meat industry](#),
- [Social contribution of the New Zealand red meat industry](#), S G Heilbron, Economic and Policy Consulting, June 2020
- [Land-use change from pastoral farming to large-scale forestry update](#), Orme & Associates Limited, August 2022.

## Part D

### 5. Industry agreed principles

The leaders of DairyNZ, Beef + Lamb New Zealand and Federated Farmers met to discuss emissions pricing and to re-establish common position between the three organisations, to enable them to move forward together and advocate strongly on behalf of farmers.

DairyNZ chair Jim van der Poel says a united voice on emissions pricing is the best way to ensure positive policy outcomes for farmers. “All three organisations have agreed on nine core principles that we will all be raising in our submissions and through the He Waka Eke Noa Partnership.”

The Government’s emission pricing proposal differs significantly from the He Waka Eke Noa recommendations, which were designed as a whole-farm system approach to reduce emissions, meet targets, and give fair recognition and reward for on-farm planting. The Government’s subsequent changes have needlessly put the finely balanced cross-sector consensus at risk.

“Our organisations are all united in our determination to get the best possible outcome we can and will continue to work closely together as we advocate for farmers,” says Beef + Lamb NZ chair Andrew Morrison.

Federated Farmers chair Andrew Hoggard said individual organisations will continue to raise sector specific issues.

#### **The nine core principles that we wish to raise directly with the Government are:**

- 1) The current methane targets are wrong and need to be reviewed. Targets should be science-based, not political, and look to prevent additional warming.
- 2) The methane price should be set at the minimum level needed and be fixed for a five-year period to give farmers certainty.
- 3) Any levy revenue must be ringfenced and only be used for the administration of the system, investment in R&D, or go back to farmers as incentives. Administration costs must be minimised.
- 4) The future price should be set by the Minister on the advice of an Independent Oversight Board appointed by all He Waka Eke Noa Partners.
- 5) The system must incentivise farmers to uptake technology and adopt good farming practices that will reduce global emissions.
- 6) All sequestration that can be measured and is additive should be counted. We stand by what was proposed by the He Waka Eke Noa Partnership on sequestration.
- 7) Farmers should be able to form collectives to measure, manage, and report their emissions in an efficient way.
- 8) Farmers who don’t have access to mitigations or sequestration should be able to apply for temporary levy relief if the viability of their business is threatened.
- 9) We will not accept emissions leakage. The way to prevent that happening is by getting the targets, price, sequestration, incentives, and other settings right.