

## Where did He Waka Eke Noa come from?

Government has wanted to price agricultural emissions since the establishment of the Emissions Trading Scheme (ETS) in 2008. In 2019, Government passed the Zero Carbon Act and proposed to bring agriculture emissions into the ETS.

The agriculture sector, working together with iwi, convinced the Government not to do this and to work with the sector to develop an alternative framework for managing sector emissions. This Partnership with Government and Māori is called He Waka Eke Noa.

If our sector does not come up with an effective and workable alternative to the NZ ETS via the partnership, the Government has the legislation in place to bring agriculture into the NZ ETS before 2025.

## What is the partnership trying to achieve?

The agriculture sector is working together to design a better system for agriculture than the ETS that seeks to fairly treat different types of farming systems and the different stages of farmers in their development. We are aiming to develop options that put the control over how a farm manages emissions in farmers' hands.

## Why can't we say 'no' to agricultural emissions pricing?

Saying no leads to the ETS. The Government has already written into legislation that agricultural emissions will enter the ETS. If we are not able to come up with a viable alternative option, they have made clear agriculture will be priced through the ETS, and sooner than 2025.

## Why shouldn't agriculture join the ETS?

The ETS takes control out of the agriculture sector and farmer's hands. Farmers would not be recognised for their individual actions on farm and would face a price that is linked to carbon dioxide and emissions from other industries.

He Waka Eke Noa has been designed to improve on the ETS in four key ways, it:

1. Gives farmers choice and control over how they manage their emissions
2. Recognises the different warming impact of methane
3. Recognises carbon sequestration from a range of on-farm vegetation not able to be entered in the ETS
4. Reinvests revenue raised from the sector back into the agriculture sector.

Going into the ETS would mean farmers risk lose many of these important and hard-earned positives.

## How does this process relate to the methane reduction targets?

New Zealand is the only country into the world to have taken a split gas approach to methane emissions, through the Zero Carbon Act. We would, however, like to see these targets revised. There will be a review of the targets in 2024, and DairyNZ and B+LNZ will be working together to get them revised using the latest science such as using GWP\*.

## What are we currently consulting on?

The partners in He Waka Eke Noa (including the Government) have developed two alternative options to the ETS. Farmers are strongly encouraged to have their say on these pricing options. Throughout February DairyNZ and B+LNZ are running a roadshow around New Zealand, and online webinars, to receive farmer feedback.

## What should I be doing now?

The first thing to do is knowing your numbers. Calculating what your farm's greenhouse gas emissions are and where they come from is the first step towards reducing them.

Dairy farmers should receive an annual report from their milk supply company, or you can use a free approved tool like B+LNZ's GHG calculation.

All farmers will also need to have a written plan in place to manage their greenhouse gas emissions by 1 January 2025.

## Were other options considered?

Yes, the Partnership considered a wide range of alternative options. When starting this process some 140 options were considered (four shortlisted are in appendix 1 of the consultation document). These were all assessed against a set of criteria developed by the 13 partners (agriculture sector, iwi, government). The Partnership had to ensure that the options put forward are simple, practical, and fair for all. The two options put forward by He Waka Eke Noa represent the best available agreed current alternatives to the ETS backstop option.

## Why is the partnership not using a 'Cap and Trade' framework?

The partnership has assessed that a Cap-and-Trade framework would not be cost-effective or workable for the agriculture sector, and it would not incentivise the uptake of cost-effective mitigation.

There would be high administration costs associated with Cap and Trade for both the administrator and farmers. Administrators would have additional transaction and system requirements, while farmers would face high costs in brokerage fees and hedging. Additional support services would need to be established to help with the complexity of a Cap-and-Trade market. All these factors mean farmers would face higher costs, and less of the revenue raised would be recycled back into the agriculture sector.

A Cap-and-Trade market also incentivises a focus on farmers maximising their profitability. This would cause uneven distributional impacts as more profitable farms would be able to afford the trading of emissions, and favor land uses which are more economic.

## How do the alternative options treat early adopters?

Under both alternative options (subject to decisions on baseline dates for recognition) if you've taken steps that would mean you have a lower emissions profile, this is something you'd be able to get recognition for – that is, you'd pay less under a farm-level system, or be eligible for a rebate under the EMC in the processor-hybrid system.

Both options will recognise sequestration from all vegetation (native and exotic) established after 2008, and native vegetation established before 2008.

## Why is the partnership not using GWP\* for methane?

Greenhouse gas warming metrics are not needed in either of the proposed alternative options. As He Waka Eke Noa is using a split-gas approach to manage emissions it is consistent with the GWP\* science. Methane will also be measured by weight (kg of methane) and have a unique price. Metrics are used to compare different gases and bundle them into one emissions number.

GWP100 is used almost universally to report on emissions, but it does not accurately capture the warming impact of methane emissions.

A new metric, GWP\*, is a more accurate method for accounting for methane emissions and the impact on temperature. DairyNZ and B+LNZ are supportive of this new and more accurate science and are working to have this metric and the science behind it used in national reporting on warming and on reviewing the methane reduction targets.

## Why do we need a baseline to recognize on-farm sequestration?

A baseline helps us determine what carbon sequestration is 'new' and 'above business as usual'. To reward carbon sequestration, we must be certain that the change in carbon stored is more than what would have happened independent of any action taken by the farmer (i.e., above business as usual). This concept is called additionality and is the international standard and methodology required to recognise sequestration.

We need a baseline to measure change from. By setting a baseline as a year, any sequestration from new vegetation established after a date can be considered additional and can be rewarded.

## What happens with farmers' feedback?

The partnership has developed a range of questions they're seeking feedback on. This is a combination of specific questions about the options and more open-ended questions about what sorts of things farmers like or dislike about the options. Farmers feedback is critical to ensure we develop a scheme that will work.

Farmers can either provide feedback at a roadshow event or by filling in a form online: [www.surveymonkey.com/r/HWENfeedback](http://www.surveymonkey.com/r/HWENfeedback)

This feedback will be collated, analysed and used as the basis for advice to Government on the options. This advice must be provided to Ministers by the end of May 2022 if extension accepted.

The Government will consider this advice and farmers will have opportunity to provide further feedback as part of the Government's final policy decisions on the legislated changes. This will be before the final framework is put in place for commencement in 2025.

## Why is soil carbon not included?

Soil carbon has been considered by the partnership but won't be recognised at this stage. Right now, there is a lack of New Zealand-based scientific evidence to accurately measure soil carbon within our different farm systems in a cost-effective way. This is because New Zealand soils are unique – what works in other countries might not work here.

There is also uncertainty about how soil carbon should be fairly accounted, especially during droughts, floods, or cultivation when soil carbon is lost. The partnership has a pathway for integrating soil carbon sequestration into the system which will require further investment into research and development.

## Where will all the money go?

Revenue from emissions pricing will be used to administer the scheme and the rest will be recycled back into agriculture to help reduce emissions in the agricultural sector. This will go supporting actions to reduce emissions action on-farm, including sequestration, as well as research and development.

## What are other countries doing with agricultural emissions?

Since agriculture in New Zealand is a larger proportion of emissions we're having to focus on it faster than other countries.

New Zealand is the only country to have taken a split gas approach in our Zero Carbon Act which recognises methane as a short-lived gas. Methane only needs to reduce and stabilise rather than go to net zero like long-lived gases. As far as we are aware, all other countries that have introduced similar Zero Carbon Acts in the last few years have gone for a target of "net zero" for all gases, including methane.

While some other countries are using regulation e.g. for fertiliser usage, no one is pricing biological emissions yet. As far as we are aware, New Zealand is the first country to set up a pricing framework for biological agricultural emissions. We understand, however, that other countries are watching to see how we do it like Ireland and the UK.

Our modelling indicates that pricing shouldn't be the only lever. Afforestation and freshwater policies already reduce agricultural emissions. Where price is used it is important that this revenue is reinvested back into the sector to deliver solutions for farmers. Unlike the ETS, both options seek to do this.

## Why is the partnership recommending a 2008 baseline?

The partnership needs to pick a point in time to 'reward' farmers from that both is practical to implement (and verify) on-farm and recognises early adopters.

Based on what we have heard from farmers and Government to-date, utilising a 1990 baseline date, like the one used in the NZ ETS, can be really hard to verify on-farm. This is because of the poor quality of aerial and satellite imagery available at that time as well as limited other records that could be used to verify when a tree was planted.

Picking a baseline at a closer point in time to the present would provide easier access to verification sources. However, this means that actions taken to establish or manage vegetation before this time cannot be rewarded. The partnership will be rewarding management of native forestry established before 2008 (including before 1990).

The partnership thinks that 2008 provides a good 'middle ground' of balancing the need for quality data and recognising farmers previous actions. 2008 was when many initiatives from local government for increased planting (e.g., Freshwater regulation, Hill Country Erosion Fund) on-farms really took off.

The 2008 baseline also allows the partnership to have certainty that we are not rewarding land with existing liabilities. NZ ETS legislation means that any forestry that meets the definition of 'pre-1990 forest land' has liabilities associated with it. This definition excludes any land that was not used for forestry in 2008 (e.g., grazing). The partnership can reward forestry established after 2008, because that land does not have liabilities under the NZ ETS legislation.