

NZ Insight: He Waka Eke Noa recommendations for pricing agricultural emissions

8 June 2022



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Contact

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Agricultural emissions pricing recommendations

Key points

- The strategy states that emissions should be priced at the farm level, rather than processor level or a hybrid system. We concur, as that is the most effective way to drive changes to production methods.
- A single measurement tool for pricing emissions will be used for both short- and long-lived gas emissions, but the two types of gases will be priced separately.
- Incentives will be available for uptake of actions, both technological and practical, such as using low-methane genetics, or feed additives.
- Sequestration of a wide range of plantings will be recognised, including riparian markets, shelter belts, pole plantings and pre-1990 forests, all of which will be able to be used to offset methane emission costs.
- Revenue from the scheme will be invested in research, development and extension (advisory) services.
- Pricing of emissions has not been finalised, but He Waka Eke Noa have recommended pricing starts at 11c/kg methane emissions, with this level of pricing to be held for three years.
- The Government now needs to consider these recommendations and will make a final decision in December 2022.

What He Waka Eke Noa has recommended

He Waka Eke Noa is the climate action partnership formed by government and industry to develop a method to price agricultural emissions. The backup plan was to add agriculture to the Emissions Trading Scheme (ETS), which would have meant methane pricing would be linked to carbon pricing.

The recommendations released today by He Waka Eke Noa contained few surprises to those who have been engaged with the process, but will no doubt be a wakeup call for those who have been less engaged.

The announcements will potentially become the **biggest regulatory disruption to farming since agricultural subsidies were removed in the 1980s**. Cabinet approval is required before these recommendations can be adopted, with this expected to happen in December.

The scheme is expected to reduce gross methane emissions by 4-5.5% and gross nitrous oxide emissions by 2.9-3.2%, based on the recommended pricing levels for the various gases.

Emissions pricing will apply to all farms that carry over 550 stock units, have more than 50 dairy cattle, 700 pigs, or 50,000 poultry. This criteria is expected to account for 96% of emissions. Lifestyle blocks, orchards, vineyards and equine farms will not be expected to report emissions.

How will these recommendations impact my farm business?

Pricing methane emissions will, on average, be an additional cost to farmers. How individual farms are impacted will depend on the level at which methane is priced, how efficient farms are, and what mitigations options they have available.

Methane emission pricing has not been finalised, so this remains an unknown. The modelling that has been done by He Waka Eke Noa has been based on assumed prices.

The impact is a reduction in average farm profits by up to 7.2%, but the impact varies widely across farm systems. In general, the profitability of deer, sheep and beef operations will be impacted more than dairy farms.

Even if relatively low prices are adopted for methane (\$0.11/kg) and long-lived gases (\$4.25/t CO₂e) there could be a significant impact on profits for some farmers. Pricing of emissions has not been finalised, but He Waka Eke Noa have recommended pricing starts at these levels and is held for three years, as even low emissions prices are expected to impact the profitability of some farms and will therefore trigger changes in emissions.

He Waka Eke Noa have recommended that the pricing of on-farm sequestration be linked to the ETS price, but with a discount of 10-25% applied, to be reviewed in 2028. It has been recommended that indigenous forest that is eligible for the ETS could be included in this system, but they need to work out how to avoid double counting. Types of planting that will count include orchards and vineyards over 0.25ha, scatter forest (over 0.25ha with at least 15 trees per ha), shelterbelts, and woodlots.

What is clear is that efficient farming systems will be impacted to a lesser degree than inefficient systems where livestock productivity levels are low relative to their emissions.

How this impacts individual farming business will depend on:

- how productive the farming system currently is;
- what management changes can be made to improve incomes relative to emission costs;
- what options can be implemented to increase carbon sequestration; and
- what other emission reduction initiatives can be implemented that will be financially rewarded.

Table 1. Emissions reductions and impact on average farm profit and production

Technology Assumptions	Price of methane (A)	Price of long-lived gasses (B)	Price of sequestration (C)	Modelled emission reductions excluding baseline reductions from 2017 %		Impacts on average farm profit from 2017 %			Impacts on production from 2017 %	
				CH ₄	N ₂ O	Dairy	Sheep + Beef	Hort/ Arable	Dairy (milk)	Sheep + Beef (meat)
Medium Tech	\$0.35/kg	\$13.80/tonne CO ₂ e	\$104/tonne CO ₂ e (75% of NZ ETS carbon price)	-4.0	-2.9	-5.6	-7.2	0 to -0.5	-1.4	-0.1
High Tech	\$0.17/kg	\$13.80/tonne CO ₂ e	\$104/tonne CO ₂ e (75% of NZ ETS carbon price)	-5.5	-3.2	-3.0	-1.2	0 to -0.5	-0.7	0.0

Source: He Waka Eke Noa



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Last updated: 28 February 2022

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