

Hon James Shaw

Minister of Climate Change

Associate Minister for the Environment (Biodiversity)



9 September 2021

Dr Rod Carr
Chair of the Climate Change Commission, He Pou a Rangī
by email: roderick.carr@climatecommission.govt.nz

Tēnā koe Rod,

We are writing to request a succinct report from the Commission regarding what assistance, if any, should be given to participants of an agricultural pricing system (the Pricing System), as an alternative to the Emissions Trading Scheme and to provide the terms of reference for this request.

Report on Agricultural Assistance

We make this request under s5K of the Climate Change Response Act 2002 (the Act), which provides for the Minister of Climate Change to request reports from the Commission on matters relating to climate change. The scope of this request reflects the requirement set out in s215 of the Act, and will feed into policy alongside your overall review of the progress towards farm-level obligations under s220 of the Act.

We have directed officials to provide you with specific methods that reflect those defined by the Partnership. If you intend to consider other options, please inform us as soon as practicable.

The purpose of the report is to inform decisions on agricultural assistance to ensure that participants of a potential pricing system are supported to face and appropriately respond to a price on their emissions. As part of this, the Commission's analysis should clearly assess how the methods for assistance affect the following matters:

- Effective incentives for and the achievement of emissions reductions that contribute to meeting New Zealand's emissions budgets and targets in the Act;
- the practicality of implementation for farmers and growers, and the regulator;
- any social and distributional impacts on farmers and rural communities;
- the impacts on Māori interests, particularly where these might be disproportionate; and
- the risk of emissions leakage.

We do not expect the Commission to provide quantitative assessments of these matters where this is not viable in the timeframes or if the Commission does not deem this to add value to their final report.

Next Steps

We expect your advice to be delivered by 31 March 2022. This aligns with the timeframe for the Partnership's recommendations on the pricing system.

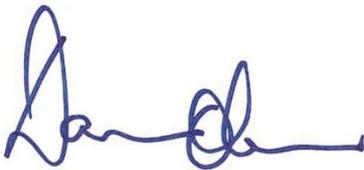
The terms of reference are attached to this letter, and we understand you will make this publicly available in accordance with s5K(3)(a) of the Act. Officials have consulted with your staff to draft the terms of reference. Please provide your feedback on the terms of reference or indicate your acceptance in writing.

We are aware of the pressures on the Commission and that the Commission is also delivering a review of the overall progress towards farm-level obligations in June 2022. As such, we do not expect a comprehensive report of the entire Pricing System, but a focussed assessment on assistance to participants.

Nāku noa, na,

A handwritten signature in black ink, appearing to read 'James Shaw', with a long horizontal stroke extending to the right.

Hon. James Shaw
Minister of Climate Change

A handwritten signature in blue ink, appearing to read 'Damien O'Connor', with a long horizontal stroke extending to the right.

Hon. Damien O'Connor
Minister of Agricultural

Terms of Reference

The Minister of Climate Change and Minister of Agriculture (the Ministers) request a report under s5K of the Climate Change Response Act 2002 (the Act) from the Climate Change Commission (the Commission) in respect of s215 about what assistance, if any, should be given to participants of a future pricing system for farm-level agriculture emissions (the agricultural pricing system).

Purpose of advice

The advice on assistance in the Commission's report will inform decisions by Ministers on agricultural assistance. It will be considered in the preparation of a Ministerial report, required by s215 of the Act, which will outline a system to put a price on emissions from agricultural activities as an alternative to the emissions trading scheme.

Definitions

Assistance – Financial assistance provided to participants to support them to face and appropriately respond to a price on their emissions. Two key forms of assistance are being considered: structured and conditional.

Structured assistance – A form of assistance that applies to all participants (i.e. is calculated as part of their emissions return). Structured assistance reduces a participant's exposure to the full price of their emissions.

Conditional assistance – A form of assistance that is provided to participants on an eligibility basis. This could include support to meet compliance and administrative costs, additional assistance to Māori landowners, hardship funds, exit packages, etc. Conditional assistance could be used to directly discount an eligible participant's overall obligation, or participants could apply for it and if accepted their overall obligation would then reduce.

Advice requested

The Ministers request that the Commission provide a report that analyses: what assistance, if any, is appropriate and/or necessary to provide to participants; whether any groups of participants in particular will require assistance; and, specific methods of providing assistance to participants in the agricultural pricing system.

The methods analysed by the Commission must include specific methods (see Annex Two), which reflect those defined by the He Waka Eke Noa – Primary Sector Climate Action Partnership (the Partnership).

The Commission may consider other variations on methods that it considers relevant. The Ministers request to be informed of these as soon as practicable.

Considerations

In developing its advice, the Commission must consider relevant matters under s5M of the Act (see Annex One).

As part of this, the Commission's analysis should clearly assess how the methods for assistance affect the following matters:

- Creates effective incentives for and achieves emissions reductions that contribute to meeting New Zealand's emissions budgets and targets in the Act;
- the practicality of implementation for farmers and growers, and the regulator;

- any social and distributional impacts on farmers and rural communities;
- the impacts on Māori interests, particularly where these might be disproportionate; and
- the risk of emissions leakage.

Mode of work

In preparing the report, the Commission must act independently, per s5O of the Act. The Commission may engage with relevant persons as provided for by s5N of the Act.

Methods for assistance interact with other features of an emissions pricing system, such as emissions calculation methods and the price level, but the design of these features in the proposed agricultural pricing system will not be finalised when the Commission is undertaking its analysis. Taking this into account, officials will provide draft design features and settings that the Commission can use in its analysis as these are available.

The Partnership may also periodically provide updates and share information with the Commission about its analysis, at dates to be mutually agreed over the period out to March 2022.

The Commission's ability to take information provided by officials or the Partnership into account in its analysis will be constrained by the timeframe available for it to prepare its advice. Any variations that are provided after 31 January 2022 may only be able to be considered if the Commission has the capacity, and may not necessarily be reflected in the final analysis.

Relevant officials will be available to engage with the Commission and will share related information and data to inform the Commission's work.

Timeframes

The Commission's advice on these matters, in the form of a final report, is to be provided to the Minister of Climate Change and the Minister of Agriculture by 31 March 2022.

The Commission will brief officials on its final advice after it has been provided to the Minister, but prior to the public release of the report.

Publication

s5L of the Act applies, meaning the Minister of Climate Change must present a copy of the report to the House of Representatives no less than ten working days after the Minister receives it, and the Commission must make it publicly available as soon as practicable thereafter (but no later than 20 working days after providing it to the Minister).

Annex One: Section 5M of the Climate Change Response Act 2002

5M Matters Commission must consider

In performing its functions and duties and exercising its powers under this Act, the Commission must consider, where relevant,—

- (a) current available scientific knowledge; and
- (b) existing technology and anticipated technological developments, including the costs and benefits of early adoption of these in New Zealand; and
- (c) the likely economic effects; and
- (d) social, cultural, environmental, and ecological circumstances, including differences between sectors and regions; and
- (e) the distribution of benefits, costs, and risks between generations; and
- (f) the Crown-Māori relationship, te ao Māori (as defined in [section 5H\(2\)](#)), and specific effects on iwi and Māori; and
- (g) responses to climate change taken or planned by parties to the Paris Agreement or to the Convention.

Annex Two: Assistance methodologies for the Commission to consider

Primary options	
Fully exposed, low price	Farmers face the full cost of their absolute emissions ('fully exposed'), at a low price per unit of emissions.
Carrying capacity	Farmers are fully exposed, but receive a rebate based on a certain portion of the emissions that can be produced within the limits of their land. This could be based on LUC (not preferred) or a new nationwide map or metric at the farm scale.
Proportional discount	Farmers are only exposed to a proportion of their emissions (which we see as functionally identical to full exposure to a low price).
Rolling average	Farmers are fully exposed, but receive a rebate based on a certain portion of their emissions averaged over a recent period of time.
Options not progressed	
Historical baseline	Farmers are fully exposed, but receive a fixed rebate based on a certain portion of their emissions at a fixed year.
Target baseline	(N ₂ O only:) Farmers are only exposed to their emissions above a pathway to achieve the net-zero long-lived gas target.
Good management practices	Farmers are only exposed to the emissions that they could otherwise have reduced or mitigated within their farming system, without reducing production.
Options being explored by specific Partners	
Output-based rebate	Farmers are fully exposed, but receive a rebate based on a certain portion of their emissions calculated using an average factor per unit of product of their product type.
Land-based rebate	Farmers are fully exposed, but receive a rebate based on a certain portion of their emissions calculated using an average factor per unit of area. <i>OR</i> Farmers are fully exposed, but receive a rebate based on a unique portion of their emissions, variable according to their emissions per unit of area relative to all other participants (i.e. constrain all participants to $0 \leq X \leq 100\%$ discount). This unique discount could also be varied by further factors.