

Insight: What does the draft emissions reduction plan mean for agriculture?

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Draft emissions reduction plan: implications for the agriculture sector

The Government has released a discussion document for New Zealand's second emissions reduction plan, which is now open for public consultation. The draft plan shows New Zealand is on track to meet its first and second emissions budgets, which takes us to 2030, but it will be over budget by 17 million tonnes in the third budget period from 2031-2035. Emissions are forecast to fall, but not quickly enough.

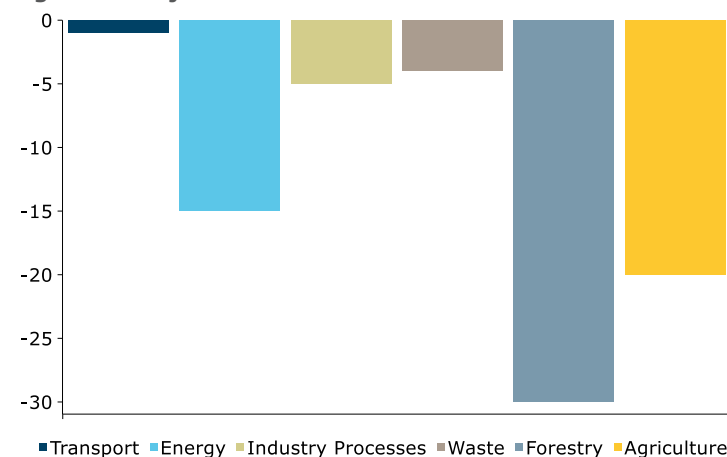
Key points

- Pricing of agricultural on-farm emissions will not commence until 2030, but tools to measure on-farm emissions are forecast to be delivered by 2025.
- Highly productive farmland will be protected from conversion into forestry but details about the land classes to which this designation will apply have not yet been released. Existing forests on high-quality land will be able to continue to earn carbon credits.
- The Government is looking for ways to partner with the private sector to incentivise planting of natives on government-owned land.
- The Government recognises the need for consistent rules to ensure the credibility of the Emissions Trading Scheme (ETS) and has ruled out some of the changes to the ETS that were previously proposed. However, it is yet to clarify if any further changes will be made to the scheme.

Agriculture and forestry play key roles

The Minister for Climate Change Simon Watts has made it clear that the Government is focusing on *net* emissions, meaning offsetting activities such as forestry will continue to be a major part of New Zealand's climate change management strategy. Forestry and agriculture are both expected to play a key role in reducing emissions during the second emissions budget period.

Figure 1. Projected sector emissions reduction for second emissions budget

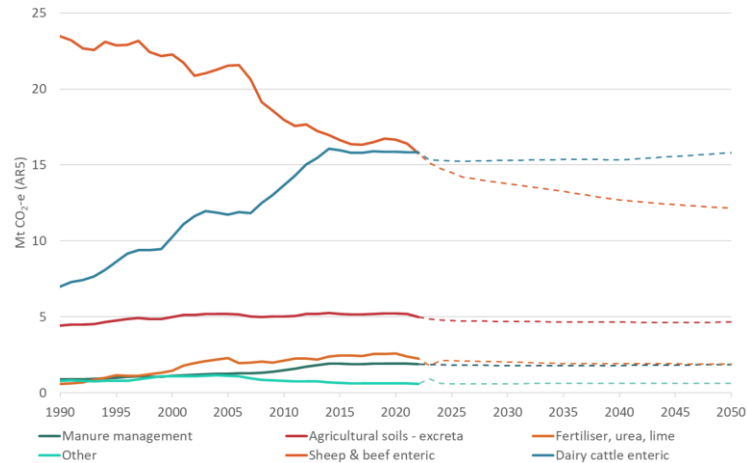


Source: MFE, Macrobond, ANZ Research

Agriculture sector

A reduction in agricultural emissions is expected to make a significant contribution to reducing overall emissions, but not until the third budget period (2031-2035).

Figure 2. Historic and projected agricultural emissions by source



Source: MfE

Note: Solid lines = historical data; dashed lines = projections

The reduction in emissions is expected to come primarily from the sheep and beef sector, with the area utilised by sheep and beef farms expected to decrease by at least 1 million ha (~17%) by 2050. This is a smaller rate of decline than seen in the past 30 years over which sheep and beef farms have been converted initially to dairy, and then more recently to forestry.

Stock numbers for all sectors are forecast to fall, but the reduction in dairy cow numbers is forecast by MPI to be offset by higher per-cow productivity. The higher feed intake associated with increased per-cow production means emissions are forecast to stabilise rather than fall for this sector. Producing more milk from fewer cows will improve emissions efficiency, ie result in lower emissions per kg of milksolids produced.

Pricing on-farm emissions

Pricing of on-farm agricultural emissions is scheduled to commence by 2030. The Government has confirmed it will pass legislation by 1 January 2025 to ensure agriculture does not automatically enter the Emissions Trading Scheme ETS in 2025.

At present the focus for agriculture is to continue reviewing the science of methane emissions and develop tools and technologies to reduce on-farm emissions. Work in this space has been occurring for over 20 years, but the Government has said it wants to accelerate this research.

The Government is also focusing on improving the methodology to measure on-farm emissions. At present there is a range of tools available to do this that all give slightly different results and work better for some agricultural sectors than others. Before agricultural emissions are priced, calculations methods need to be standardised. A standard method to calculate on-farm emissions is expected to be developed and available by 2025.

The plan states "to get the desired impact, tools to reduce emissions must come ahead of pricing – and our producers must be able to adopt these while remaining profitable."

Conversion of farmland to forestry

The plan recognises the value of protecting productive farmland from conversion to forestry. This essentially means that any plantings on high-quality land (as defined by land-class) will not be able to be registered in the ETS. This means you could potentially plant a flat, productive farm in trees, but as you would not be able to earn any carbon credits from those trees, there would be little incentive to do so. There may also be restrictions on the proportion of the farm that can be planted in trees, ie there may still be an opportunity to plant smaller pockets of land in trees on highly productive land.

What is not yet clear is what classes of land will be included in the “highly productive” category. The Government has said it will release more details later this year.

This type of regulation will help address rural community concerns regarding the potential loss of highly productive land.

This policy may or may not reduce the risk of the ETS becoming oversupplied with credits earned from forestry.

Recognition of the value of wetland and riparian plantings

It has also been proposed that the sequestration that occurs from non-forestry carbon removals should be recognised. This includes wetland restoration, on-farm vegetation such as riparian plantings and shelter belts, marine ecosystems, carbon capture etc.

One of the challenges in doing this is being able to validate the science relating to the sequestration rates in the New Zealand environment. For this sequestration to count it also needs to be additional, not pre-existing.

At this stage it is yet to be decided whether recognition for non-forestry removals will be through the ETS or an alternative framework. It is also expected that the various categories of non-forestry removals will be progressed at differing times depending on the degree of scientific evidence available.

Other tools to reduce on-farm emissions

The Emissions Reduction Plan Technical Annex lists some other potential sources to reduce emissions. These include:

- Low methane rams – assumed to be available from 2025
- Use of EcoPond™ for treating effluent on dairy farms
- Methane inhibitors

It is expected, though not a given, that some of these tools will be commercially available soon, but some of the potentially most impactful tools such as methane inhibitors and vaccines are not expected to be commercially available for many years.

Breeding lower-methane emitting stock will help to progressively reduce emissions, but breeding for any specific trait typically comes at the expense of other desirable traits. Breeding decisions have long-term implications for farm productivity, meaning farmers will need to fully understand both the opportunities and consequences of investing in low-methane genetics.

Forestry

The Government has clearly received the message that market participants require certainty for the Emissions Trading Scheme (ETS) to work efficiently. They have committed to restoring confidence in, and the credibility of, the ETS. However, the draft Emissions Reduction Plan still leaves a lot of important questions unanswered, and it is not clear if these will be addressed when the final plan is released later this year.

What the Government has committed to includes dismissing several potential changes to the ETS that the previous Government had considered. They have ruled out vintaging of NZUs, and differential treatment of forestry NZUs in the ETS.

What hasn't been addressed is the current stockpile of excess units in circulation and the uncertainty as to whether this stockpile will grow. There is a clear need for additional plantings to meet our emissions reduction goals, but there is no way of knowing how many new units will be issued for forests, and what this might mean for the carbon price.

As noted in the previous section, the Government is planning to limit entry into the ETS of forests planted on productive farmland, but it has clarified that forests already registered in the ETS will not be impacted.

The Government has acknowledged that the ETS alone is not likely to encourage enough removals to achieve New Zealand's goal of net zero by 2050. The sector is projected to remove between 54.3 and 63.0 million tonnes of CO₂ during the second emissions budget (table 1).

Table 1. 2024 projections of forestry's contribution to emissions targets

Scenario	Budget 1 2022-25	Budget 2 2026-2030	Budget 3 2031-35
Lower	-19.0	-54.3	-72.3
Central	-23.5	-61.4	-82.3
Upper	-24.7	-63.0	-86.8

Source: MPI

Note: negative figures represent sequestration ie a reduction in emissions

The Government is also investigating opportunities to partner with the private sector to plant native trees on Crown land. Exotics tend to be commercially favoured over natives as they have considerably higher economic returns. Natives deliver much lower returns and are also more difficult to establish. The Government is therefore looking at ways to improve incentives for planting natives, which can provide a long-term carbon sink and co-benefits, including biodiversity and adaptation benefits. They are currently in the process of assessing how much land could potentially be planted. Further details will be released in due course.

Summary

The draft second Emissions Reduction Plan is more comprehensive than the first but still leaves many questions unanswered as to how emissions will be managed. Some further clarity is expected in the final document but many of the initiatives outlined will require further analysis and policy work.

The plan does confirm that on-farm emissions will not be priced until 2030 but a tool to measure emissions is expected to be available by 2025.

The decision to limit registration of forests planted on productive farmland will generally be well supported, but until further clarity is provided individual farmers won't know how they will be affected. Similarly, the decision to recognise other sources of sequestration will also be welcomed but it could take quite some time before there is sufficient scientific evidence to earn credits from sources such as riparian plantings.



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