

Reference: 20220100

17 May 2022

Dear [REDACTED]

Thank you for your Official Information Act request, received on 29 March 2022. You requested:

I would like to request all treasury documents over the last 18 months related to He Waka Eke Noa or the ETS

We have interpreted the scope of this request as all Treasury documents over the last 18 months related to He Waka Eke Noa or the ETS in relation to its potential role in agricultural pricing.

As notified to you on 26 April 2022, I made the decision under section 15A of the Official Information Act to extend the time limit for deciding on your request by an additional 12 working days. The new due date for responding to your request is 17 May 2022.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	15 December 2021	Rationale for Complementary Policies – Long form DRAFT	Release extract
2.	31 January 2022	ETS and Complementary Measures – Short form DRAFT	Release extract
3.	14 February 2022	Treasury Report: Briefing for 16 February Meeting of the Climate Response Ministers Group	Release extract

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- names and contact details of officials, under section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting Ministers, members of government organisations, officers and employees from improper pressure or harassment,
- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- direct dial phone numbers of officials, under section 9(2)(k) – to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury’s own website.

Please note that Items 2 and 3 were for internal use only and were not finalised.

Information to be withheld

There are additional documents covered by your request that I have decided to withhold in full under the following section of the Official Information Act, as applicable:

- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Nicky Lynch
Manager, Climate Change

OIA 20220100

Information for Release

1.	<u>Extract Treasury Report Briefing for 16 February Meeting of the Climate Response Ministers Group</u>	1
2.	<u>Extract ETS and Complementary Measures Short form DRAFT</u>	3
3.	<u>Extract Rationale for complementary policies Long form DRAFT</u>	5



Treasury Report: Briefing for 16 February Meeting of the Climate Response Ministers Group

Date:	14 February 2022	Report No:	T2022/239
		File Number:	SH-10-8

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Note Treasury advice and talking points for your participation in the CRMG meeting	16 February 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Tom Wilson	Senior Analyst, Climate Change	s9(2)(k)	n/a (mob) ✓
Nicky Lynch	Manager, Climate Change	s 9(2)(g)(ii)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Briefing for 16 February Meeting of the Climate Response Ministers Group

Executive Summary

For the **fourth item on agricultural emissions**, we recommend that greater focus is placed on understanding the options presented by He Waka Eke Noa and the current backstop option, rather than introducing additional measures which could hinder or substitute for emissions pricing signals and further stretch agency resource. There are multiple trade-offs to be considered between exotic afforestation, land-use changes and the price signals sent to gross emitters in other sectors. We recommend that you highlight the complexity of these trade-offs, the need for robust consideration of options and the potential for significant financial, fiscal, environmental and socio-economic impacts of future policy decisions.

Item 4: Agricultural emissions (Minister O'Connor) – 20 Minutes

36. The issues pertaining to driving greater agricultural emissions reductions are complex. There are multiple trade-offs between exotic afforestation, land-use change, gross emissions from the agriculture sector and the price signals sent to gross emitters in other sectors within the ETS. That agricultural emissions make up 48% of New Zealand's gross emissions adds weight to the already complex issues.

38. s9(2)(f)(iv)



39.

41. s9(2)(f)(iv)



42.

The role of the ETS and complementary policies in emissions reduction

Table 1: Complementary measure intervention logic

	Emissions not covered by the ETS
Intervention logic	Emissions from several sectors are not subject to the ETS cap (notably Agriculture). Reducing the ETS cap, therefore, fails to reduce emissions in excluded sectors, even if this is where the most cost-efficient abatement opportunities lie.
Desireable characteristics of a complementary measure	Effective complementary measures within these sectors can drive additional abatement that is not currently incentivised by the ETS, without distorting price, demand or supply within the ETS.
Risks and potential mitigants for adverse complementary policy	Interventions that address emissions not covered by the ETS, but that support the uptake (or not) of mitigation technologies that are sought by participants within the ETS may still risk distorting the price signal of the ETS. However, effectively targeted policies (such as exclusion of benefits to those covered by the ETS scheme) may help mitigate this risk.

Agriculture presents a significantly complex case study for the use of complementary measures alongside the ETS.

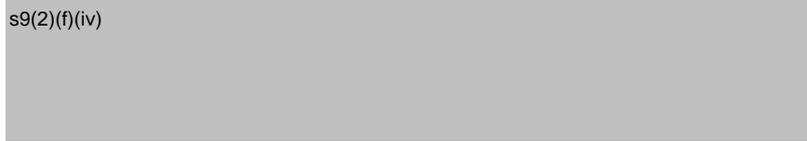
- The Agriculture sector creates ~48% of New Zealand’s greenhouse gas emissions, the majority of which are emitted through shorter-life gases; methane, in particular.
- Presently, agricultural emissions do not face a price, through the ETS or any other scheme. That these emissions have gone unpriced, and there is no significant incentive to mitigate, places a greater burden on other sectors to drive the abatement needed to meet our climate targets. This impact is partially mitigated in the context of domestic targets, where the agriculture sector’s performance is addressed by the biogenic methane component of our split target. However, for our international commitments under the NDC, there is presently no split between the consideration of our emissions of short or long-life gases.
- Work is currently underway, led by the He Waka Eke Noa partnership between government and industry, to identify and recommend a means by which to price agricultural emissions. What form such a mechanism takes, and whether or not it is within the scope of the ETS, is still uncertain.

- The pricing of agricultural emissions is not expected to be implemented until 2025. Until this point, in accordance with the intervention logic set out above, there is rationale for complementary policies to help drive emissions reductions between now and such time that these emissions are either covered by the ETS or addressed by a future policy to be developed as complementary to the ETS.
- From a political economy perspective, there may be other reasons for which government may wish to intervene with other complementary measures. For example, the role that agriculture plays within our economy, communities and labour market.
- Our broader objectives across the four capitals and the important role that land-use and agriculture plays recognised by te ao Māori mean that there may be additional rationale for policy intervention to drive a broader transition for the agriculture sector.

The role of the ETS and complementary policies in emissions reduction

It is worth, at this point, providing a short note around the Agriculture sector, given its material contribution to New Zealand's greenhouse gas emissions (48%), but not currently facing an emissions price, through the ETS or any other scheme.

- Emissions from Agriculture are not subject to the ETS cap. The Agriculture sector therefore does not face a price for its emissions and no mitigation is currently incentivised or driven by a price signal.
 - This is not to say that those in the Agriculture sector are not taking some steps to mitigate their emissions. Rather, that these steps are not explicitly incentivised by policy at scale, and certainly not by a price-driven mechanism.
- s9(2)(f)(iv)

- MfE's Marginal Abatement Cost (MAC) curve reflects significant potential for low-cost mitigation in the Agriculture sector. However, this is primarily through land-use change to forestry.
- As described above, there is significant tension around leveraging forestry at scale to drive New Zealand's towards its net emission targets, underpinning a broader tension around gross versus net emission reductions. However, within the context of Agriculture, it is important to note that almost all presently available and affordable mitigation opportunity (excluding explicit decreases in herd size or production) relies on land use change and forestry. This adds another dimension to the forestry debate.
- From a big-picture perspective, Agriculture's emissions going unpriced drives the total cost of mitigation up by placing an increased reliance on higher cost mitigation through other sectors covered by the ETS, facing a price for their emissions. This is mitigated slightly with respect to New Zealand's domestic targets, where biogenic methane has been split from long-life gases. New Zealand's NDC, on the other hand, does not represent a split target.
- This may have distributional consequences on relatively higher-emitting sectors and their customers because their costs and mitigation burden are higher under a stable cap when other sectors are incentivised to mitigate less (or in the case of Agriculture, not strongly incentivised to mitigate at all via a price signal).
- s9(2)(f)(iv)


s9(2)(f)(iv)

- With respect to timing, the current plan for emissions pricing signals within the Agriculture sector is to not occur until 2025.
- This further emphasizes the argument for complementary policies to drive emissions reductions within Agriculture (until we reach 2025), but also to help drive greater speed of mitigation within other sectors (and address the distributional consequences of this, in turn).
- Additionally, because non-forestry mitigation options within the Agriculture sector are either currently (often) prohibitively expensive, or are in early-commercial or pre-commercial states, there is a strong need for the further development of these technologies and options, in particular in a future where gross emission reductions are given greater weight than they have previously been (or currently are) given.

Commented [MC1]: New/Updated

Emissions not covered by the ETS	
Intervention logic	Emissions from several sectors (notably Agriculture) are not subject to the ETS cap. Reducing the ETS cap, therefore, fails to reduce emissions in excluded sectors, even if this is where the most cost-efficient abatement opportunities lie.
Desireable characteristics of a complementary measure	Effective complementary measures within these sectors can drive additional abatement that is not currently incentivised by the ETS, without distorting price, demand or supply within the ETS.
Risks and potential mitigants for adverse complementary policy	Interventions that address emissions not covered by the ETS, but that support the uptake (or not) of mitigation technologies that are sought by participants within the ETS may still risk distorting the price signal of the ETS. However, effectively targeted policies (such as exclusion of benefits to those covered by the ETS scheme) may help mitigate this risk.