Submission

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By: Northland Regional Council
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On: Action on agricultural emissions: discussion document

Introduction

1. The Northland Regional Council (council) is grateful for the opportunity to comment on the discussion document. This submission is made in the interests of promoting a sustainable environment and economy in Northland and with council’s statutory functions and roles under the Local Government Act 2002 and other relevant legislation in mind.

2. Council agrees that the agricultural sector should be included in the Emissions Trading Scheme (ETS) and become accountable for greenhouse gas emissions at the farm level but only when the required accounting and emission reduction tools / technology are available and are administratively efficient. We understand the desire to send strong signals to the sector to inform future investment decisions and farm planning but the transition to pricing agricultural emissions should not be rushed given the potential for economic and social harm and perverse outcomes to arise. We outline our concerns in more detail below based loosely on the discussion document format.

Submission

Incentivising emissions reductions:

3. We do not consider pricing livestock emissions at the processor level as proposed will act as a strong incentive for emissions reductions on-farm – this is because the farmer receives no ‘reward’ for any emissions reductions. There is also some inequity in that a farmer with a lower ‘emissions profile’ per unit of output will face the same costs as one who is emissions ‘inefficient’. This is very unlikely to incentivise changes on-farm, especially if these require significant investment. We also note the emissions reductions forecast as a result of processor level pricing is very modest at around 0.26% of New Zealand’s annual agricultural emissions (100,000 tonnes of CO₂ equivalent/year) – largely because it does not incentivise on farm emissions reduction but comes at an estimated cost to the sector of $47m per annum (plus administration costs).
4. The exception here is emissions pricing on fertilisers at the processor level, which we consider would act as an incentive to reduce the quantity applied or use different types with lower emission factors and thereby have some potential to reduce emissions – this is because the emissions pricing is based on consumption consistent with existing mechanisms such as fossil fuels. It also appears processor level pricing for fertilisers is the only viable option in the foreseeable future, so there is no reason for a delay. In other words, there is a direct correlation between the amount used and emissions generated, which is not the case for processor level pricing for livestock emissions based on output. It is also administratively efficient as there is no need to account at the farm scale given an emissions factor is built into the price of fertiliser.

5. To summarise, in response to Question 1, our view is that the best way to incentivise emissions reductions is to accurately account for and reward the reductions made on-farm, while minimising administration / compliance costs. This would necessitate farm scale emissions accounting and access to credits for reductions. As noted in the discussion document, developing and implementing a system to measure and price emissions at the farm level is extremely challenging and complex. It is also likely that farm owner’s administration costs for emissions accounting at the farm scale would be very high.

6. In response to Question 2, we consider an emissions price on fertiliser at the processor level would have some influence on emissions reduction, noting this is likely to apply to all fertiliser users not just farmers (e.g. horticulture). It is also administratively efficient and farmers can modify behaviour accordingly. The same cannot be said for pricing livestock emissions at the processor level which is a blunt tool and does not recognise or incentivise reductions – nor does it positively distinguish between the emissions efficient and inefficient farmers. Another concern is that areas such as Northland with lower farm productivity are likely to be disadvantaged by pricing at the processor level. There is also the potential for perverse outcomes as farmers may attempt to raise production and therefore increase emissions in response to lower returns as processors pass on the cost of emission pricing to suppliers. While we recognise pricing at the processor level has the potential to generate funds to develop farm scale implementation tools, we do not see this as sufficient justification for the introduction of a new processor level pricing mechanism and note there have been suggestions by the sector to use existing levies for this purpose.

7. In response to question 3, our view is that the key building blocks for a workable farm level emissions pricing regime are:
   i. emissions accounting tools that are accurate across the range of New Zealand’s farm systems and environments and that are administratively efficient (both for government and farmers). Accounting systems that estimate emissions based solely on an average per head of stock would mean the only way farmers would be able to reduce emissions is to reduce stock numbers – we strongly recommend a more nuanced model be developed that recognises individual farm management practices rather than crude application of a national average of emissions per stock unit. We oppose use of Overseer as an emissions accounting tool given a) it was never designed to be used as a regulatory tool and b) has proven to be inaccurate as a nutrient management tool in some parts of NZ and in particular Northland and we have grave concerns that it would be even more flawed if applied to greenhouse gases. We also understand that Overseer can produce dramatically different results depending when applied by different technicians/consultants and it can be costly to apply. These concerns suggest there is a need for development of alternative accounting tools.
ii. A regime for calculating and applying an allocation rate that can be adjusted over time as emissions reduction technology improves

iii. An emissions pricing system that recognises and rewards reductions / offsets and is implemented through the ETS.

iv. Development of a greenhouse gas emissions reduction and offsetting toolkit and technologies across the range of farm systems.

v. Extension and advice to enable uptake of good practice into agricultural systems (potentially through farm environment plans).

Interim options

8. When deciding whether to opt for emissions pricing at the processor level (Option 1) or a formal government / sector agreement (Option 2), the government should consider:
   i. The effectiveness in terms of incentivising emissions reduction
   ii. The ability to build a system that is workable at the farm scale in conjunction with those that will implement it – in our experience if those expected to implement a system are not engaged in design, results can be unworkable or administratively inefficient.
   iii. Added costs – while we recognise processor level pricing has the potential to generate resources for technology / tool development and extension, it is in effect a comparatively blunt charge on production with a high likelihood of flaws outlined at Paragraph 3 above and also below.
   iv. The potential for perverse outcomes – processor pricing may drive agricultural emissions up as farmers seek to increase production to cover costs passed on by processors and / or emissions leakage may occur whereby production moves offshore to more emissions inefficient jurisdictions.

A formal government / sector programme of action is preferable to processor level livestock emissions pricing in the interim in that it provides the sector with ownership, uses existing mechanisms to raise revenue and is administratively efficient.

9. In response to Question 5: Our preference would be to adopt an interim measure to:
   i. Price fertiliser emissions at the processor level from as early as practicable (with 95% free allocation). In order for this measure to have a positive effect, the various fertilisers available should be rated in terms of their emissions so landowners can make informed and effective choices.
   ii. Amend the Climate Change Response Act to require farm level emissions pricing from 2025 (with 95% allocation rate) with reporting required by 2024, while retaining the flexibility to amend the start date if farm level pricing proves unfeasible at that point.
   iii. In the interim, do not price livestock emissions at the processor level instead, the government, Māori and the agricultural sector work together to develop accurate and efficient implementation tools to prepare the sector for farm level pricing by 2025. This can be resourced through government and commercial funding and sector levies.

10. We are concerned that while the estimated added costs to farmers of processor level pricing would be comparatively low, these have been calculated on a $25 price tonne and a 95% free allocation – the price of emissions could well rise dramatically and increase these costs accordingly. We note many economic analyses predict significant increase in emissions prices above the current $25 tonne. We also suspect many of those holding NZU’s (either foresters or emitters) will be unlikely to trade in the face of
potential future price increases. This could serve to limit the volume on the market and drive prices up further. We are concerned that government may not have sufficient control over the price of emissions, despite changes to the ETS to establish a cost containment reserve and potentially enabling access to international units.

11. In response to Question 6, we agree there must be consideration of Māori rights and interests – the best way to do this would be to include Māori in the government / sector programme of action to develop tools that are compatible with the economics, tenure and management of Māori land. A specific Māori extension programme may be the best way to progress this, but we note land tenure does not have any influence on emissions and accounting and pricing mechanisms should be consistent for all farmers.

Opportunities

12. We agree there are significant opportunities for better recognition / reward for offsetting and removals on-farm. These could include:
   i. Amending settings in the ETS to better enable offsets / credits for riparian vegetation, soil conservation planting and existing areas of bush on-farm (small-scale sequestration). We also see potential to earn carbon credits for fencing off existing bush blocks given the significant increase in carbon sequestration as a result.
   ii. We strongly recommend the ETS settings also be adjusted to recognise different sequestration rates for native vegetation across NZ. Sequestration rates for native in Northland are likely to be much higher than the national average used currently and therefore are underestimating carbon storage – we note sequestration rates for exotic species in the ETS provide for regional variations and see no reason why this cannot be developed for natives.
   iii. Providing a ‘premium’ credit / NZU for native vegetation through the ETS (on the basis there are multiple co-benefits for water quality and biodiversity)
   iv. Reduced administrative / compliance costs associated with participation in the ETS (we note there has been some progress in this regard).
   v. Recognition of the offsetting / sequestration potential of wetlands or crops grown for building materials (such as hemp).
   vi. Building better access to / uptake of the 1 Billion trees programme to compliment the above.
   vii. Developing a greenhouse gas emissions ‘module’ for farm environment plans that is fit for purpose across the range of farm systems and environments in NZ.
   viii. Develop / support ‘exemplar farms’ within each region to demonstrate successful on farm emissions accounting, reduction and management and to engage sector participants.

13. In response to Question 8, we see potential for interim Option 1 (pricing livestock at the processor level) to damage the relationship between the government and the agricultural sector given it essentially prices output with little recognition of ‘good behaviour’ or incentives to reduce emissions and / or improve emissions efficiency. The sector has indicated a willingness to work in partnership with government which should be seen as an opportunity for the development of a workable solution in the long term. A workable long term solution relies on those at farm level having buy-in and a good understanding of the system as a whole. In the long term, we see farm level emissions pricing having an impact on the agricultural sector, but the scale of this impact will depend on the viability of the tools developed, the price of emissions and the phase down of free allocation. Again we reiterate that the
government will need to have the tools to manage the transition and in particular the price of carbon / NZU’s to minimise dramatic cost changes.

**Allocation**

14. If processor level pricing is pursued, we prefer a method of calculating the free allocation that enables reductions in emission intensity to be recognised and credited. In other words, we support the ability for a processor to claim a unique emissions factor rather than applying the NZ average (our reading of the discussion document suggests this is the proportional method, rather than the output method). This option goes some way toward incentivising emissions reduction but we suspect this would be a complex process for a processor and any real gains would take time to materialise.

15. If processor level pricing is adopted, we agree with Proposal B – that free allocation be calculated at the time emissions obligations are due. The alternative (to provide the allocation in advance and enable trading prior to obligations falling due) could risk price volatility and add to uncertainty and financial risks.

16. In terms of phasing down free allocation, we agree this should be set in legislation to provide certainty and that any phase down should be informed by the Climate Change Commission. We also agree that the allocation factors should be updated in line with business as usual improvement in emissions intensity – this recognises that emissions per unit of production have decreased (at about 1% per annum over the last 25 years) and this is likely to continue.

**Conclusion**

17. In closing, we strongly encourage the government to take the opportunity to work with Māori and the agricultural sector to develop an action plan / programme to deliver farm level emissions pricing by 2025. As noted, we have concerns with processor level pricing as an interim measure and do not support that approach for the reasons outlined above – we consider co-design of the solution with the agricultural sector is the most realistic option given the complexity of the challenge and the need for a workable and administratively efficient farm scale implementation regime. We consider a collaborative / co-design approach is critical and outweighs the potential additional revenue gained from processor level emissions pricing. Without buy-in and a high level of trust in the system by farmers / agriculture sector any livestock emissions accounting and pricing model is unlikely to be effective and potentially damaging for NZ’s production systems. Council thanks the Ministry for the opportunity to comment on the proposals. Please do not hesitate to contact us should you wish to discuss any of the above.

Signed on behalf of the Northland Regional Council by Malcolm Nicolson (CEO):

\[Signature\]

Dated: