Dear Sir/Madam

Waikato Regional Council Submission to the Consultation on Action on Agricultural Emissions

Thank you for the opportunity to submit on the proposed Consultation on Action on Agricultural Emissions. Please find attached the Waikato Regional Council’s submission.

Please note that this submission has been prepared by Waikato Regional Council staff and will be considered by the Council’s Submissions Subcommittee on 27 August 2019. We will advise whether Council has endorsed the submission or has made any changes to the submission following the meeting.

Should you have any queries regarding the content of this document please contact Alejandro Cifuentes, Policy Advisor, Policy Implementation directly on (07) 8592786 or by email Alejandro.Cifuentes@waikatoregion.govt.nz.

Regards,

Tracey May
Director Science and Strategy
Submission from Waikato Regional Council on the Consultation on Action on Agricultural Emissions

Introduction

1. Waikato Regional Council (the council) appreciates the opportunity to make a submission on the Consultation on Action on Agricultural Emissions.

2. The council recognises that nearly every regional council activity is affected by the changing climate, or contributes to the emission of greenhouse gases, and is therefore affected by central government responses to reduce them. Our activities and work programmes are underpinned by the need to have sustainable land uses. Climate change poses a threat to the economic prosperity of the country and our region; the Waikato is susceptible to different natural hazards whose effects are likely to be exacerbated by changes in climate patterns.

3. The council supports our region to ensure that it has a healthy environment, a strong economy and vibrant communities. Council requests the government to fully consider the appropriate management of the social impacts of emissions pricing. We call for any response to climate change to be an integrated one, where potential unintended consequences are minimised. Our council is advocating for the government to take a pragmatic approach to enable the region’s continued contribution to overall social, economic, cultural and environmental wellbeing.

4. We recognise that the agriculture and forestry sectors are key players in our region and council anticipates that these sectors continue to have flexibility in their day to day operations so that one land use isn’t directed over another. Council does not advocate one land use activity over another, such as the wholesale replacement of agricultural activities with forestry, rather it is supportive of farming and forestry both continuing in a sustainable manner where appropriate land is used to adjust to climate change impact.

5. We support the inclusion of agriculture in the New Zealand Emissions Trading Scheme (NZ ETS). We concur with the findings of the report from the Interim Climate Change Committee (ICCC). Voluntary action will not be sufficient to achieve the volume of emissions reductions that New Zealand needs to meet its climate change target over time. We support the idea that the best way to motivate the agriculture sector is to send a clear price signal and to recycle the funds to further support farmers to reduce emissions.

6. Please find the responses to the questions raised in the consultation document in the tables attached below (tables A and B). We look forward to future consultation processes to incorporate the proposed amendments into relevant statutes and would welcome the opportunity to comment on any issues explored during their development.
Submitter details

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### Submission on MfE consultation document: Action on Agricultural Emissions [Table A]

<table>
<thead>
<tr>
<th>Themes</th>
<th>Proposals</th>
<th>Questions</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What we’re aiming for in the long term</strong></td>
<td>Incentivising farmers to reduce emissions</td>
<td>1. What is the best way to incentivise farmers to reduce on-farm emissions?</td>
<td>Setting a price for emissions. However, we note that the potential impacts on farmers have to be carefully considered. If the system is too complex and administratively onerous, this may have a negative impact on the economic performance of some farms, specifically those running smaller operations, which can potentially in turn discourage proactive participation and uptake before 2025.</td>
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<td><strong>Issue:</strong> we need to incentivise farmers to reduce emissions</td>
<td><strong>1. Price livestock emissions at the farm level from 2025</strong></td>
<td>2. Do the pros of pricing emissions at farm level outweigh the cons, compared with processor level, for (a) livestock and (b) fertiliser? Why or why not?</td>
<td>No. Lower administrative costs for farmers in the initial stages will mean they are more likely to be able to meet the cost of the 5 per cent not covered through free allocation. However, the Minister should consider moving to a mixed-level pricing system progressively. As the ICCC report points out, emissions from fertiliser might be better priced at the processor level. Increased familiarity with the system, higher resilience and continuous technological advances might make farm-level pricing more suitable for calculation and reductions methods.</td>
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<td><strong>Getting started now to get to a farm-level emissions price</strong></td>
<td>Setting legislative milestones for farm level</td>
<td>3. What are the key building blocks for a workable and effective scheme that prices emissions at farm level?</td>
<td>As mentioned above: faith in the system, wider voluntary participation in the years leading up to 2025, greater resilience from farmers, appropriate technology. If emissions were priced at farm level, the government must ensure to provide appropriate and sufficient support to farmers, make sure it is cost efficient and easy for them to participate in the NZ ETS. Providing the right level of support will lead to a fair, just and equitable transition.</td>
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<td><strong>Issue:</strong> Pricing emissions on farm will take time,</td>
<td><strong>3. Legislate the following process to implement a price on livestock emissions at farm level:</strong> a. Farmers pay for their emissions and can receive credit for reductions by 2025</td>
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| collaboration and support | b. All farmers must report their emissions by 2024  
| c. Farmers can voluntarily report their emissions to the government from 2023  
| d. Government reports in 2022 on further details on farm-level pricing and regulatory changes needed to implement it.  
| If the report shows that farm-level pricing by 2025 is unfeasible, emissions would be priced at processor level from 2025  
| Interim options to get started now  
| d. | 4. What should the Government be taking into consideration when choosing between Option 1: pricing emissions at the processor level through the NZ ETS and Option 2: a formal sector-government agreement?  
| | Overall costs of implementation and uptake of the option before the initiation of any compliance period. Also farmers and other key landowners’ capability to report and reduce emissions. Biophysical differences will mean the spatial distribution of costs will also be important, since the ability of some farms and communities to adapt will vary.  
| | 5. As an interim measure, which would be best: Option 1: pricing emissions at the processor level through the NZ ETS with funds recycled back to the sector to incentivise emissions reductions or Option 2: a formal sector-government agreement? Why?  
| | Option 1. More equitable in terms of wider participation in the NZ ETS. There is a variety of mechanisms already in place to ensure transparency and accountability under the CCRA. However, option 1 should provide for a mechanism of gradual phasing out of free allocation after 2025. |
4. **Interim option 1:** pricing livestock and fertiliser emissions at processor level via NZ ETS, with:
   a. 95 per cent free allocation
   b. An action plan sets out steps for implementing farm-level pricing.
   c. Recycling of funds raised back to the sector to incentivise emissions reductions and support implementation of the action plan (approximately $47 million per annum).

**Interim option 2:** a formal sector-government agreement including:
   a. a programme of action to support farm emissions reductions and progress for implementing farm-level pricing
   b. industry resourcing and funding to a level necessary to implement the programme of action (including the reprioritisation of existing levy body funds of $25 million per annum over the five-year period).

6. What additional steps should we be taking to protect relevant iwi/Māori interests, in line with the Treaty of Waitangi?

   Engagement at the appropriate level. Carry out consultation with tangata whenua seeking their active involvement in the development of implementation plans and strategies. Develop co-governance systems for the allocation of funds to be recycled.
| Opening up opportunities | 5. Investigate other opportunities and barriers for on-farm greenhouse gas mitigation:  
| --- | --- | --- |
| **Issue:** Are there other opportunities to support on-farm emissions action? | a. options to recognise and reward carbon removals from on-farm vegetation  
| | b. barriers to reducing emissions created by non-climate regulation and options to remove them  
| | c. how to facilitate opportunities to create new markets for low-emissions agricultural products. | 7. What barriers or opportunities are there across the broader agriculture sector for reducing agricultural emissions? What could the Government investigate further? |
| **Barrier:** Currently no Permanent Forests Category in the ETS. No incentives for agricultural sector to plant non-commercial species. We consider that this should be promoted by environmental management rules to give preferential treatment to native species.  
| **Barrier:** current definition on new forest does not foster natural regeneration of forests.  
| **Opportunity:** offer fiscal incentives to participants that make emissions under their allowance. |
| A just and fair transition | 8. What impacts do you foresee as a result of the Government’s proposals in the short and the long term? | Short term: The ability of different communities to adjust to the proposals, and absorb any costs involved, will vary.  
<p>| | Long term: agriculture will be integral part of the NZ ETS and free allocations will be phased out before 2050. Efficiency gains from the use of technology to improve output while keeping emissions low. |</p>
<table>
<thead>
<tr>
<th>Topic</th>
<th>Decisions</th>
<th>Proposals</th>
<th>Questions</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
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<td><strong>Further details for interim Option 1: processor-level emissions pricing via ETS</strong>  &lt;br&gt; <strong>Issue:</strong> If agricultural emissions are included in the NZ ETS, there are further decisions about free allocation. Opening up opportunities</td>
<td><strong>Decision A:</strong> Free allocation can be made based on either an output-based or a proportional method</td>
<td><strong>Proposal A:</strong> Provide 95 per cent free allocation of emissions units to processors using an output-based method.</td>
<td>Do you agree that the method for free allocation of emissions units at processor level should be output-based? Why or why not?</td>
<td>Yes, a method of free allocation based on the level of production as an average across the sector would provide more flexibility for processors and farm suppliers to reduce emissions intensity and benefit from reduced emissions obligations.</td>
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<td><strong>Decision B:</strong> Emissions units can be allocated either before, or with, emissions payment obligations</td>
<td><strong>Proposal B:</strong> Provide and subtract free allocation from the total emissions obligation when those obligations are due.</td>
<td>Do you agree that free emissions units should be provided at the same time emissions obligations are due? Why/why not?</td>
<td>Yes. Easier to account for emissions at the end of a determined period.</td>
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<td><strong>Decision C:</strong> Any phase down of free allocation requires careful consideration</td>
<td><strong>Proposal C:</strong> Set in legislation the process for the Government to decide the rate of any phase down of free allocation of emissions units.</td>
<td>Do you agree with the ICCC that allocation factors should be updated in line with business-as-usual improvements in emissions intensity? Why or why not?</td>
<td>A managed decrease in the free allocation will lessen the burden for the taxpayer and will encourage more efficient and less GHG intense processing.</td>
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<td>Decision D: Emissions and allocation factors need regular adjustment</td>
<td>Proposal D: Enable allocation factors to be set to decline in line with anticipated business-as-usual improvements in emissions intensity</td>
<td>Do you agree the process for making decisions on any phase down of free emissions units should be set in legislation and informed by the Climate Change Commission? Why/why not?</td>
<td>Yes, if done through legislation, as it creates certainty around government processes for participants. A legislated phase down process gives participants more certainty around the continuity of the process, as successive governments will have to go through Parliament to change it. Under the proposed Zero Carbon (CCRA) Bill the Climate Change Commission will have the proper mandate to make recommendations on allocation phase down.</td>
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