



Dairy Holdings Ltd

243 Tancred Street | Ashburton, 7700 | P O Box 224 | Ashburton, 7740 | New Zealand

T: 03 687 9258 | F: 03 684 7965

E: jan@dairyholdings.co.nz | www.dairyholdings.co.nz

To: Ministry for the Environment

Submission on: The Action on Agricultural Emissions
discussion document

From: Dairy Holdings Limited

Date: 13th August 2019

Contact:

BLAIR ROBINSON

CHIEF OPERATING OFFICER

Dairy Holdings Limited
PO Box 224, Ashburton, New Zealand

SUBMISSION

THE ACTION ON AGRICULTURAL EMISSIONS DISCUSSION DOCUMENT

1. INTRODUCTION

- 1.1. Dairy Holdings Limited (DHL) welcomes the opportunity to submit to the Ministry for the Environment (MfE) on the the Action on Agricultural Emissions discussion document. The comments within this submission come from consultation within the Dairy Holdings Limited Management Team.
- 1.2. DHL supports the government in committing to reducing emissions in line with those agreed at the Paris Climate Change Agreement. *"Our best chance to avoid the worst effects of climate change is joining global action for reducing greenhouse gas emissions, to limit the increase in the average global temperature to 1.5°C above pre-industrial levels."* However, it is noted that the targeted reductions are at the upper end of what the Paris agreement recommended.
- 1.3. We reserve the right to be heard in support of our submission and we would be happy to appear to clarify any points if this is required.

2. WHAT IS THE BEST WAY TO INCENTIVISE FARMERS TO REDUCE ON-FARM EMISSIONS?

- 2.1 The New Zealand primary sector has a long history of successfully adapting to change. Given the right information and tools the primary industry will play its part in transitioning New Zealand to a low emission country.
- 2.2 Allowing the primary sector to partner with government in the primary sector climate change commitment will ensure better understanding, engagement and ownership of what is required at a farm level. It will also ultimately result in better implementation of the actions required to reduce on-farm emissions.
- 2.3 The estimation of emissions, sinks and the pricing mechanism for net emissions must be undertaken at a farm level, considering the whole farm system. However, this can only occur at a farm level once the modelled interrelationships are clear, robust and widely accepted by farmers. This is

unlikely to be achieved by 2025. Once in place this will encourage and reward those farmers who are innovative and efficient.

- 2.4 The 24-47% methane reduction target by 2050 is aspirational and is not scientifically supported. An unachievable target has the potential to demotivate the primary sector. More incremental targets during the proposed period with a robust review at key dates, with the ability to pause, would give the government and farmers greater flexibility and chance of success at reducing on-farm emissions.

3 **DO THE PROS OF PRICING EMISSIONS AT A FARM LEVEL OUTWEIGH THE CONS, COMPARED WITH PROCESSOR LEVEL, FOR (A) LIVESTOCK AND (B) FERTILISER?**

Pros	Cons
Drive change if there is a clear cause and effect	Demotivate farmers if not clear
Larger portion of ruminant diet from pasture	Reduce production for New Zealand
Greater ability to differentiate in the market and potentially capture more brand value for New Zealand produce	New Zealand may be out of step with the rest of the world and the international marketplace if climate policy implementation is inequitable between countries

- 3.1 As stated above the pricing of emissions post 2025 must be at farm level. As many others in the primary sector suggest, pricing emissions at a processor level is a blunt instrument that will discourage innovation and efficiency.
- 3.2 Allocations to farm of GHG (carbon and methane) entitlements will be crucial with driving on-farm change and should be based on good management practice for given farms, without grandparenting.
- 3.3 While it may be relatively simple to price emissions at the processor level, particularly for fertiliser, it is questionable what would be achieved other than collection of funds to be redistributed. The reduction of N fertiliser would not necessarily eliminate nitrous oxide losses to any great degree as the majority of nitrous oxide losses in a pastoral ruminant system come from the urine patch rather than N fertiliser.

- 3.4 The pricing of emissions at a farm level must model the whole farm system and recognise those actions that create emissions and equally those actions which are a sink. For example, on-farm riparian, wetland, aesthetic and shelter planting that does not meet the current criteria of a forest as defined in the New Zealand Emissions Trading Scheme (ETS) in sequestering carbon should be recognised in any calculation.

4 **AS AN INTERIM MEASURE, WHICH WOULD BE BEST: OPTION 1: PRICING EMISSIONS AT THE PROCESSOR LEVEL THROUGH THE NZ ETS WITH RECYCLING OF FUNDS RAISED BACK TO THE SECTOR TO INCENTIVISE EMISSIONS REDUCTION OR OPTION 2: A FORMAL SECTOR-GOVERNMENT AGREEMENT?**

- 4.1 As stated above, DHL believes the only viable option is Option 2, a formal agreement between government and the primary sector.
- 4.2 Option 2 ensures engagement with the whole primary sector immediately. The sector can also take advantage of its long-established extension arms through DairyNZ, Fonterra, Fertiliser companies, Beef & Lamb, etc.
- 4.3 There is no silver bullet. This requires research and support. Research needs to be sector-led. ETS will be very inefficient and create further entities to be funded and supported.

5 **WHAT BARRIERS OR OPPORTUNITIES ARE THERE ACROSS THE BROADER AGRICULTURAL SECTOR FOR REDUCING AGRICULTURAL EMISSIONS?**

- 5.1 There is the opportunity in particular, for part of the dairy industry to become more efficient with their supplementary feeding. Dairy farms operating on a farm system 4 or 5 will have a large emissions footprint per hectare. DHL would argue that, this group of farms can remove a large portion of their bought in feed with little effect on their EBIT but a significant reduction in their on-farm emissions.
- 5.2 This would bring them closer to farm systems, such as DHL where there is little, or no supplementation and pasture makes up a larger proportion of a cows diet. Therefore, the emission footprint is relatively small.
- 5.3 There needs to be a Good Management Practice (GMP) basis for allocation of GHG emission units with reference to quantity of pasture able to be grown/eaten before external supplements are purchased.

- 5.4 Grandparenting, or a production-based allocation would be completely unfair in this instance. Farmers feeding larger quantities of bought-in feed have higher emissions and are generally less profitable.
- 5.5 Any sort of reduction based on grandparenting or production allocation would be easily achieved by higher purchased feed input farms at little or no cost by removing some of their purchased feed which in many cases is unprofitable on a marginal cost basis. This would be completely inequitable compared to a lower purchased feed farm that already has a low emissions farm system with no ability to implement cost-neutral or cost-positive actions. Any actions these low emission farms implement would cause a loss of EBIT.

6 WHAT IMPACTS DO YOU FORESEE AS A RESULT OF THE GOVERNMENT'S PROPOSAL IN THE SHORT AND LONG TERM?

- 6.1 As it stands today with current technology, the economic impact will be devastating on the pastoral agricultural sector and the New Zealand Economy if methane reductions in the magnitude of 24-47% were required. With no ability to offset Methane, the only meaningful option is to reduce the amount of feed consumed on farm.
- 6.2 DHL agrees with DairyNZ's assessment that the cost to the average New Zealand dairy farm is grossly understated in the Action on Agricultural Emissions discussion document. DairyNZ's economic group estimated dairy farmers total profit could reduce by between 34-42% across the 2020-2050 period. Given the direct correlation between feed eaten and methane production it is no surprise that DairyNZ's modelled EBIT reduction of 34-42% lines up well against the target methane reduction. There are some reductions of emissions on farms with supplementary feeding to the magnitude of 0-10%. Beyond this point, the reduction in emissions is directly correlated with profit.
- 6.3 The targets being proposed may make the primary sector uncompetitive with our overseas competitors as undoubtedly, climate policies will be applied unevenly around the world. This would be a bitter pill for New Zealand primary producers who are the most efficient in the world in terms of emissions produced relative to product produced.

- 6.4 It will take time for countries with low emissions economies to have their product attract price premiums and for this to be reflected in market (product premiums that acknowledge New Zealand's leadership.) If the premiums do not come, there will need to be reviews to adapt and respond to the international consumers tastes and preferences.

7 ABOUT DAIRY HOLDINGS LIMITED

- 7.1 Dairy Holdings Limited is a growing dairy business that provides our customers with the highest quality food from 100% pasture.
- 7.2 Dairy Holdings Limited is a large farming business operating 74 farms in the South Island. These are a mix of dairy and grazing blocks.
- 7.3 Producing 17.5m Kg MS from 50,000 cows, Dairy Holdings Limited is the largest supplying shareholder of Fonterra.
- 7.4 Dairy Holdings Limited is majority owned by two New Zealand family groups being the Armer's and Turley's.