Dairy Companies Association of New Zealand
Submission to: Ministry for the Environment
On: Action on Agriculture Emissions
13 August 2019

1. Introduction

1.1 The Dairy Companies Association of New Zealand (DCANZ) appreciates the opportunity to submit to the Action on Agricultural Emissions consultation. DCANZ's 12 member companies collectively account for more than 98% of the milk processed in New Zealand and a similarly high proportion of New Zealand's dairy exports.

1.2 DCANZ is a party to the Primary Sector Climate Change Commitment proposal titled He Waka Eke Noa – Our future our hands. We are submitting in strong support of this proposal which:

a. Outlines a collective commitment across the primary sector in response to the challenges posed by climate change and to contribute to global efforts under the Paris Agreement to limit global average temperature increase to 1.5°C above pre-industrial levels, whilst maintaining food production. It represents a high-level statement of the primary sectors vision for, and commitment to, reducing agricultural greenhouse gas (GHG) emissions, whilst also adapting to climate change, enhancing our reputation for safe and sustainable food production, and maintaining our competitiveness in international markets.

b. Is a proposal for the primary sector to work in good faith with government, iwi/Maori to design a practical and cost-effective system for reducing emissions at farm level by 2025. This includes working with government to design a pricing mechanism that is part of a broader framework to support on-farm practice change.

c. Includes a 5-year programme of action to ensure farmers are equipped with the knowledge and tools they need to deliver emissions reduction while maintain profitability.

1.3 There is a historic opportunity for Government and the primary sector to move forward together to build the foundations needed to support New Zealand’s already world leading farmers in an ambitious transition pathway to continue reducing their emissions. We strongly urge the Government to take this opportunity by:

a. Moving forward in partnership with the sector to implement ‘Option 2’ – a formal Government and Industry climate change agreement.

b. Working with the sector to design an on-farm mechanism, which further supports behaviour change, including by setting any price signal at the margin to incentivise uptake of economically viable opportunities whilst minimising potential for emissions leakage.
a. Investigating and acting on opportunities to further support this change through skills and education, science and technology, and regulatory policy settings that are also aligned with, and support, the targeted outcomes

b. Ensuring any legislated processes to review agricultural emissions policy settings, including in relation to allocation, are transparent and informed by up to date science and economics.

2. **Incentivising farmers to reduce emissions:**

What is the best way to incentivise farmers to reduce on-farm emissions?

2.1 On-farm emissions reduction will best be incentivised where farmers:

− have a good understanding of their individual farm emissions;

− know and have confidence in the options available to them to reduce or offset their emissions, and;

− have an understanding of how these actions will impact on other aspects of their farm system (e.g. animal welfare, environment, economic performance).

2.2 A price instrument can form a useful part of a broader behaviour change framework if it is based on providing recognition for individual actions. This means that a price instrument for agricultural emissions will be most effective if it is placed at the farm-level and accompanied by:

− individual farm emissions reporting;

− clear and stable advice on emissions reduction actions; and

− emissions mitigation tools.

2.3 It is important that the link between targeted emissions reduction outcomes and on-farm actions is clearly established to support farmer behaviour change. This is crucial for farmers to have the confidence to invest in new tools or to make long-term system changes. It is also not something that will be achieved by introduction of a price signal alone. Reducing on-farm emissions is a significant challenge that will require investment in a mitigation innovation, skills development, extension, and reporting infrastructure.

2.4 DCANZ agrees with the conclusion of the ICCC that a price instrument is best placed at the farm level, and that building the foundations for this is likely to take 5-years.

2.5 DCANZ is party to the Primary Sector Climate Change Commitment - He Waka Eke Noa - Our Future in Our Hands proposal, which has made a commitment to work with Government on the design of an effective on-farm emissions pricing framework.

Do the pros of pricing emissions at farm level outweigh the cons, compared with processor level, for livestock? Why or why not?

2.6 If the intent of introducing a price instrument is to support emissions reduction behaviour change, then the price instrument should apply at the individual farm level. The closer and clearer the link between action and price, the greater the likelihood of behavioural change deriving from the imposition of the price instrument.

2.7 A farm-level mechanism allows farmers to receive direct benefit from any emissions reduction mitigations they undertake (or have undertaken). A processor point of obligation risks defaulting into what could be a blunt price applied across all farmers in a way that does not differentiate unique
on-farm performance, with all farmers facing the same cost per kilogram of milk solid produced despite the variability in their level of emissions.

2.8 While there is a higher administrative cost involved in farm-level pricing than the processor option, these costs need to be viewed in light of the effectiveness of the scheme to achieve its targeted outcome. Pricing at the processor level does not provide the same incentive for individual farmers to pursue the individual emissions reduction options available to them. We also consider there will be options available to minimise the costs associated with implementing farm-level emissions pricing.

Do the pros of pricing emissions at farm level outweigh the cons, compared with processor level, for fertiliser? Why or why not?

2.9 A farm level approach should apply for all agricultural emissions, including fertiliser, for the reasons outlined above.

2.10 New research and innovation is occurring into on-farm mitigation for fertiliser related emissions. These mitigations will not necessarily be attached to the product itself and therefore may not be able to be recognised at point of sale for fertiliser. Future mitigation of fertiliser related emissions may involve farmers taking individualised action depending on factors like soil type (which varies between and within farms). For a price instrument to effectively reinforce emissions reductions actions that occur as a result of individual farm management decisions it will need to be based at the farm level. We believe that the system should be set up from the outset to accommodate (and incentivise) the future mitigation options that are being targeted through research and innovation.

2.11 A whole-of-farm-system approach to reporting of agricultural emissions is appropriate, and already under development. In 2017, the Dairy Action for Climate Change programme, tested how emissions reporting could be done at scale. A large number of farmers will be receiving farm-specific reports for their agricultural emissions by the end of the current (2019/2020) dairy season.

2.12 If the price instrument for animal emissions is established at the farm-level, then there should be minimal additional cost associated with the fertiliser emissions for these properties also being at the farm level.

What are the key building blocks for a workable and effective scheme that prices emissions at farm level?

2.13 We understand that this consultation question relates to Proposal 3 in the consultation document: to legislate a process to implement a price on livestock emissions.

2.14 The Primary Sector Climate Change Commitment proposal sets out the building blocks that:
   a. we believe are important to support farmers to reduce emissions; and
   b. must underpin any scheme that prices emissions at the farm level for it to be a workable and effective.

2.15 We strongly support the Primary Sector Climate Change Commitment proposal. It notes that priority needs to be placed on farmers having knowledge of their emissions and confidence in the options that exist to influence them. It also suggests that piloting of farm emissions reporting systems is important prior to the introduction of the price instrument. It commits primary sector organisations to working with the Government to establish an effective framework to support on-farm emissions reductions, and includes the following milestones:
   − By 2022, all farmers will know their farm emissions numbers;
− By 2024, piloting of an on-farm emissions reporting and benchmarking system will be completed;

− By 2025, a system for farm-level accounting and reporting of agricultural emissions will be in place at the farm-level.

2.16 The design of a scheme will be important to its effectiveness. We consider that particular attention needs to be given too:

− **Farmers being able to easily interact with the scheme** – wherever possible a scheme should avoid duplicating data reporting requirements by recognising and leveraging systems already in place or under development. Farming organisations have identified the importance of farmers having the ability for farmers to interact with any scheme based on a single return/report which covers both their emissions and offsetting activities. A single return for net farm emissions offers efficiencies for both farmers and government by minimising the number of occasions on which farmers are required to interact with the scheme;

− **Recognising scientifically valid emissions reduction or offsetting opportunities** - We strongly support further work being undertaken to consider how a broader range of on-farm vegetation can be recognised for the sequestration that it provides. The scheme must also be designed to be able to incorporate recognition for new emissions mitigation technologies as they are commercialised, and for known mitigation practices. Farmers need to have confidence that they will receive appropriate recognition for the emissions reduction or offsetting actions they undertake;

− **Providing fair recognition of farmers current and past efforts** – The price instrument needs to have a clear link between action, outcomes, and consequence. It is important that individual farmers who have already achieved emissions reductions are recognised for having done so, and that windfall gains for those who may have delayed action are avoided.

− **Transparency** – A high level of transparency as to the methods of determining individual farmer obligations will be essential for ensuring participant acceptance of any price instrument.

− **Mechanisms to avoid penalising farmers for events outside of their direct control** – Weather related variability creates a degree of natural variation in agricultural emissions levels. The design of any price instrument must take this into account. We suggest that the use of 3-5 year rolling averages should be considered to smooth any short-term seasonal variation, and avoid unintended consequences. For example, farmers who are investing in the right actions to achieve the emissions reductions that are reasonably available to them over the medium or long-term, should not be penalised by a one-off weather related event which temporarily alters this pathway.

− **Setting any price at the margin to reinforce appropriate targets whilst minimising the risk of emissions leakage:** Care must be taken if any price mechanism is to contribute to real global emissions reduction and avoid becoming punitive penalty for New Zealand farmers who are world-leading in their emissions efficiency. This means that price and allocation design must be considered together. We disagree with the consultation document that New Zealand dairy farmers have similar levels of emissions efficiency to our international competitors. Published research shows that the emissions from New Zealand milk is significantly lower than that from our international competitors. We would welcome the opportunity to discuss this further with officials and understand what barriers exist to the New Zealand government’s recognition of this research.
– **Avoiding duplication or conflict with other policy mechanisms**: Potential for conflict with other regulatory requirements on farmers should be avoided. For example, the potential for an emissions price to prompt actions which are in conflict to those sought by water or biodiversity related regulatory settings. Equally, if there are multiple regulations prompting the same action then consideration should be given to need to create additional unnecessary regulatory burden.

– **Auditability** – Any price design needs to be easily auditable. This includes the collection of relevant on-farm data points and the tools used to estimate emissions.

2.17 We encourage government to work closely with sector participants in designing any scheme for on-farm emissions. Collaboration with industry will help ensure the scheme design minimises duplication and possible farmer frustration. Co-designing the scheme will assist the design to be as administratively easy as possible for both farmers and Government. It will also allow consideration to be given to how the on-farm reporting required for regulatory purposes could be leveraged for future market positioning of New Zealand products (i.e. using the same base-data to support market claims and seek additional value for New Zealand products).

3. **Interim options to get started now:**

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?

As an interim measure, would 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 Government-industry agreement for reducing emissions be best? Why?

3.1 DCANZ strongly supports Option 2: a formal sector-government agreement for a 5-year action plan to build solid foundations for an agricultural emissions reduction pathway.

3.2 An on-farm approach will drive the most emissions reductions in the long-run. Therefore industry and Government effort is best placed on building this scheme from the outset.

3.3 A processor-level option approach with requirements to establish new structures to facilitate recycling of funds is likely to detract from the action necessary to start work on establishing the transition pathway for farmers. The optics of this approach are also more likely to disengage rather than engage farmers.

3.4 We understand that part of the rationale for the ICCC interim-proposal was to ensure there was an appropriate mechanism in place to support the action that needed to happen in the next 5-years to advance the foundations for a farm level approach. When engaging with stakeholders the ICCC noted that an industry-government agreement would be an alternative way to achieve this, but that there were potential barriers to developing such an agreement. The sector has overcome these barriers and we have proposed a shared programme of action, leveraging existing structures, to put in place the foundations for an effective behaviour change framework.

3.5 Our experience has been that on-farm behaviour change happens most effectively when there is a high level of engagement and support across industry organisations. This has occurred within the primary sector to develop the Primary Sector Climate Change Commitment proposal. We urge the Government to adopt a forward direction that further builds upon this engagement and common commitment, rather than risking disengagement through an approach that may be viewed as a revenue gathering exercise.
3.6 The primary sector has committed to providing the funding necessary to implementing the eight workstreams that we have identified as being important to establishing an enduring, practical, and effective framework to support on-farm emissions reduction. This includes $25 million in funding already being reprioritised. Government has received a commitment from industry organisation that additional funding will be mobilised if it is required.

3.7 The Primary Sector Climate Change Commitment has taken the approach of looking first at the outcomes and actions that are needed in the interim period, and proposed a mechanism for working collaboratively to deliver this.

3.8 The steps outlined in the Primary Sector Commitment set out a pathway that will ensure that the industry is well positioned for a farm-level approach by 2025. Furthermore, the actions will:
   a. support this farm level approach being put in place; and
   b. focus on building the other behaviour change framework components (farmer knowledge, confidence, and tools) that are essential for a price signal to be effective.

3.9 We question, the figures contained in the consultation document suggesting that introduction of a processor level price will drive a greater degree of emissions reduction in the next five years. The processor-pricing mechanism is largely a proposal to recycle funds and to provide a signal to industry about policy direction. Industry has committed to direct investment in achieving the same outcomes that any recycled funds would be invested towards, and the policy direction signal is already be there in the form of Zero Carbon Bill targets and will be reinforced by emissions budgets.

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

3.10 DCANZ recognises that there are some unique challenges bought on by climate change for Iwi/ Māori interests. We recognise that the unique characteristics of Māori land mean that there may be issues with how Māori are, and have been, best able to respond to policy in timely way to maximise the opportunities and minimise the risks associated with these characteristics.

3.11 It is appropriate that these challenges be addressed through a tailored approach. We support planning provisions being investigated to ensure that there are no more barriers than are necessary to allow for continued development of Iwi/ Māori landholdings. These provisions may include additional support or investment by Government to ensure that it meets its responsibilities under Te Tiriti o Waitangi.

4. Opening up opportunities

What barriers or opportunities are there across the broader agriculture sector for reducing agricultural emissions? What could the Government investigate further?

4.1 We believe it would be worthwhile considering how the triple helix concept identified as important by the Primary Sector Council should apply in this instance so that government regulatory direction, the education system and the science system are all supporting the same outcomes. Government could further investigate:

- **Skills training and education** - How to incentivise and encourage education providers to grow the skills and knowledge pipeline of skilled agricultural sector participants (both farmers and farm advisors) to support the agricultural emissions reduction pathway;

- **Science and innovation** - Ways to further support research into greenhouse gas reduction. Consideration should be given to increased funding and different approaches to the current
research funding settings, particularly given the long-term and often blue-skies nature of emissions reduction research.

- **Regulation** - How to address barriers that regulatory policy settings create for investment in new on-farm emissions mitigations or offsets:
  
  o It is particularly important for DCANZ that there are robust regulatory settings in place that support confidence in the animal welfare, food safety and market access efficacy of any new environmental inhibitor products being placed onto the New Zealand market. We believe that the ACVM Act and accompanying regulations could be strengthened in this regard.
  
  o Farmers should be able to maximise all scientifically valid options to manage emissions on their properties. We therefore support Government investigating how a greater range of carbon sinks can be recognised. This includes understanding of the role of soil carbon, sequestration from riparian areas and shelter belts, and any new carbon capture opportunities.
  
  o Policies that will be developed to support emissions reductions need to sit well alongside the other parts of the regulatory framework that farmers are working within. This includes the Resource Management Act, any National Environment Standards or National Policy Statement for freshwater management, and Animal Welfare Act. We support investigation of potential rub points or synergies across this broader framework.

4.2 With regard to facilitating opportunities to create new markets for low-emissions agricultural products, DCANZ strongly urges the Government to focus on continuing to invest in international trade policy and market access engagement to remove existing barriers and distortions from global agricultural markets. Existing trade barriers significantly limit the opportunities for New Zealand’s low-emissions dairy exports into many of the high-value markets where consumers are increasingly seeking to lower emissions options. At the same time, tariffs, non-tariff barriers to trade and subsidies combine to suppress the market return for New Zealand products. Resolving these distortions would significantly increase the returns for New Zealand agricultural products and better position farmers and the industry to invest in further emissions reductions.

4.3 It would also be useful for Government to continue investing in international advocacy and negotiations to address the current known issues with the GWP100 metric for methane. We note that proposals have been put forward to evolve the calculation of methane via the GWP* method in order to more accurately recognise impacts on temperature. New Zealand’s continued engagement in this discussion is important for New Zealand, and other countries with a high share of methane in their emissions profiles, to have a fair and just transition.

5. **Impact of the proposed pricing of agricultural emissions**

5.1 DCANZ agrees that the impact of any pricing of emissions, for farmers, and for New Zealand’s total emissions, depends upon a range of factors including:
  
  c. Farmers understanding of their emissions and how to influence them;
  
  d. The extent to which economically viable options exist for farmers to reduce their emissions;
  
  e. The price of emissions;
  
  f. Other factors including broader changes to farm systems, including as a result of other regulatory policies.

5.2 We note that modelling of impacts in the consultation document has been based on an emissions price of $25/tonne of CO2-equivalent. Other recent Government consultation documents have
recognised this could be at the lower end of emissions price expectations by 2025. The modelling has also been based on assumptions that 95% free allocation applies equally to all sector participants and remains in place at this level. As a sector we do not have certainty of any of these factors and strongly suggest the appropriateness of sensitivity analysis that considers how changes in key uncertain variables will impact upon outcomes.

5.3 As noted above, we question the ICCC conclusion that emissions leakage risks are low because New Zealand’s agricultural competitors have similar emissions footprints and have also adopted economy wide emissions caps. New Zealand milk has an emissions level of 0.8-0.9 kg CO2-e per kg of milk. This is 20-30% below the emissions levels of alternative dairy exporters. Whilst competitors have put in place economy wide emissions reduction targets, these have not yet translated into economy wide regulatory instruments. There has also been significant reporting that most of the 2030 targets from these competitors are at risk of being missed by a significant margin.

5.4 With respect to the differences between interim Option 1 and Option 2 (and as noted above), we question the assumption that Option 1 would result in greater emissions reductions that Option 2. We suggest than Option 2 would be equally or more effective in reducing on farm emissions in the next five-years due to its ability to better engage farmers in emissions reduction and its direct focus on equipping them with the knowledge and tools to support change.

The estimated cost for processor level administration also appears low.

6. Processor level emissions pricing and allocation methods

Do you agree that the method of allocation of emissions at the processor level should be output based? Why or why not?

6.1 DCANZ strongly supports Option 2: to enter into a formal Government and Industry agreement of a five-year programme of action, rather than bringing agricultural emissions into the ETS at a processor level.

6.2 If a processor level obligation is introduced, our strong preference is for the focus to be on transitioning to the farm level as soon as possible rather than investing resource in attempting to recognise variation between farms at the processors level. The benefits of being able to support farm-level variation support the focus on having a single system in place for all farms. If the Government determines to pursue Option 1 then this should only be in place for the intended five-year period. This means that investment into establishing systems to recognise variation between farms at the processor level, is better directed towards establishing an effective farm-level approach.

Do you agree that free allocation of emissions units should be provided at the same time emissions obligation are due? Why or why not?

6.3 Yes.

6.4 Receiving the allocation early could allow processors greater flexibility to trade in the market and attempt to reduce emissions units costs. But feedback from DCANZ members is that their central focus is on processing milk and marketing dairy products, and they are unlikely to focus significant attention on trading carbon units if they are allocated in advance.
7. **Adjustment of Emissions and Allocations Factors**

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?

7.1 We agree that the emissions factors should be updated regularly to ensure on farm emissions reflect actual emissions.

7.2 Adjustment of emissions and allocation factors should occur together and aim to reflect actual emissions. We are concerned that the proposal to adjust emissions allocation factors based on BAU projections, rather than using the same factors for emissions and allocation, has the same effect as reducing allocation, but with less transparency that this is occurring. The most transparent approach is to keep allocation and emissions factors constant and to drive reductions through changes in the free allocation percentage. This will mean that this percentage can be directly compared to the Government’s targets.

Do you agree the process for making decisions on any phase down of free allocation of emissions units should be set in legislation and informed by the Climate Change Commission? Why or why not?

7.3 We agree that the process for making decisions on any phase down of free allocation of emissions units should be set in legislation and informed by recommendations from the Climate Commission.

7.4 Free allocation of units is an important factor in ensuring that emissions prices remain at the margin, and do not result in emission leakage or unintended consequences for New Zealand communities. Any review process needs to consider up to date assessment of science and economics and should include provision for a stakeholder consultation which is informed by a robust regulatory impact assessment.

8. **Submission Contact**

8.1 The contact for this submission is:

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