Red Meat Sector

Joint Submission to the Ministry for the Environment

on the

New Zealand Emissions Trading Scheme Review: Part Two

29 April 2016

About the Submitters

1. The red meat sector consists of the submitters listed below.

Beef + Lamb New Zealand

2. Beef + Lamb New Zealand (B+LNZ) is the farmer-owned organisation representing New Zealand's sheep and beef farmers. B+LNZ is funded under the Commodities Levies Act 1990 through a levy paid by producers on all cattle and sheep commercially slaughtered in New Zealand. B+LNZ's purpose is to help sheep and beef farmers make informed business decisions and promote their collective interests.

Deer Industry New Zealand

3. Deer Industry New Zealand ('DINZ') is a levy funded industry-good body established by the Deer Industry New Zealand Regulations 2004 under the Primary Products Marketing Act 1953. DINZ's functions (under regulation 5(1)) include the following:
   - to promote and assist the development of the deer industry in New Zealand; and
   - to monitor, and from time to time report on, the economics and efficiency of all components of the deer industry.

Meat Industry Association (including the New Zealand Renderers Group)

4. The Meat Industry Association ('MIA') is the voluntary trade association representing New Zealand meat processors and exporters. The MIA:
   - provides a collective voice for New Zealand's red meat processors and exporters;
   - facilitates policy formation on economic, trade policy, market access, industrial relations, compliance costs, environmental, animal welfare, technical and regulatory issues facing the industry;
   - coordinates a number of industry-good services, including industry-good research and development; and
   - is the interface between the meat processing industry and government.

5. The New Zealand Renderers Group is a semi-autonomous committee of the MIA. Membership consists of all members of the MIA, together with independent processor or

exporter renderers and associate members. The purpose of the New Zealand Renderers Group is to further the common interests of the rendering industry by representing the members when dealing with international and local government on matters of rendering regulations, standards, codes of practice and other regulatory and standards issues such as environment, health and safety and industry training issues.

General position of the New Zealand red meat sector

6. The red meat sector's previous submission for Part One of the Review (Priority Issues) made in February 2016 provides an overview of the red meat sector and explains how the red meat sector is adapting to climate change.

7. This current submission is based on our understanding that the purpose of the NZETS is to achieve an absolute reduction in emissions of carbon dioxide from New Zealand sources as well as to support economies to transition to lower emissions globally.

8. The red meat sector supports appropriate and effective climate change mitigation efforts to help New Zealand transition to a low emissions economy. The sector also supports a market mechanism as a tool to incentivise the necessary behaviour change that supports climate change mitigation. That said, the red meat sector is an export sector (90% of product is exported to global markets) and is very exposed if competitors overseas do not implement similar measures to those being implemented in New Zealand or face the same costs.

9. The current NZETS structure has short-comings that need to be addressed to ensure it is robust and effective in driving emissions reductions. Until these issues are adequately addressed, the red meat sector opposes any move that would place it at a competitive disadvantage, particularly when other countries are not implementing similar measures.

10. For clarity, we are opposed to additional cost liabilities that are not faced elsewhere internationally and would put the sector's export revenue and overall economic viability at risk. The Government needs to be aware that if free allocations are removed, and other countries do not implement similar measures, then that would effectively amount to a non-tariff barrier for our sector.

11. Our submission for Part Two of the Review will address the following major areas of concern:
    - Impact of the NZETS on the red meat sector
    - Free allocations removed after 2020
    - International credits can be purchased again after 2020
    - Auction mechanism for selling credits
    - Managing price stability
    - Barriers to adoption of alternative technologies
    - Energy providers accepting NZUs as payment.

Impact of the NZETS on the red meat sector

12. The current impact has been relatively insignificant, as the cost of emissions has been low and export industries have been protected to some extent from the impact of the scheme by free allocations. Some processors have attempted to use future emissions costs as part of their justification for energy efficiency programmes. However, those processors have found

that uncertainty and great volatility in the cost for carbon emissions has meant that it is not possible to take into account the future cost of emissions in business planning.

Removal of Free Allocation after 2020

13. The rationale for free allocation to trade exposed industries – that New Zealand exporters are not loaded with costs that our overseas competitors do not face – remains unchanged. The key issue for the reduction of free allocations to trade exposed industries is that our Australian, European, American and Chinese competitors face the same level of cost. Until there is an agreement that our competitors are subject to the same costs for their emissions that New Zealand renderers are, then free allocations should remain.

14. We note that if New Zealand renderers face higher costs than overseas competitors then the only alternative would be to put the waste product into landfill – which would have the perverse outcome of increasing emissions through methane formation in addition to adding to the adverse environmental impacts of landfills.

15. The Rendering Industry is currently allocated [redacted] units in total for Protein Meal. We would also like to see NZUs allocated to tallow production, as this is also a trade exposed product. Tallow is mostly used for bio-diesel and production should therefore be encouraged to reduce emissions.

16. At the unexpectedly very low NZU values seen in recent years the free allocation has not made a material difference to businesses. The free allocation is worth only a very small amount of the current energy bill of companies. However, it is not known how much this will change as the price of NZUs increases.

International credits can be purchased after 2020

17. The red meat sector strongly supports the ability to purchase international units. As international ETS markets mature, access to international units will be an important tool to providing some stability and credibility to the NZETS, and to ensuring that New Zealand industry faces the same kind costs that international competitors face.

18. That said, we appreciate that controls are needed to ensure that they are genuine credits. One possible approach could be to link the NZETS to particular ETS (such as those in Asia), and move from there. Another could be to adjust the amount of international credits that could be traded on the NZETS (i.e. no more than 50% are international). The preference of the sector would be a single credible international trading platform.

Should an Auction be introduced to the NZETS?

19. The red meat sector in principle agrees with the concept of an auction, and in the absence of access to international units, some form of auctioning would seem to be the only practicable way of allocating NZUs. However, it is not clear to the red meat sector the exact number of NZUs that the Government intends to auction off, how the Government proposes to determine the number of NZUs to be auctioned and under what circumstances.

20. Combined with other developments, the adoption of an auction could result in extreme uncertainty. If the Government does consider an auction, then fundamental issues such as how many NZUs will be auctioned and when, must be done absolutely transparently.

Managing price stability

21. Price volatility means that the cost of emissions is not factored in when considering capital projects. If the NZETS is to be effective in reducing emissions from the sector then there needs to be predictability.

22. Energy savings projects are often capital intensive, and there needs to be predictability for business planning and contingency reasons. Large capital works which may be energy intensive, and energy savings measures, may take years from the initial planning to inception, and the unpredictable cost means that carbon will be excluded from planning, with the costs then being passed on into the system.

23. This uncertainty also influences farmers who are making responsible planning and business decisions that incorporate emissions reductions strategies such as the planting of trees for production or as permanent forest sinks that generate NZUs.

24. We note that in the next few years the NZETS has the potential for very significant price instability.

25. There is a considerable number of NZUs "banked" that may be released. This may coincide with the removal of the 2:1 surrender. If the Government was to unpredictably auction off the allocation emissions units at the same time, this could create a "perfect storm" of a highly unpredictable NZETS. The result could be considerable uncertainty for New Zealand emitters. Getting the timing of changes right is therefore critical if the Government is to make any of the proposed changes.

26. A price ceiling and/or floor would allow for greater certainty, but it would require the Government to be completely transparent about how it determines these interventions. Rather than the blunt instrument of a price ceiling, the red meat sector believes some thought could be given to mechanisms such as "buy-backs" of NZUs by the NZ Government.

27. It is this uncertainty in the near to long-term future that is the principal issue faced by the meat processing and rendering industry. The potential for instability in the NZETS market needs to be addressed to enable long-term planning and strategic leadership to go into our business and the wider sector investment decisions. The red meat sector therefore strongly supports policies which provide some predictability.

Barriers to adoption of new technologies

28. The red meat sector is a major emitter of greenhouse gases predominantly from biological emissions from livestock, however the current point of obligation is at the processor. Therefore market signals back to the producers are masked through the averaging effect of spreading emissions over total livestock processed.

29. For the meat processors, alternative energy supplies are not easy to develop, because (a) the current NZETS only creates uncertainty which deters capital investment in alternative energy or energy saving projects, and (b) significant projects face considerable hurdles during the RMA process.

30. Generally, the red meat processing industry needs to have relatively rapid payback for any investment in alternative technologies. The Australian Government recognises this structural problem by incentivising the rapid adoption of new technologies by funding schemes (such as interest-free loans for some technologies). This has allowed new technologies to be adopted, whereas in New Zealand there is only very limited funding from EECA. We believe that there is a market failure in that the adoption of new technologies may involve only a long-term paybacks and entails risk, so business is reluctant to adopt those, while there is a public good for business to rapidly adopt those new technologies. Government should incentivise business to take on new (and potentially risky) technologies that reduce carbon emissions.

31. Tallow is a significant resource – 140,000 tonnes of tallow were produced last year. This could convert to up to 140 million litres of bio-diesel - or almost 5% of New Zealand's total diesel consumption. The Government should consider how to encourage the production of biofuels from tallow – the use of free allocations could be one tool to do this. It may even be possible to have some joint venture of renderers, bio-diesel manufacturers and Government to foster and promote this industry, which could be a significant driver to our ultimate goal of reducing emissions.

32. On-farm, there are significant barriers to low emissions technologies, the major one being that there are no technologies available to prevent or mitigate methane from ruminants. The red meat sector is contributing significant funds, alongside government and others, to research. While there are some promising avenues, commercialisation of a successful technology is a considerable time away.

33. On-farm energy costs for the red meat sector are generally a small proportion of expenditure, and so offer very limited opportunities for improvement. One possible opportunity is for the promotion and support for small scale renewable energy projects in rural areas such as wind, solar and micro-hydro generation.

34. The current electricity markets feed-in tariff rates are a disincentive to small scale renewable electricity generation. Reversing this to make the sale of renewably produced small scale generation profitable, whether by tariffs or through eligibility for NZU, would be beneficial.

35. There is however significant opportunity for additional forestry plantings that will help in the short to medium term to meet emissions reduction targets. These can be either as production forestry, or permanent sinks through the regeneration of indigenous forests.

36. The Permanent Forest Sink programme is not widely known about and would benefit from significantly greater promotion. This could be matched through supporting and leveraging the likes of the Queen Elizabeth II National Trust in their covenanting activities.

37. Similarly, the Afforestation Grant Scheme and the Erosion Control Funding Programme should be more widely promoted, supported with additional funding and broadened across

the country. Expansion of forestry will need to be supported with transport infrastructure such as rail or sea as a primary means of transport, rather than road. Diesel rail traffic has 1/3rd the emissions of road, and sea transport ½ the emissions of road transport.

Energy providers accepting NZUs as payment

38. The red meat sector notes that many energy providers do not accept NZUs. If energy providers were encouraged to accept NZUs as payment by energy users, then it would make the NZUs a more useful and tradeable 'currency', and establish a clearer link between energy use and emissions units.

39. This was clearly demonstrated by Gull's submission to the 2012 NZETS review which referenced instances where the charges for carbon to the buyer were almost double the actual price of units at the time.[1] Similar behaviour from energy producers functionally changes the cost of carbon emissions through the NZETS from a cost that can be related to, and impacted by, the industry's behaviour with regards to sourcing energy, to a tax which cannot be influenced.

40. The purchasing of international credits after 2020, and the fact that many NZ energy providers do not accept NZUs as part payment is inextricably linked. If the outcome of the review allowed a policy link between rules of acceptance for major energy providers, and a mechanism to allow (at least partial) acceptance of some international credits, then it is likely that the NZETS market would have greater predictability.

Conclusion

41. The red meat sector supports appropriate and effective climate change mitigation efforts to help New Zealand transition to a low emissions economy. The sector also supports a market mechanism as a tool to incentivise the necessary behaviour change that supports climate change mitigation.

42. The current NZETS has resulted in considerable volatility and seen a very low NZU price. The result has been that the NZETS has failed in its primary aim of creating a market-based economic cost on carbon that emitters can factor into their decision-making, and reduce their emissions. It is therefore critical that government policy for the NZETS be driven by how to make the NZETS more predictable and stable for emitters, so they can incorporate the carbon price into their businesses.

Contacts

43. For any queries relating to this submission, please contact:

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[1] Submission on New Zealand Emissions Trading Scheme 2012 Review By Gull New Zealand Limited http://www.parliament.nz/resource/en-nz/50SCFE_EVI_00DBHOH_BILL11566_1_A278401/3218df3477724cf35009524c23e65e5b0bfbfef3

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