

SUBMISSION

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Submission on: **New Zealand ETS Review Consultation**

From: **Federated Farmers of New Zealand**

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SUBMISSION TO THE MINISTRY FOR THE ENVIRONMENT ON NEW ZEALAND ETS REVIEW CONSULTATION

1. INTRODUCTION

- 1.1 Federated Farmers welcomes the opportunity to provide this submission to the Ministry for the Environment on the New Zealand ETS Review Consultation. This submission is on the technical issues.
- 1.2 Federated Farmers agrees that it is timely to review the Emissions Trading Scheme (ETS) to assess its operation and effectiveness, especially in light of international developments that may result in a strengthened response to climate change and potentially higher carbon prices.
- 1.3 Although biological emissions from agriculture make up almost half of New Zealand's total emissions, this is unique among developed economies and currently the only way to significantly cut these emissions would be to reduce livestock numbers and limit production. Federated Farmers therefore agrees with the Government's decision to exclude these emissions from the scope of this review.
- 1.4 Federated Farmers takes the issue of climate change and policy responses, like the ETS, seriously. Farmers, alongside other households and businesses, bear the burden of the ETS through carbon costs applied to transport fuels and electricity used.
- 1.5 Biological agricultural emissions are, under current settings, reported annually by processing companies with a zero-rated emissions price on those emissions. Emissions that arise from on-farm consumption of electricity and transport fuels are managed upstream by electricity generators and fuel companies. This situation necessarily limits the direct interactions of our farmer members with the ETS to those with emissions units allocated to pre-1990 forests on farm land, the voluntary registration of post-1989 forests on farm land, and compliance with deforestation obligations for both pre-1990 and post-1989 forests on farm land.
- 1.6 Allowing the ETS to "evolve" may have its attractions as an effort to ensure the scheme remains fit for purpose over time. There are however risks that such efforts can also manifest as "constant tinkering". This is not conducive to long term planning by scheme participants, especially in the case of forestry crop rotations that can be in excess of 30 years.
- 1.7 Auctioning of emission units to scheme participants would be seen as further "tinkering" with the ETS. This is because auctioning introduces an added dimension of government manipulation of the market leading to higher costs of participation in the ETS by scheme participants.
- 1.8 Should there be further government management of emissions pricing, the Federation would consider this removes the ability of the market to actually function as a market. Doing so introduces even greater risk that emissions pricing becomes increasingly affected by changes in government policy. This necessarily affects the certainty of investment decisions of scheme participants in their efforts to reduce greenhouse gas emissions, and by association willingness to reduce emissions.

- 1.9 It remains our role as an organization to advocate in the interests of our farmer members in public policy processes. The Federation does not have direct involvement in the business decisions of its members, especially as they relate to the ETS. As such, it should be understood that the comments provide in this submission are necessarily a step removed in some instances from the context sought in many of the questions posed in both the Operational Matters Technical Note and Forestry Technical Note documents.

2. SUMMARY OF RECOMMENDATIONS

- 2.1 Federated Farmers of New Zealand recommends the government do better to educate and improve understanding of ETS obligations and the consequences of non-compliance.
- 2.2 Federated Farmers of New Zealand recommends government better resource the processing of ETS documents in a more timely manner, as well as better resource administrator support to assist scheme participants to correct minor technical issues with ETS documents.
- 2.3 Federated Farmers of New Zealand recommends that annual reporting of ETS performance is expanded to provide analysis of the alignment with the National Inventory.
- 2.4 Federated Farmers of New Zealand recommends that annual reporting of ETS performance is extended to clarify the use by government of emission units from unregistered post-1989 forests.
- 2.5 Federated Farmers of New Zealand recommends that tree weed exemptions should be given to registered efforts to control tree weeds, rather than require applications from individual landowners.
- 2.6 Federated Farmers of New Zealand recommends that the government have available information on the ETS status of unregistered lands.
- 2.7 Federated Farmers of New Zealand recommends that a review be undertaken of the appropriateness of conditions that determine eligibility of planted areas under the ETS.
- 2.8 Federated Farmers of New Zealand supports in principle shifting the point of emission downstream from harvest, but further work is required on how best to account for this.

3. OPERATIONAL MATTERS TECHNICAL NOTE

Compliance with ETS obligations

- 3.1 It is the Federation's experience that there are two essential reasons for non-compliance among its farmer members with ETS obligations and requirements.
- 3.2 The first reason is that the complexity built into the ETS does not lend easily to simple answers to simple questions.
- 3.3 An example of this is that in a simplistic sense the forest owner can claim emission units from compliant post-1989 forests, but the landowner is

ultimately liable for deforestation arising from the harvest and clearance of forest. The logic is sound in that the landowner is not always responsible for the trees that generate the emission units, but is usually responsible for the decision on whether to replant or convert the land to another land-use. That said, the disjoint of responsibility does create confusion among tree owners and landowners as to who exactly is responsible for what when it comes to harvesting the forest. The confusion is especially pronounced where farm land is sold, but the cutting rights to the forest are retained by the selling party in the transaction.

- 3.4 Another example is the conditions that define a compliant post-1989 forest. The Climate Change Response Act 2002 requires that five conditions be met in order for a post-1989 forest to be considered compliant and therefore able to registered under the ETS for emission units. The condition that a forest be planted on land that was previously not forested on 31 December 1989 is straightforward for areas where the forest comprises monoculture species established on land that was previously pasture cover. This condition is less straightforward in instances where plantings may have occurred on areas not initially considered compliant, but through subsequent actions were made compliant. Another condition is the 30m width condition. This is straightforward in situations where the planted area covers the better part of a land block. This is less straightforward in situations where plantings have been undertaken for soil erosion control, on marginal land areas like gullies, or riparian plantings along waterways.
- 3.5 Such complexity helps explain why many parties may not realize they have obligations under the ETS. This initial lack of understanding then reasonably gives rise to lack of understanding of the consequences of not complying with obligations under the ETS, until it is too late to easily remedy non-compliance.

Federated Farmers of New Zealand recommends the government do better to improve understanding of ETS obligations and the consequences of non-compliance.

- 3.6 The second reason is the scheduling of required actions, like the filing of emissions returns, has tended to create logjams in the processing of documentation. While the Operational Matters Technical Note does attempt to address the adequacy of ETS administrators in addressing non-compliance, the commentary in the paper falls short in recognizing the consequences of not properly resourcing the processing of large and often complicated documentation around particular deadlines. It is the Federation's experience that instances of non-compliance have occurred, less through willful negligence of forest owners in meeting their obligations, but through the failure of scheme administrators to process filed documents in a timely manner.
- 3.7 An example of this was the chaos caused by the sudden decision in 2013 by government to prohibit forest owners from surrendering emission units sourced from other countries. The reason for the decision is understood to have been related to the arbitrage opportunity to forest owners to retain higher value emission units from their post-1989 forests, while surrendering lower value emission units sourced from other countries. That the decision was immediate meant that forest owners were left to scramble in their attempts to surrender offshore emission units against their forests before the ban came into effect.

- 3.8 Put simply, such logjams prevent easy remedy of incomplete or incorrectly completed documentation.
- 3.8a Additionally allowing the submission of voluntary returns at any time of year, not just a short time window could also ease the workload.

Federated Farmers of New Zealand recommends government better resource the processing of ETS documents in a more timely manner, as well as better resource administrator support to assist scheme participants to correct minor technical issues with ETS documents.

Inadequacy of government reporting

- 3.9 The EPA produces an annual report of activities under the ETS every year, and this report is appreciated for what it shows of the activities of scheme participants. The information provided on the activities of scheme participants is understandably general for reasons of wanting to ensure the information is provided in aggregate and so does not compromise the commercial interests of individual scheme participants.
- 3.10 One aspect where the report falls short, however, is in reporting the activities of government in the surrendering of emissions units every year and how this matches with emissions estimates in the National Inventory. We accept that there is a time disjoint between the surrender of emission units after every calendar year and the 18-month lag that attaches to the production of a National Inventory report. There remains however a risk that the government either surrenders more emission units than it should or surrenders insufficient emission units to cover the emissions we report internationally under the National Inventory. We remain unaware of the extent to which this risk is managed by government, and including this element in annual reporting of the performance of the ETS would be of help.

Federated Farmers of New Zealand recommends that annual reporting of ETS performance is expanded to provide analysis of the alignment with the National Inventory.

- 3.11 Another aspect where the report falls short is the claiming of emission units by government from unregistered post-1989 forests. The voluntary premise behind the treatment of post-1989 forests was clear: where a forest owner claims the emission units, they also take responsibility for the liabilities. In those instances where a forest owner opts not to register their post-1989 forest under the ETS, the question arises as to whether the government claims the emission units that attach to those forests and to which purpose those units are ultimately put. Are they claimed and surrendered by the government, or are they left unclaimed and ultimately forgotten? Including this aspect of government activity in annual reporting on the performance of the ETS would help improve accountability for the efficient and effective functioning of the ETS.

Federated Farmers of New Zealand recommends that annual reporting of ETS performance is extended to clarify the use by government of emission units from unregistered post-1989 forests.

Treatment of tree weeds

- 3.12 Complexity in the treatment of tree weeds has left many of our members confused as to whether or not they are compliant in their efforts to control tree weed species on their farms. That a landowner is required to apply for the exemption has not been made clear to farmers, giving rise to situations where some of our farmer members have been sent deforestation notices by MPI for having cleared tree weed species on their farms. This is of concern where the success of community efforts to control tree weed species rests in part on the goodwill and active participation of private landowners.
- 3.13 The Federation is unconvinced by the reasoning given in the Operational Matters Technical Note for limiting the extent to which deforestation liabilities for tree weed species can be exempt. One would think that efforts to improve the biosecurity, biodiversity and productivity of land is of a higher priority than the administrative efficiency of the government budgeting for the deforestation of tree weeds.
- 3.14 Tree weed species tend to be controlled at a regional and community level. It would make sense for the tree weed exemption to apply where there are registered efforts to control tree weed species that might give rise to deforestation liabilities. In this manner, one reduces the complexity of applying for exemptions on an individual instance while also ensuring that the exemption only applies to those tree weed species controlled under registered efforts.

Federated Farmers of New Zealand recommends that tree weed exemptions should be given to registered efforts to control tree weeds, rather than require applications from individual landowners.

ETS status of land

- 3.15 A number of the Federation's farmer members have had problems identifying whether the forest on their farm is a pre-1990 forest or a post-1989 forest. This situation has generally arisen as the result of a farm purchase since 1990 and time passing such that the current owner of the farm has little knowledge of the timing of prior tree planting decisions.
- 3.16 Depending on the growing conditions of the planted area, a simple visual inspection does not always easily lead to a safe determination as to the age of the trees. More involved age analysis methods are generally perceived to either be more fuss or more costly than merits the effort. Often, our farmer members only want to know if the forest on their farm is a liability or an asset, and they want to know this through simple means.
- 3.17 The end result is usually a decision being made to just ignore the forest and hope nothing happens that creates obligations on the farm owner. This was a fairly safe course of action during the period where emission unit prices were particularly low as deforestation liabilities for pre-1990 forest were relatively inexpensive and the value of emission units for post-1989 forests struggled to exceed the costs of registering and accounting for those forests.
- 3.18 As the emission unit price has risen considerably since the low lows of previous years, the financial risk of ignoring pre-1990 deforestation liabilities

is more difficult and the opportunity cost of not claiming post-1989 forest emission units is more significant.

- 3.19 It would help for the government to have available information on the ETS status of land that is not currently registered in the ETS so that landowners are empowered to make more informed decisions.

Federated Farmers of New Zealand recommends that the government have available information on the ETS status of unregistered lands.

4. FORESTRY TECHNICAL NOTE

Conditions for compliant post-1989 forest

- 4.1 Questions have been raised by many of our farmer members as to the eligibility of recently planted areas on their farms under the ETS. An example would be concerted efforts in recent years to establish and improve tree plantings along riparian margins. Common sense would suggest that such plantings should be recognized under the ETS. However, applying the vast majority of those situations to the conditions contained within the Climate Change Response Act 2002 often shows such plantings to be non-compliant as post-1989 forests.
- 4.2 We recognize that issues of scale are required for forested areas to be worth bearing the initial costs of registering the forest and ongoing reporting costs. For smaller planted areas that technically meet the definition of a post-1989 forest, the costs involved will outweigh any benefit from registering those forests under the ETS.
- 4.3 We further recognize that in amending the conditions that determine whether or not a planted area is indeed compliant does raise unintended consequences of having to account for forested areas that were previously not accounted for. This is an issue for the accounting of soil carbon, for example.
- 4.4 We also understand that conditions for eligibility were generally set under the rules of the Kyoto Protocol, and that some of those conditions were provided as ranges. An example of this is the 30m width condition being chosen by the New Zealand government from a range provided under the Kyoto Protocol of between 10 and 30m.
- 4.5 That said, it would be helpful for there to be a conversation on the appropriateness of the conditions of eligibility contained within the Climate Change Response Act 2002 for continued fitness for purpose. The Paris Agreement adopts a bottom-up approach to efforts to reduce greenhouse gas emissions, and so offers an opportunity to perhaps adopt a slightly different pathway on the recognition of sequestration activities than was possible under the top-down approach of the Kyoto Protocol.

Federated Farmers of New Zealand recommends that a review be undertaken of the appropriateness of conditions that determine eligibility of planted areas under the ETS.

Treatment of harvested wood products

- 4.6 That harvest is treated as the point of emission for forestry is not something that has sat well with the Federation for many years now. After all, some wood products like timber framing in houses and wooden furniture last for many years before releasing emissions sequestered within the wood. New Zealand should aim for more accurate accounting of its emissions and sequestration of emissions.
- 4.7 As such, the Federation welcomes the government exploring options for accounting for harvested wood products. That said, we also agree that there are complicating factors in accounting for such a thing.
- 4.8 In the first instance, forest owners generally cease to have control over the trees harvested from their properties well before a decision is made as to the purpose to which those trees will be put. In many instances, cutting rights are sold to contractors who then take ownership of the harvested tree and decide whether to export the tree as raw logs or further processing. As such, it will be difficult to tie the ultimate purpose of any products derived from the tree back to the forest owner and point of harvest. This is necessary to ensure the benefits of shifting the point of emission downstream can be realized by the forest owner.
- 4.9 In the second instance, multiple products are generally derived from different parts of the tree. While the heart might be put to use as long-lasting timber framing in houses, offcuts are more likely to end up pulped as paper or other packaging products of a somewhat more limited lifespan. It is difficult to see how this can be taken into account in a way that does not make forestry less attractive than is already the case.
- 4.10 In the third instance, most harvested trees continue to be exported as raw logs rather than processed within New Zealand. This has the potential to change as tariffs on harvested wood products reduce under the TPPA, but the predominance of export of raw logs does limit the benefits of accounting for harvested wood products within New Zealand.

Federated Farmers of New Zealand supports in principle shifting the point of emission downstream from harvest, but further work is required on how best to account for this.

5. ABOUT FEDERATED FARMERS

- 5.1 Federated Farmers of New Zealand is a member-based organisation representing farming and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.
- 5.2 The Federation aims to add value to its members' farming business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:
- Our members may operate their business in a fair and flexible commercial environment;

- Our members' families and their staff have access to services essential to the needs of the rural community; and
- Our members adopt responsible management and environmental practices.