

# Submission

## ACTION ON AGRICULTURAL EMISSIONS

Submission to:

Ministry for the Environment [agriculture.emissions@mfe.govt.nz](mailto:agriculture.emissions@mfe.govt.nz)

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## The Forest Owners Association

The New Zealand Forest Owners Association Incorporated (FOA) is the representative membership body for the commercial plantation forest growing industry. FOA members are responsible for the management of approximately 1.2 million hectares of New Zealand's plantation forests and over 80% of the annual harvest.

In 2018, the forest growing sector was worth \$6.38 billion in export value and is a 12% share of rural land use.

## Summary

The FOA strongly endorses the statement by the Minister that “putting a price on agricultural emissions is a central part of incentivising the agriculture sector to reduce its emissions and is in line with how we manage emissions from other sectors”.

It is important that the Emissions Trading Scheme (ETS) operates as an all sectors all gases approach as was intended in its original design. The approach to date has been some sectors, some gases and a heavy reliance on taxpayer subsidisation. This has masked any effective price signal and is a key reason why we have made little appreciable progress on our emissions profile. This must change, if our Paris commitment is to have any meaning.

In 2011 the government convened an independent panel of experts to provide advice on the ETS. Included in its recommendations was that agriculture should enter the ETS in 2015, as was legislated, and at a 5% level of obligation. This was after weighing up the abatement options, fairness and the international context.

Eight years later we have another independent group making the same recommendation based on the same assessments. This does raise questions about how independent and binding any future Climate Commission needs to be.

The 2011 independent panel also recommended that the point of obligation for agricultural emissions be at the farmer level. We agree that a level of responsibility should reside with the person best placed to make decisions that change behaviour and for it to be recognised. We support livestock emissions being calculated at the farm level by 2025 if possible but agree with the ICCC recommendation that this be complemented at the same time with a price on fertiliser emissions at the processor level for certainty, and cost considerations.

Several challenges, not least additional cost of administration, remain to be resolved before farm-level pricing can be implemented. The FOA concurs that if this proves to be infeasible then emissions should continue to be priced at the processor level.

In the interim the FOA considers that the ICCC recommendation that pricing commencement from 2021 should remain as the default position to signal commitment and because of the degree of uncertainty associated with an alternative approach. However, the FOA considers that the proposals presented in the sector-government agreement all have value and should be progressed in tandem. The Climate Change Commission will be in a position to determine prior to 2021 whether the progress under this agreement should have a bearing on the price points set in 2021.

The FOA concurs with further investigating the options for the agriculture sector to gain recognition from carbon sequestration. We consider this should include pre-1990 forestry, harvested wood products sequestration, and biochar made from forest harvest residues, despite the fact that the ICCC has dismissed this. Indeed, we consider the argument for landowners to be recognised for afforestation carbon sequestration is more compelling than for allowing industrial emitters the same option when the latter includes a risk that the afforestation is used as a substitute for taking action on reducing emissions. Afforestation is clearly needed as a transitional measure to help New Zealand make economy wide adjustments in a planned and manageable way – but it should not be relied on as an end point solution.

Just as it is the appropriate body to monitor and recommend on other matters, the Climate Commission could consider and recommend on any revised level of obligation that agriculture or other emitters should face if afforestation sequestration was allowed as an option for the agricultural sector.

In respect of future phasing down of the free allocation to agriculture and application of a broader adjustment tax on imported nitrogenous fertiliser, as is allowed under Article 20 of GATT from 95% will eliminate the risk of emissions leakage as noted by the ICCC.

the FOA considers that this should be well signalled, informed by the Climate Change Commission and as removed from the political process as possible.

## Overall approach

The FOA agrees with the aim, by 2025, of legislating a parallel system that prices livestock emissions at the farm level, and fertiliser emissions at the processor level. We also agree that pricing of fertiliser emissions at the processor level is appropriate because the incentive for the farmer remains the same but the cost would be lower. Providing 95% free allocation minimises the risk of emissions leakage as noted by the ICCC.

In the event that farm level pricing is infeasible then we agree that farm level emissions should be priced at the processor level in the same way that fertiliser emissions are. We note though that it is possible that some measures of livestock emissions monitoring and reduction may prove feasible while others do not. In that sense it may be that the two approaches are not mutually exclusive and some level of livestock emissions could be priced at the processor level offset to an extent by the degree of emissions reductions undertaken at the farm level.

## Getting started - interim measures

What should the government be taking into account when choosing between the two interim options presented in the paper?

The FOA agrees that action is needed before 2025. The FOA has, in numerous previous submissions, stressed the importance of establishing a price signal – any signal. Only with a price signal will there be adequate incentive for the discovery of emissions reductions possibilities, and only then will there be a belief that change is happening. The history of this debate provides little confidence that without the machinery for the pricing of emissions being introduced there is a high risk of further deferral of action.

As well as sending a clear signal of intent and commitment, which previous voluntary efforts have not, the ICCC recommended interim approach also generates certain funding that can, and should, be dedicated to supporting farmers and provides an appropriately phased in transition without the risk of the transition of happening.

There are compelling reasons for considering the alternative approach suggested by the agricultural leaders in the sector-government agreement. Importantly it provides recognition and reward for action taken which a flat levy on all farmers does not.

The chief concern with the farm level programme of action is that it is yet to be developed and costed and there is thus considerable uncertainty about what can be achieved within the time frame available. It is also a concern that the agreement only commits to pricing in 2025 if the price is set at the margin and *only to the extent necessary to incentivise the uptake of economically viable opportunities*. As the ICCC notes, these caveats do not apply to the obligations currently faced by other any other emitters. Determining what qualifies as “economically viable” for a sector is likely to be a fraught process and is potentially a roadblock for the agreement.

In light of the above the FOA considers that the default position should be the ICCC recommended pathway which prescribes a price to be faced from 2021.

This does not mean that a formal sector government agreement should not also be pursued concurrently as described. The two options need not be mutually exclusive.

All the actions proposed in the Agriculture sector leaders proposed programme of action make sense to pursue regardless of the timetabling of any pricing mechanism as they will facilitate the reduction of emissions more readily and help farmers avoid cost. In particular we consider the following are high priority:

- Rolling out Integrated Environmental Farm Plans
- Building climate change knowledge of farm and rural professionals
- Engaging with the One Billion Tree programme to offset farm emissions
- Working with government to develop appropriate pricing mechanisms

The default position should thus be the introduction of pricing in 2021 but the sector can work with the government on that and the Climate Change Commission can make a recommendation on the level of pricing appropriate for 2021.

This assessment can take in account the progress that has been made under the sector-government agreement. Furthermore, we agree that any funds raised should be quarantined to help fund the transition action plan to move towards farm level pricing and incentivise reductions including through rebates.

## **Opening up opportunities – options to recognise and reward carbon (and methane) removals**

The FOA supports the proposed investigation of barriers and opportunities to reduce agricultural emissions across the agricultural system and, in particular endorses the inclusion of biochar and investigating whether carbon removals from on-farm vegetation that is not currently eligible under the ETS can be recognised and rewarded.

Three other aspects in addition to this are worthy of investigation:

1. Rewarding forest growers for the carbon sequestered in harvested wood. In 2011 the international rules were amended to recognise that the contribution of forestry extended beyond just the life of the tree. The forest industry has previously submitted that New Zealand is in a position to measure, monitor and reward this extended life contribution. For practical reasons and to encourage those who will make the decision about whether to invest in tree planting the forest sector has previously submitted that this benefit should be made available to both growers, including farmers, and processors. Again, we understand this work is being progressed and urge that it be given priority given its potential inclusion in the recognition that could be afforded to the agriculture sector.

2. The contribution of pre-1990 forestry. The opportunity exists for management of pre-1990 forest to create legitimate opportunities for landowners to sequester additional carbon. This occurs where the level of carbon in a pre-1990 forest has increased over time. This may be as a result of increased stocking, higher density trees, reduced roading or other open areas, etc. Such changes can legitimately be recognised as “additionality” under the international accounting rules and represent opportunities for both landowners, and the nation, to be recognised for actual reduction in Co2 to the atmosphere. We understand that this work is being investigated by MPI and strongly endorse it being adequately resourced. It is otherwise a wasted opportunity for both the government and the sectors.
3. Allowing afforestation to contribute to methane emissions reductions. While we acknowledge that the Zero Carbon bill will establish separate target for methane (based on 2017 levels) and carbon dioxide (2005 levels) and this necessarily means independent monitoring of these gases, the FOA nonetheless considers that offsetting through planting of trees should be available as an option in the toolbox for the agriculture sector to offset methane. Offsetting is a decision that necessarily has to involve landowners with qualifying, unplanted, land and logically sits as part of the suite of options that they should be able to consider for their own businesses, especially where the planting may also be reducing some livestock numbers on low stocking sites

## **Free allocation methods**

The FOA favours using methods of free allocation of units that does not interfere with the price incentive to reduce emissions – i.e. methods which separate the free allocation from production. This is because the projected emissions reductions would be significantly more (around 20 times) than would otherwise be the case even though these emissions would still only be expected to represent a 6% reduction in overall agricultural emissions.

## **Administration costs**

It is appropriate that the agricultural sector faces the administration costs associated with calculating and reporting. These are costs faced by all other sectors under the ETS and it is essential information for the system to operate with credibility.

## **Timing of the provision of free allocation units**

The FOA considers that free allocation units are provided at the same time that obligations are due. The New Zealand ETS has experienced significant volatility in the past and this should be avoided where possible because of the unnecessary uncertainty for investors and the role of the CCC.

## **Regular adjustment and future decision-making**

We agree with the IPCC recommendation that the allocation factors be set to decline in line with anticipated business-as-usual improvements in emissions intensity for the reasons set out in the discussion document, namely that if this were not the case then the obligations would gradually decline to zero over time.

The FOA agrees that the phase down of emissions units should be set in legislation and informed by the climate change commission.

It is important that the intent and commitment to the national emissions objectives is unambiguous and that this is taken into account by investors. The climate change commission will be mandated and resourced to be ideally placed to monitor, revise and advise on all factors impacting on the targets and pathways to those targets. Indeed, the bigger concern would be if the CCC was not the prime determinant of such aspects. The lack of a body such as the CCC in the past has been a factor in the uncertainty and inconsistent policy setting.

A handwritten signature in black ink, appearing to read 'D Rhodes', is centered on the page. The signature is fluid and cursive.

David Rhodes, CE, FOA