

# SUBMISSION

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To: Agricultural Regulation Consultation  
Climate Change Policy  
Ministry of Agriculture & Forestry  
P O Box 2526  
Wellington 6140

Submission on: Regulations for exemptions and thresholds, and methodologies  
for calculating agricultural emissions

From: Federated Farmers of New Zealand

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# SUBMISSION TO MINISTRY OF AGRICULTURE AND FORESTRY ON: REGULATIONS FOR EXEMPTIONS AND THRESHOLDS, AND METHODOLOGIES FOR CALCULATING AGRICULTURAL EMISSIONS

## 1. EXECUTIVE SUMMARY

- 1.1 Federated Farmers of New Zealand submits that it continues to **oppose** the current emissions trading scheme (ETS) introduced in legislation by the previous government and subsequently amended by the current government, and therefore submits that the regulations for exemptions and thresholds, and methodologies for calculating agricultural emissions (the draft regulations) **should be abandoned** in their entirety.
- 1.2 It is the view of the federation that biological agricultural emissions from food production should be removed from the Kyoto Protocol and subsequent international climate change agreements. Federated Farmers further considers the inclusion of biological agricultural emissions in the ETS should be postponed far beyond the 2015 entry currently set in the legislation, and that for government to now propose the draft regulations is wholly inappropriate.
- 1.3 **Our preference as an organisation remains that there should be no ETS in New Zealand. If New Zealand must have an ETS, then it must not include biological agricultural emissions. If New Zealand must have an ETS and include biological agricultural emissions, then there are a number of requirements the legislation and regulations would need to satisfy before that should occur.**
- 1.4 We've seen in recent months the abandonment by Australia and the USA in introducing their own domestic emissions trading schemes and have yet to see other countries take steps to follow the path that New Zealand has. We've seen in response to this absence of ambition elsewhere verbal commitments from ministers here to not bring biological agricultural emissions into the ETS where other countries do not have schemes of their own.
- 1.5 These commitments from ministers must be reflected in legislation to have meaning for farmers. In the meantime, the federation considers these commitments must be reflected in government timetables around the draft regulations as they apply to agriculture.
- 1.6 That the current legislation has timelines for voluntary and later mandatory reporting of biological agricultural emissions from 1 January 2011 and 1 January 2012 respectively is a matter for government to resolve in line with the verbal commitments that have already been made by government ministers to the farming sector.
- 1.7 Another element of concern is the short period of time the federation and other interested parties have been given to comment on draft regulations as complex and involved as those that have been proposed. Greater time should have been allotted for their consideration, especially as they are the first of a series of draft regulations the government has scheduled for the next few years. Perhaps if the draft regulations had been postponed in line with the commitments we have received from ministers, they could have been given more meaningful consideration than the constrained timeline has allowed.
- 1.8 **Federated Farmers' primary recommendation is that the draft regulations be abandoned at this time.**

- 1.9 Without prejudice to our primary recommendation that the draft regulations be abandoned, the Federation also recommends that:
- That the point of obligation for biological agricultural emissions should rest at the farm-level and not with the processor.
  - That the draft regulations should adopt a simpler approach to the calculation of biological agricultural emissions than is currently proposed.
  - That the proposed species-level exemptions are appropriate for the species described other than horses.
  - That the draft regulations should not exempt biological agricultural emissions from horses.
  - That more work is done on the issue of thresholds for live animal exports before confirming an appropriate threshold.
- 1.10 Federated Farmers takes seriously its responsibilities as New Zealand citizens. We know it is vital to use resources efficiently and wisely but we want to ensure that the New Zealand economy, which is primarily anchored by agriculture, continues to prosper.

## **2. FEDERATED FARMERS POLICY POSITION ON THE KYOTO PROTOCOL**

- 2.1 Federated Farmers opposed the government's 2002 ratification of the Kyoto Protocol and remains opposed to it. Our members are of the strong view that it is unjustifiable and inappropriate for the government to bind New Zealand to emissions reduction commitments and certain economic hardship for little if any environmental benefit. This is even more true today given the current economic climate.
- 2.2 In 2002, the government of the time submitted a National Interest Analysis that outlined their reasons why they considered it in New Zealand's interests to ratify the Kyoto Protocol. The National Interest Analysis however suffered a range of fundamental flaws that the federation considers have caused the series of policy rethinks that now see a special select committee established to review whether the current policy regime is appropriate.
- 2.3 Chief among those flaws was the insistence that ratification of the Kyoto Protocol was quite separate from the domestic policy response New Zealand would have to undertake to honour the Protocol's obligations, and the absence of any effort to quantify the environmental benefits of ratification.
- 2.4 Federated Farmers argued then, and continues to argue now, that it is irresponsible for any government to commit to honour treaty obligations without first having a clear idea of how that could be done in a fair and just manner. The resulting policy failures for the agricultural emissions research levy in 2003, the carbon tax in 2005, and now the emissions trading scheme highlight the political problems for blindly taking action.
- 2.5 That the environmental benefits of ratification could not be clearly outlined then and continue to remain largely unknown is an indictment against government process around climate change. Federated Farmers argued that where the environmental benefits of ratification cannot be described, that the government should instead focus on the more easily discernible effects of New Zealand being a party to the Kyoto

Protocol. This clearly has not happened with any robustness over the years since New Zealand ratified the Kyoto Protocol.

2.6 However, in light of New Zealand's ratification of the Kyoto Protocol, and that there will be a domestic policy response, Federated Farmers considers:

- *The government should not appropriate the carbon rights of landowners.* Landowners created the carbon right through land management decisions and the government should not be able to take or assume a property right without providing full compensation to affected landowners.
- *The government should revise its preferred policies to better reflect what our key trading partners and competitors are proposing to do.* Among those countries that have committed to emissions reductions, New Zealand is uniquely reliant on the export earnings of the primary sector. Domestic Kyoto policies will impact adversely on the competitiveness of those exports in offshore markets.
- *The government should seek to adopt policies that impose least cost, are least distortionary, and will result in efficient resource allocation.* The impacts on the New Zealand economy from constraining carbon through price mechanisms are of a scale that hasn't been seen since the reforms of the 1980s.
- *Biological agricultural emissions should not be included in an emissions trading scheme, until (a) our major trading partners and competitors take action to reduce such emissions and (b) there are mitigation measures that are economically sustainable for farmers to implement.*

2.7 Our members remain highly sceptical of the previous government's reasons for pursuing compliance with emissions reduction commitments under the Kyoto Protocol. However, efficient farmers have never shirked from making responsible decisions. For example, future proofing their production systems by establishing water storage, development of new crop and pasture cultivars, or adopting any other technologies that enhance their viability in the face of a changing environment.

2.8 Federated Farmers is deeply concerned that before any climate change policy should proceed, it must firstly demonstrate that it is practical, cost effective and ensure New Zealand farming can remain economically viable and internationally competitive through even the most testing of economic times, such as those being experienced right now.

2.9 The emissions trading scheme poses its own challenges to the future of farming in New Zealand, challenges most farmers struggle to see how they would remain viable, in producing subsidy-free products and trading to countries with distortionary barriers to trade. Substantial amendments are required to the current ETS before these challenges can be overcome.

### **3. GENERAL COMMENTS**

#### **3.1 Agriculture Sector Inclusion in the ETS**

- 3.1.1 Farmer opposition to government efforts on climate change policy has been consistent over the years. At the heart of such opposition is an understanding of the farming sector being expected to shoulder a burden that neither makes sense nor leaves this sector and the country as a whole, economically-viable.
- 3.1.2 New Zealand farmers operate in an unsubsidised environment and are viewed internationally as highly efficient. Environmentally, it simply does not make sense to introduce a regime for New Zealand agriculture that forces production to less efficient jurisdictions or encourages reductions in efficient production here in New Zealand – again, a lose-lose situation for New Zealand and for the global environment.
- 3.1.3 It is abundantly clear to the federation that the current emissions trading scheme is unsustainable for New Zealand and on this basis it should not proceed. The economic effect of such a scheme on the farming sector and our country will be difficult for the country to bear against current and ongoing economic conditions.
- 3.1.4 Despite contributing a great deal to the economic prosperity of New Zealanders, very little of the value of the work that is put into the land comes back to the farmer. To illustrate, the wider agricultural sector generated \$23,148 million in gross revenue for the year ended March 2009. In that same period, farm income before tax was \$1,442 million or 6.2% of gross revenue. That is, 6.2c for every dollar the sector generates will make it back to the farmer. This sliver is what's left over to pay income tax, to repay debt, to invest in the business, and to feed the family.
- 3.1.5 The impact on farming under the current emissions trading scheme is such that Federated Farmers struggles to see a future for food production in New Zealand and argues for the exclusion of biological agricultural emissions from food production from the emissions trading scheme, for reasons of:
- New Zealand is the only country attempting do so;
  - Feeding a growing global population is more important than New Zealand's emissions profile;
  - New Zealand can produce food more efficiently than other producers;
  - Farming cannot reasonably do anything to reduce its emission beyond reducing production;
  - The current rules place too much emphasis on reducing temporary non-CO<sub>2</sub> gases when carbon dioxide is more persistent;
  - The burden of an emissions trading scheme will put many farmers out of business; and
  - The cost to the New Zealand economy being too great for the country to withstand. International product prices are as high as they have ever been, but farm balance sheets are strained because of domestically imposed cost structures.

- 3.1.6 There have been recent announcements by both Australia and the USA that they intend to postpone efforts to introduce emissions trading schemes of their own until at least 2013 in the case of Australia. We have also seen talks fail at the COP in Copenhagen late last year and little sign of talks reaching international agreement on the successor agreement to the Kyoto Protocol. On the back of these moves by other countries, government ministers have time and again reiterated their commitment to ensure that biological agricultural emissions are not brought into the ETS come 2015 should other countries not have established their own schemes.
- 3.1.7 These are verbal commitments we believe need to be reflected in the current legislation to have meaning for farmers. In the meantime, it is important that government revise its timetable around draft regulations supporting the inclusion of biological agricultural emissions until such time as it can be shown to be a real certainty that the agriculture sector must be brought into the ETS.
- 3.1.8 Federated Farmers is very disappointed at the lack of opportunity for the federation and other interested parties to consider the merits or otherwise of the draft regulations for exemptions and thresholds, and methodologies for calculating agricultural emissions. Policy measures under the ETS have the potential to be of a similar magnitude to the reforms of the 1980s.
- 3.1.9 These draft regulations represent the first in a series of consultations the federation is aware the ministry intends to hold with the sector over coming years. Consultation should not be taken lightly.
- 3.1.10 The federation is aware that the current legislation sets out timelines around the voluntary and later mandatory reporting of biological agricultural emissions from 1 January 2011 and 1 January 2012 respectively. That this might be an issue with regard to the government honouring the commitments they have made the farming sector is a matter for government to resolve.
- 3.1.11 Until the necessity of the sector's entry can be certain, it is inappropriate to continue with the development of draft regulations to support the New Zealand ETS including biological agricultural emissions.
- 3.1.12 **Federated Farmers' primary recommendation is that the draft regulations be abandoned at this time.**

## **3.2 Point of obligation**

- 3.2.1 Our preference as an organisation remains that there should be no ETS in New Zealand. If New Zealand must have an ETS, then it must not include biological agricultural emissions. If New Zealand must have an ETS and include biological agricultural emissions, then there are a number of requirements the legislation would need to satisfy before that should occur.
- 3.2.2 Setting the point of obligation downstream at dairy and meat processors faces its own measurement difficulties due to variability in the ratio of throughput or output to emissions. Adding to the difficulties is a need to apply averages across the product received by downstream processors as the on-farm situation is something that generally cannot be applied to a processor-level point of obligation.
- 3.2.3 Processor-level point of obligation can only function as an averaged cost of carbon that attaches to volume of product sent to the works for processing. And yet, New Zealand's efficiency gains since 1990 have seen 7 percent more lamb produced from

55 percent fewer sheep, beef volumes up 23 percent from 11 percent fewer cattle and dairy production growth per cow averaging 26 percent since 1990. Unique emissions factors have been offered as a sop towards enabling processors to factor in some element of the efficiency of their suppliers, but the ability of processors to determine the productive efficiency of animals along each chain or line are such that this simply isn't a realistic option for meat processors.

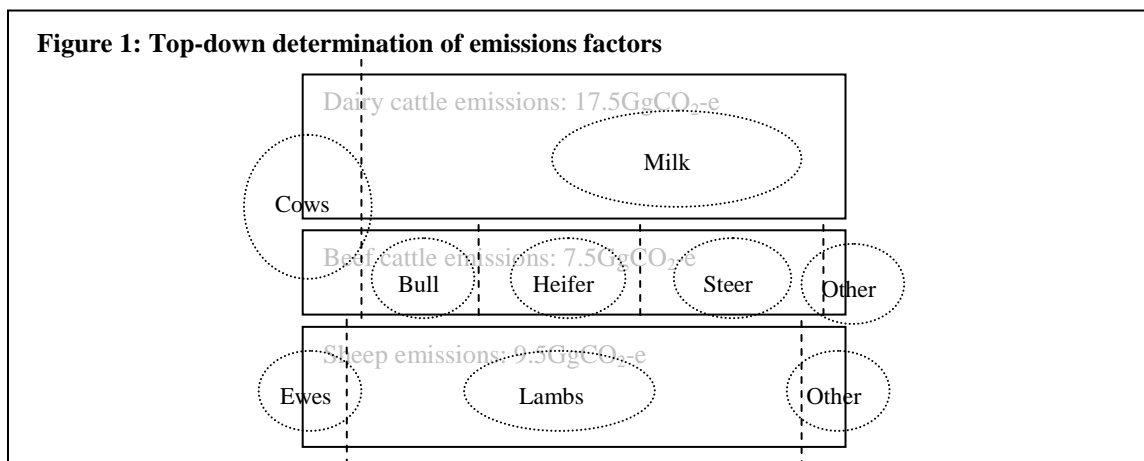
- 3.2.4 Despite admirable attempts by officials to avoid averaging the cost leaves little room for on-farm efficiencies or management practices to be factored into the supplier's exposure to a price of carbon. Similarly, the costs of carbon can only be recovered from product sent to the works, whether kg milk solids or kg meat. This is a noticeably narrower proxy than farm-level. This would see fewer farmers bearing a larger cost per unit of product sent to the processor than would otherwise occur if the ETS operated on a farm-level point of obligation.
- 3.2.5 Setting the point of obligation at farm level would better reflect what is happening on-farm, and go a lot further to ensure that farmers bear a burden no greater than they otherwise ought.
- 3.2.6 Adding further insult to injury, the facility in the parent act for there to be two points of obligation means farmers will be paying two sets of compliance when only one is required. There are also transitional issues around moving from processor to farm as point of obligation given the simple-but-narrow recovery base under processor as against the broader and more nuanced recovery base at farm-level. Given the extent to which the agriculture sector will be exposed to a price of carbon, these are not insignificant transitional issues.
- 3.2.7 Assuming there needs to be an ETS in New Zealand and it is shown that the agriculture sector should be in the ETS, the simpler and more effective option as regards point of obligation is for it to rest at the farm. The harm to the agriculture sector and wider economy could be substantial if the current legislation and draft regulations settle on anything less than the optimum practical solution for point of obligation. Be aware that farm finances are not such that they can withstand any additional taxing regimes.
- 3.2.8 These difficulties are largely why the federation considers the proposed approach for calculating biological agricultural emissions to be unworkable and why farm-level point of obligation must be taken more seriously by government.
- 3.2.9 **Federated Farmers recommends that the point of obligation should rest at the farm-level and not with the processor.**
- 3.2.10 The federation has argued previously that there is limited ability of farmers to bear the additional cost of carbon in their farm business. The government would do well to take steps to reduce the compliance cost burden of a farm-level point of obligation. It is unacceptable that farmers potentially bear more than their fair share under processor-level point of obligation. Similarly, it is also unacceptable for farmers to be put in a position of finding the benefits of a more accurate and representative emissions liability being compromised by ETS compliance costs.

### **3.3 Alternative methodology for calculating agricultural emissions**

- 3.3.1 The federation has previously argued for the point of obligation to be at the farm-level. Should government insist on continuing with processor as point of obligation,

then a simpler approach must at least be considered for calculating agricultural emissions.

- 3.3.2 The approach described in the draft regulations has the appearance of being over-complicated for what ought to be a simple proposition for accounting for emissions at the processor-level. To assume that every animal inherits the pregnancy emissions of the mother not only overplays the emissions that any particular animal may have produced, but then requires further fixes and complications to an already-complicated methodology. Arguments that this approach manages risk around age of the animal, number of offspring and double-counting are all very well, but the aim should surely be for a system that is simple to operate and administratively easy to account.
- 3.3.3 Put simply, Federated Farmers is concerned that in adopting an over-complicated system, that perverse incentives in farming practice are encouraged in directions opposite to the demands of the marketplace and objectives around rewarding good performance over poor performance.
- 3.3.4 A solution being put forward by some in the sector is to abandon the bottom-up approach altogether and instead pursue a simpler top-down approach.
- 3.3.5 This alternative approach would see emissions liabilities modelled under the National Inventory applied against animal types and emissions factors developed to mirror the breakdown of emissions liabilities on a per product type basis. A visual representation of the proposal can be seen below:



- 3.3.6 The primary benefits of approaching the calculation of agricultural emissions in this way, include:
- Avoids market distortions inherent in the draft regulations;
  - Simplifies treatment of animal types;
  - Manages animal health and welfare risks from exaggerated treatment of some animal types (bobby calves, etc.); and
  - Applies a fairer balance between dairy and meat components to dairy cows at the end of their lives.
  - Avoids the complications of a two-factor approach for a simpler single factor.

3.3.7 This is not to say that the alternative approach described above avoids complications of its own. The federation would argue that because of the government insistence on continuing with processor as point of obligation, complications are inevitable. The federation does however believe that serious consideration ought to be given to the top-down approach briefly outlined above as it applies trade-offs on a basis the federation finds more comfortable than described in the draft regulations.

3.3.8 **Federated Farmers recommends that the draft regulations should adopt a simpler approach to the calculation of agricultural emissions than is currently proposed.**

### **3.4 Exemptions and thresholds**

3.4.1 As a general principle, if agriculture is to be included in the ETS, then emissions from all sources ought to be included in the scheme as a general principle or the government creates a lop-sided bearing of the burden. Such an uneven approach creates distortions in the marketplace and on the farm that risk being neither helpful towards meeting the demands of the marketplace or satisfying objectives of more efficient farm production.

3.4.2 The draft regulations propose to exempt llama, alpaca, ostriches, emus and other ruminants other than sheep, cattle, deer and goats from the New Zealand ETS. It is argued in the draft regulations that emissions from these sources ought to be exempted, for among other reasons, because New Zealand does not account for them under the Kyoto Protocol. It is for this distinction that the federation would support the exemption of these animal species from the New Zealand ETS.

3.4.3 **Federated Farmers recommends that the species-level exemptions are appropriate for the species described other than horses.**

3.4.4 The rationale for exempting horses however is unreasonable. Despite comprising a greater proportion of biological agricultural emissions than goats, the draft regulations propose to exempt horses from the ETS on the grounds that it would be difficult to administer. Arguably, if it is administratively difficult for horses to be included in the ETS, then logically that same argument can be applied to the inclusion of other animal species in the ETS.

3.4.5 That officials have been unable to discern a more helpful point of obligation for horse emissions than downstream processor is no excuse for placing the burden of this animal type's emissions on those animal types unfortunate enough to be left in the ETS. Proxies should be pursued in the absence of the government giving serious consideration to farm-level point of obligation for biological agricultural emissions.

3.4.6 **Federated Farmers recommends that the draft regulations should not exempt emissions from horses.**

3.4.7 The discussion on thresholds for the live export of animals is a difficult one as there are reasons both for having a threshold and for not having a threshold.

3.4.8 The reasons for having a threshold include avoiding adverse effects on the on-going trade in live animals for export, more especially in the dairy industry. That this type of trade occurs on a basis that would see improvements in the performance of livestock both within and without New Zealand could be viewed as a net positive contribution from the New Zealand livestock industry.

- 3.4.9 The reasons for not having a threshold include avoiding the perverse incentive of livestock being exported to avoid emissions liabilities within New Zealand's borders. It should be remembered that the current ban on export for slaughter is by no means set in stone. We also have the added complication of exempted animals increasing the burden the rest of the sector must bear as the government looks to honour its emission obligations.
- 3.4.10 Arguments that exported livestock are difficult to capture do not bear much weight given how highly regulated and managed the live export trade actually is. It would be administratively easy for exporters to be held accountable for the biological agricultural emissions that relate to the animals they export. Whether they should be held accountable is a separate issue entirely and one the federation has not had sufficient opportunity to consider.
- 3.4.11 **Federated Farmers recommends that more work is done on the issue of thresholds for live animal exports before confirming an appropriate threshold.**

#### **4. ABOUT FEDERATED FARMERS OF NEW ZEALAND**

- 4.1 Federated Farmers welcomes the opportunity to comment on regulations for exemptions and thresholds, and methodologies for calculating agricultural emissions.
- 4.2 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.
- 4.3 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.
- 4.4 Federated Farmers has been closely involved in the climate change issue since April 2001, when it was first brought to our attention that agricultural greenhouse gas emissions would be included in the government's domestic policy response to the Kyoto Protocol.