

SUBMISSION

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To: Committee Secretariat
Finance & Expenditure
Parliament Buildings
Wellington

Submission on: Climate Change Response (Moderated Emissions Trading)
Amendment Bill

From: Federated Farmers of New Zealand

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Federated Farmers of New Zealand wishes to be heard in support of this submission.

SUBMISSION TO FINANCE & EXPENDITURE SELECT COMMITTEE ON: CLIMATE CHANGE RESPONSE (MODERATED EMISSIONS TRADING) AMENDMENT BILL

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trading scheme (ETS) introduced in legislation by the previous government and therefore submits that it should be repealed in its entirety.
- 1.2 It is the view of the federation that agricultural methane and nitrous oxide emissions from food production should be removed from the Kyoto Protocol and subsequent international climate change agreements.
- 1.3 In its submission on the ETS Review, the federation argued that the current ETS suffered fundamental flaws and would result in great harm to New Zealand's primary sector and severe repercussions for the economy as a whole. Alternative approaches available to the government include:
- Government taking more responsibility for developing mitigation technologies;
 - Greater encouragement by government of forest plantings in New Zealand;
 - Pursuing a low-level carbon charge instead of an ETS;
 - Government purchasing cheap Kyoto Protocol-compliant emission units; and
 - Non-compliance, akin to the Canadian approach.
- 1.4 Federated Farmers further argued that if New Zealand must have an ETS then the legislation must be substantially amended so that:
- Transition to any ETS must be with least regret to New Zealand business;
 - Transition to any ETS must be with least regret to New Zealand's standard of living; and
 - Agriculture and food production must be removed from the current legislation and any future hybrid ETS.
- 1.5 The Climate Change Response (Moderated Emissions Trading) Amendment Bill represents an opportunity to correct many of the fundamental flaws in the current emissions trading scheme legislation so as to minimise the harm to New Zealand's primary sector and the economy as a whole. The federation does not however see the Bill's amendments going far enough to support food production continuing in New Zealand into the future.
- 1.6 **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 agricultural methane and nitrous oxide emissions. If New Zealand must have an ETS and include agricultural methane and nitrous oxide emissions, then there are a number of requirements the legislation would need to satisfy before that should occur.**

1.7 Federated Farmers recommendations on the Bill can be summarised as follows:

- That a more robust Regulatory Impact Statement be completed before broadening the application of the New Zealand ETS to include sectors other than forestry.
- That the dates for agriculture sector entry to the ETS are removed from the amendment bill and the parent act.
- That the amendment bill shift the ETS away from an absolute cap on emissions to an intensity-based approach that allows for emissions-efficient growth in the New Zealand economy.
- That the allocation of emission units to the agriculture sector in the amendment bill and the parent act is parked so as to provide time for the sector and government to better determine how this could better work for the sector and the economy as a whole.
- That the half-obligation and price cap on emissions during the first commitment period be pursued with the possibility of expanding their application beyond 2012 where there is no improvement in the availability of cost-effective mitigation technologies, no improvement in the efforts of competitors in other countries, and uncertainty in international rules and their effect on domestic policy responses to Kyoto Protocol obligations..
- That the committee consider measures additional to the half-obligation and cap on the price of carbon to function as safety valves against volatility in the international carbon market.
- That s160 of the parent act be amended to state that the obligations of the agricultural sector should:
 - Not apply unless there are cost-effective mitigation technologies, competitors in other countries facing a price on carbon, and the international rules are known for the period in which the sector would be a participant;
 - Not be greater than the proportional obligation on New Zealand under any future emission reduction commitments:
 - Be at a level that can be achieved through the use of viable (practical and economic and available) mitigation technology;
 - Have regard to the comparative (and competitive) position of the New Zealand sector with competing producers elsewhere; and
 - Be informed with the results of a robust cost benefit analysis.
- That the point of obligation for the agriculture sector in the amendment bill and parent act is parked so as to provide time for the sector and government to better determine how this could better work for the sector and the economy as a whole.

1.8 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. To ensure that New Zealand undertakes action that is in the country's long-term interests, Federated Farmers supports the select committee considering it a priority for robust regulatory impact and cost-benefit analysis to be completed as part of its review into the emissions trading scheme.
- 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.
 - *Agricultural methane and nitrous oxide 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 Many of our members remain highly sceptical of the previous government's reasons for pursuing a path of carbon neutrality and 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 can 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 perception under the Kyoto Protocol that food production is responsible for half this country's emissions, despite the temporary nature of the more significant gas, methane, has meant that more attention has been placed on reducing emissions in the agriculture sector than might otherwise be in New Zealand's interests.
- 2.10 Successive governments have been instrumental in developing an unhelpful public belief that the agriculture sector is largely to blame for New Zealand's greenhouse gas emissions. So much so, an element of distrust has been embedded in farmer reactions towards government intentions on climate change policy. The government will need to be more responsible in its dealings with the sector if it wishes to see a more collaborative and constructive relationship develop.
- 2.11 Farmer reaction to successive proposals on climate change policy has been somewhat less than supportive, and for good reason. The proposed Agricultural Emissions Research Levy / Fight Against Ridiculous Tax (FART) of 2003 was a bad idea because farmers were already funding research to reduce methane and nitrous oxide emissions. The proposed carbon tax of 2005 was a bad idea because the massive price hikes in fuel and electricity prices at the time showed the tax would have no effect.
- 2.12 The emissions trading scheme of 2008 poses its own challenges to the future of farming in New Zealand, challenges most farmers struggle to see how they would remain viable, in a subsidy free market environment. Substantial amendments are required to the current ETS before these challenges can be overcome.

3. GENERAL COMMENTS

3.1 Lack of rigorous CBA

- 3.1.1 Federated Farmers is very disappointed at the lack of rigorous analysis that has been undertaken by successive governments on the impact of policy measures which have the potential to be of a similar magnitude to the reforms of the 1980s. The attempt at a Regulatory Impact Statement (RIS) in support of the Bill is the latest example of this hallmark of climate change policy and legislation in New Zealand.
- 3.1.2 Obligations exist under the Regulations (Disallowances) Act 1989 that demand that:
- A RIS is required for any proposal that may result in primary legislation or statutory regulations.
 - A RIS should reflect a good quality policy development process including a robust problem definition and thorough regulatory impact analysis and consultation.
- 3.1.3 The ETS represents an enormous economic burden on the building blocks of the economy; where our wealth is created and our export receipts earned. Yet the commentary from Treasury in respect of the RIS in the explanatory note of the bill remarks that *“the level and quality of analysis presented is not commensurate with the significance of the proposals”*. The remarks go further to say that *“the RIS does not provide an adequate basis for decision-making”*.
- 3.1.4 Treasury’s reasons for such remarks are that:
- There is no analytical basis for aligning the New Zealand ETS in the way proposed in the Bill with the Australian scheme.
 - No assessment of the risks or benefits from harmonising the New Zealand ETS in the way proposed in the Bill with an Australian scheme that has yet to be passed in legislation.
 - No information is given on the transition path for scheme participants over the medium to long-term.
- 3.1.5 Federated Farmers would have liked to have seen some serious economic analysis of the costs and benefits of the proposed amendments to the current ETS.
- 3.1.6 Regional and sectoral breakdowns are essential to drawing out the extent to which the scheme has an impact on scheme participants and, more broadly, New Zealand’s national economic interest. Aggregate estimates of national impact do little to draw out the extent to which the ETS will see winners win and the losers lose. This sort of analysis is important to address equity issues between scheme participants. Equity is an important consideration in ensuring that the operation of the ETS does not place unreasonable burdens on some participants for the benefit of others.
- 3.1.7 The ETS currently only covers the forestry sector. Stationary energy and industrial processing are not required to enter the scheme in 1 January 2010, liquid transport fuels from 1 January 2011 and agriculture from 1 January 2013. The amendment Bill proposes to change the timing of entry of different sectors to the ETS. It would be appropriate therefore for a more robust Regulatory Impact Statement to be completed

before broadening the application of the New Zealand ETS to include sectors other than forestry.

3.1.8 Federated Farmers recommends that a more robust Regulatory Impact Statement be completed before broadening the application of the New Zealand ETS to include sectors other than forestry.

3.2 Agriculture Sector Inclusion in the ETS

3.2.1 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.

3.2.2 New Zealand farmers operate in an unsubsidised environment and are viewed internationally as highly efficient. Currently, available mitigation measures are simply destocking. The local economic and social impact of a destocking strategy is ably demonstrated by the impacts of recent droughts – a lose, lose situation for New Zealand. Environmentally, it simply does not make sense to introduce a regime for New Zealand agriculture that forces production to less efficient jurisdictions – again a lose, lose situation for New Zealand and for the global environment.

3.2.3 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 the severe global economic recession and the subsequent impact this will have on global trade, both now and in the future.

3.2.4 The federation considers that there are strong reasons why the scheme should be abandoned in favour of other approaches. Greater government investment in mitigation research and development, greater government funding for forest plantings, low-level carbon charge on fuel and electricity, government purchasing of cheap emissions units, and even non-compliance with Kyoto Protocol obligations (akin to the Canadian approach) have all been previously put forward by Federated Farmers as alternative approaches for consideration.

3.2.5 The true costs and benefits of having a scheme are difficult to determine while the technical detail of the scheme remains largely unknown currently and uncertain beyond 2012. Without this understanding it is inappropriate for any government to conclude that the current emissions trading scheme, or a moderated version thereof, to be in the national interest.

3.2.6 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 agricultural methane and nitrous oxide emissions from food production from the emissions trading scheme, for reasons of:

- New Zealand is the only country to 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-CO₂ 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.

3.2.7 Until these issues are overcome, the New Zealand ETS must not include agricultural methane and nitrous oxide emissions.

3.2.8 Federated Farmers recommends that the dates for agriculture sector entry to the ETS are removed from the amendment bill and parent act.

3.2.9 Should the issues in 3.2.6 be resolved over coming years, then the federation would recommend that they be included as part of new amendments to the review provisions in Part 4, Subpart 6, s160 of the Climate Change Response Act. This section relates to the review of the operation of the scheme immediately before the scheme passes from one commitment period to another. Federated Farmers commentary on the review provisions of the parent act are discussed in greater detail later in section 3.6 of this submission.

3.3 Allocation of NZUs to the Agriculture Sector

3.3.1 In the event that the agriculture sector has economically-sustainable mitigation options that farmers can implement, and should it be decided that an emissions trading scheme is the most appropriate means of encouraging the use of such mitigation options, Federated Farmers consider it imperative that the agriculture sector is allocated emissions units. The end result must surely be one that allows New Zealand farming to continue to compete internationally.

3.3.2 In recognition of the trade-exposure the New Zealand agriculture sector faces in being the only food producers to face an emissions obligation, the parent act allocates to the sector a proportion of emissions units to help level the playing field, as it were.

3.3.3 The federation has previously commented on the efforts of other countries in the area of agricultural emissions. It would be disastrous for New Zealand food producers to face an emissions obligation without some form of protection. So long as food producers in other countries remain unfettered by emissions obligations, so also should food producers here.

3.3.4 The parent act reflects the previous government's preference towards emissions obligations under the emissions trading scheme defined in absolute terms, rather than intensity-based.

3.3.5 For a sector with competitiveness at risk, such as the pastoral sector, this penalises growth in output and encourage increases in production to be relocated to / realised in other countries where producers do not face as stringent or any emissions obligations. Such an outcome would arguably impact negatively on both the New Zealand economy and global emissions levels.

- 3.3.6 Federated Farmers consider New Zealand is well-placed to argue its agricultural products are some of the most emissions-efficient produced in the world, with the Ministry of Agriculture and Forestry's carbon-footprinting programme looking to further our understanding of that story. As such, it makes little sense to penalise production in New Zealand when liberating production means avoiding the emissions from less-efficient production overseas.
- 3.3.7 Intensity-based obligations would avoid this impediment to output growth, and operating on a 'per unit of output' basis would not necessarily see total sector emissions increase (unless sector output grew faster than the improvement in emissions intensity per unit of output).
- 3.3.8 An additional advantage of defining emission units relative to output is that the allocation attaches not to the land but to current production. This eliminates problems of transfer when farm properties are sold, as each producer receives emission units at the standard rate per unit of his/her output. In not differentiating between existing and new producers, this would also avoid discouraging new entrants and farm expansions.
- 3.3.9 What is important is that emissions units are allocated to the sector on a basis that removes it from the constraints of an absolute cap as described in the parent act. The amendment bill helpfully proposes that allocation to the agriculture sector be made on a basis of intensity, thereby removing the constraint on growth in sectoral emissions where such growth is emissions-efficient.
- 3.3.10 Federated Farmers supports the amendment bill shifting the ETS away from an absolute cap on emissions to an intensity-based approach that allows for emissions-efficient growth in the New Zealand economy.**
- 3.3.11 As welcome as the shift to an intensity-based approach may be, the methodology described in the amendment bill is a helpful start to the discussion and only that.
- 3.3.12 There are technical issues around the determination of "industry average", whether this is the average for New Zealand or globally, whether this is a high-level catch-all or sufficiently granular to pick up regional, production-type and other differences as exist in New Zealand farming. There are also equity issues around the choice of 2015 as the baseline year and the impact of this baseline date on various sub-sectors within agriculture. These are not simple issues to resolve and require due consideration beyond the time limits of the passage of the amendment bill.
- 3.3.13 Federated Farmers recommends that the allocation of emission units to the agriculture sector in the amendment bill and parent act is parked so as to provide time for the sector and government to better determine how this could better work for the sector and the economy as a whole.**
- 3.4 Safety valve on carbon price**
- 3.4.1 The parent act does little to establish a safety valve on the price of carbon in the emissions trading scheme, instead relying on linkage to international markets and the potential supply of cheaper units from those markets as sufficient to ensure prices do not rise as high as might otherwise occur in a closed market. Such reliance is not so comforting when read against sections of the parent act that seek to limit the range of units that the government can accept in the emissions trading scheme.

- 3.4.2 The potential for the balance between supply and demand of New Zealand Units to get out of kilter, especially in the early phases of development of the trading scheme require that the parent act should contain some form of safety valve mechanism.
- 3.4.3 It is helpful that the amendment bill proposes to establish a half-obligation and price cap of \$25 per tonne of CO_{2-e} at least for the remainder of the first commitment period. These measures will go a long way to protecting New Zealand from volatile shifts in international carbon price and uncertain availability of emissions units on the international market.
- 3.4.4 Federated Farmers recommends that the half-obligation and price cap on emissions during the first commitment period be pursued with the possibility of expanding their application beyond 2012 where there is no improvement in the availability of cost-effective mitigation technologies, no improvement in the efforts of competitors in other countries, and uncertainty in international rules and their effect on domestic policy responses to Kyoto Protocol obligations.**
- 3.4.5 There are however reasons for considering whether these measures should be extended beyond the first commitment period, should potentially apply to sectors beyond liquid transport fuels, stationary electricity and industrial processing, and whether these measures should be complemented by additional measures.
- 3.4.6 The federation has previously argued for measures such as allowing for the banking and borrowing of emission units as well as the establishment of a government reserve of cheap units for auction to scheme participants where supply has been too constrained for the ETS to operate without undue effect on sectors and the economy as a whole.
- 3.4.7 The banking of emission units would allow scheme participants to manage medium to long-term business risk under the ETS by retaining emission units beyond the commitment period in which they were generated. Surrender requirements under the New Zealand ETS and general absence of many emission units on the international market should constrain the ability of scheme participants to hoard too many emissions units as to cause further market complications. This would also ensure that there wasn't too great a spike in the price of carbon as countries approached reconciliation towards the end of each commitment period.
- 3.4.8 The borrowing of emission units would allow scheme participants to trade off future allocation of emission units in a way that manages short to medium-term business risk. The latter could be managed in a way that does not see scheme participants claiming more than they might otherwise receive under future allocation of emission units.
- 3.4.9 The establishment of a government reserve of cheap units for auction would allow scheme participants access to emissions units at a price that only the government could secure in government to government transactions, as well as pools of available emission units that scheme participants would not otherwise be able to purchase. This would also ensure sufficient liquidity in the New Zealand ETS so as to manage the extent to which the vagaries of the international carbon market had a deleterious effect on the domestic economy. The bulk purchase of units generally restricted to government-to-government transactions would likely lead to a price advantage as the government would be buying larger volumes than scheme participants (whose volume requirements will be minute on an international scale).

3.4.10 Federated Farmers recommends that the committee consider measures additional to the half-obligation and cap on the price of carbon to function as safety valves against volatility in the international carbon market.

3.6 Review provisions

3.6.1 Section 160 of the parent act requires that the government review the operation of the emissions trading scheme. The review would be broad-ranging and cover the many technical aspects the sector would have an interests in seeing amended prior to the agriculture sector entering the emissions trading scheme. The criteria that the review should consider is however not as detailed as could be.

3.6.2 As such, it would help matters if the bill were to amend the parent act to include specific detail that went so far as to state that the obligations of the agriculture sector should:

- Not apply unless there are cost-effective mitigation technologies, competitors in other countries are facing a price on carbon, and the international rules are known for the period in which the sector would be a participant;
- Not be greater than the proportional obligation on New Zealand under any future emission reduction commitments;
- Be at a level that can be achieved through the use of viable (practical and economic and available) mitigation technology;
- Have regard to the comparative (and competitive) position of the New Zealand sector with competing producers elsewhere; and
- Be informed with the results of a robust cost benefit analysis.

3.6.3 The federation considers these important to include in section 160 of the parent act.

3.6.4 Federated Farmers recommends that s160 of the parent act be amended to state that the obligations of the agricultural sector should:

- **Not apply unless there are cost-effective mitigation technologies, competitors in other countries facing a price on carbon, and the international rules are known for the period in which the sector would be a participant;**
- **Not be greater than the proportional obligation on New Zealand under any future emission reduction commitments:**
- **Be at a level that can be achieved through the use of viable (practical and economic and available) mitigation technology;**
- **Have regard to the comparative (and competitive) position of the New Zealand sector with competing producers elsewhere; and**
- **Be informed with the results of a robust cost benefit analysis.**

3.6.5 It should be noted that the outcome of reviews can only be adopted by amending legislation – requiring a full parliamentary process. The federation appreciates the timing for s160 reviews expressed in the amendment bill and looks forward to these reviews occurring under a less-rushed timetable than was taken with the parent act and is being taken with this amendment bill. Given the importance of whatever amendments to the scheme's operation might arise from each review, the sector supports the timing of reviews occurring well in advance of the start of a new commitment period.

3.7 Point of obligation

- 3.7.1 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 agricultural methane and nitrous oxide emissions. If New Zealand must have an ETS and include agricultural methane and nitrous oxide emissions, then there are a number of requirements the legislation would need to satisfy before that should occur.
- 3.7.2 In the case of livestock emissions, options for the point of obligation include farmers, and meat/dairy processors and fertiliser companies. This is reflected in Part 5, Subpart 4 of the parent act.
- 3.7.3 The parent act favours setting the point of obligation for the agricultural sector with fertiliser suppliers (synthetic fertiliser emissions), and dairy and meat processors (livestock emissions). This is because the previous government believed placing the point of obligation at the processor level would reduce administrative complexity, resulting in approximately 25 firms holding obligations instead of 30,000 farms.
- 3.7.4 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. These difficulties make farm-level reporting an inevitability (if you want the scheme to actually work) irrespective of where the point of obligation lies, but does raise issues around the complexity demanded of companies managing supplier/customer emissions.
- 3.7.5 Setting the point of obligation at farm level might better reflect and encourage behaviour change on-farm, and the sector has worked with the Ministry of Agriculture and Forestry under the Sustainable Land Management and Climate Change Plan of Action to overcome the current measurement difficulties and linkage to existing measurement, reporting and trading systems.
- 3.7.6 Suggestions of administrative efficiency and the need to minimise costs to government from the sector participating in the scheme do not address the more important issue of “cost to whom?”. Irrespective of whether the point of obligation is set at the processor or farm level, farmers will face compliance costs at the farm level for establishing on-farm monitoring and reporting, and compliance.
- 3.7.7 Devolving responsibility to the farm level doesn’t preclude farmers from aggregating their interests collectively, but this choice should rest with farmers to make for the right reasons, and not with government for the wrong reasons. This could happen through meat/dairy companies and other farmer groupings, or through third-party service providers such as accountancy and legal firms and farm service providers and consultants. Either way, there is the potential for aggregation of farm interests along lines that suit the circumstances of the individual farmer.
- 3.7.8 The federation notes that the amendment bill proposes to remove the hybrid option for point of obligation, while retaining the current preference for processor as point of obligation. Although supportive of the removal of the hybrid option, it is not clear how the bill’s preference for processor with future option for farm-level is any different.
- 3.7.9 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. The average 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 price of carbon is only recovered from product sent to the works, 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.

3.7.10 Adding further insult to injury, the facility in the parent act and amendment bill 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.

3.7.11 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 might be for it to rest at the farm. Despite the technical barriers to seeing this happen sooner rather than later, it is important that appropriate time is taken to undertake rigorous cost-benefit analysis as recommended in section 3.1.8 of this submission. The harm to the agriculture sector and wider economy could be substantial if the legislation settles on anything less than the optimum practical solution for point of obligation.

3.7.12 Federated Farmers recommends that the point of obligation for the agriculture sector in the amendment bill and parent act is parked so as to provide time for the sector and government to better determine how this could better work for the sector and the economy as a whole.

4. ABOUT FEDERATED FARMERS OF NEW ZEALAND

4.1 Federated Farmers welcomes the opportunity to comment on the Climate Change Response (Moderated Emissions Trading) Amendment Bill.

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.