

SUBMISSION

TELEPHONE 0800 327 646 | WEBSITE WWW.FEDFARM.ORG.NZ



To: Low Emissions Inquiry
New Zealand Productivity Commission
PO Box 8036
WELLINGTON 6143
By email: info@productivity.govt.nz

Submission on: Low Emissions Economy Draft Report

From: Federated Farmers of New Zealand

Date: 8 June 2018

NICK CLARK
MANAGER GENERAL POLICY

Federated Farmers of New Zealand
PO Box 20448, Bishopdale,
Christchurch 8543, New Zealand

P 03 357 9459
M 027 217 6731
✉ nclark@fedfarm.org.nz

www.fedfarm.org.nz

SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY ON THE LOW-EMISSIONS ECONOMY DRAFT REPORT

1. INTRODUCTION

- 1.1 Federated Farmers of New Zealand welcomes the opportunity to provide this submission to the New Zealand Productivity Commission on its Low Emissions Economy Inquiry draft report.
- 1.2 Federated Farmers agrees that it is important to investigate how New Zealand can maximise the opportunities and minimise the costs and risks of transitioning to a lower net emissions economy.
- 1.3 The Commission's Low Emissions Inquiry, and this draft report, provides a comprehensive discussion and consideration of the issues to be addressed across the economy, and subsequently impacting on all New Zealanders, in achieving the goal of transition of a low carbon economy.

2. FEDERATED FARMERS, CLIMATE CHANGE AND EMISSIONS REDUCTION

- 2.1 The Policy Position on Climate Change adopted by the Federated Farmers National Council in February 2017 establishes the context for this submission.
- 2.2 Climate change must be regarded as a global issue – the elevated concentrations of greenhouse gases in the atmosphere that bring climate change risk and the pathways to overall global emissions reductions result from, and are dependent on, the collective actions of countries and peoples.
- 2.3 Federated Farmers considers that New Zealand's pathway to achieving a low emissions economy must adopt a comprehensive approach that reflects an overall least cost approach to emission reductions while avoiding emissions leakage. Emissions, particularly those associated with agricultural production, transferred to countries with less efficient production systems will not contribute to achieving an overall global emissions reduction.
- 2.4 Federated Farmers considers that New Zealand's main focus for emissions reduction should be on long-lived gases emission reductions achieved through greater efficiency and reducing waste in transport, heating, industry and, within the limits of available technologies, agriculture.
- 2.5 Methane, as a short-lived greenhouse gas, remains important to New Zealand's overall emissions reduction response. It is important to recognise that significant gains in methane emissions intensity have already been achieved while substantial investment in research targets the development of effective ruminant methane emissions technologies. Federated Farmers is an active member of the Biological Emissions Reference Group which is working to collaboratively advance the development of new technologies and supporting evidence of costs, benefits and barriers to their application.
- 2.6 Removals of carbon from the atmosphere by sequestration through the establishment of forests and other woody vegetation are an important component of delivering net emissions reductions. There are opportunities for carbon removals into the future are substantial including the establishment of new commercial forests, farm woodlots, shelter belts, slope stability and erosion control planting and riparian planting.

However, we are concerned about the likely economic and social impacts of largescale land-use change from sheep and beef farming to forestry (discussed further in section 7 of this submission). The focus should be on ensuring that existing carbon removals from these sources are fully accounted for – the development of robust and defensible methodologies appropriate to New Zealand’s landscapes and land management would better account for such removals.

- 2.7 Within New Zealand’s primary production landscape emissions reduction and climate change adaption are not stand alone, or single issue, considerations. They are integral to complex production systems and investment cycles. Approaching the design and application of new tools and policy interventions requires a system based approach to identify, and enable, all complementary measures and co-benefits, which in turn will enable the development of investment and cost sharing methods and schemes.
- 2.8 The remainder of the submission comments on the key chapters of the draft report relating to farming.

3. CHAPTER 4 – EMISSIONS PRICING

- 3.1 Federated Farmers agrees with Recommendation 4.1 that the Government should reform the New Zealand Emissions Trading Scheme (NZETS), rather than replace it with a carbon tax. This recommendation is consistent with Federated Farmers general position that wherever practicable policy responses should enable market led responses.
- 3.2 That the NZETS has to date been ineffectual in achieving domestic emissions reductions is generally understood and has been well canvassed through this Inquiry and other Government initiatives. Policy reform to deliver a stable, and transparent NZETS will enable the certainty that is required to guide investment decisions that target long lived greenhouse gas emissions reductions.
- 3.3 Federated Farmers does not however agree with the recommendation included in Chapter 10 - Land Use that the agricultural greenhouse gases, predominantly methane a short lived agricultural gas, should be included in the NZETS. The agricultural gases should not be included in the NZETS until such time as cost effective mitigation technologies are available and trade competitors are similarly included in emissions pricing schemes.
- 3.4 The inclusion of the agricultural gases in the NZETS before these conditions are met risks significant reduction in production and economic activity in the pastoral sectors which are world leading in regards to emissions efficient production. There is a risk of emissions leakage through production being transferred to countries with less efficient production systems which will not contribute to achieving an overall global emissions reduction.

4. CHAPTER 5 - INNOVATION

- 4.1 Federated Farmers agrees with Recommendation 5.3 that the Government should strengthen the national innovation system by clarifying its low-emissions objectives. Innovation to deliver a low-emissions economy requires action across a broad front which includes research and development along with knowledge dissemination and learning, skills, infrastructure, regulation and finance. International activity will also be required to support the development of market demand for horticultural and arable products that would result from the land use change proposed in Chapter 10 away from pastoral livestock production.

- 4.2 Adopting a broad innovation framework with continued investment in research and innovation to develop new emissions reductions technologies while also encouraging the widespread adoption of all currently available technologies would increase productivity and limit emissions of both methane and nitrous oxide. This approach would, in the meantime, provide complementary measures to a reformed NZETS targeting the long-lived greenhouse gases.
- 4.3 Increased investment would continue the delivery of emissions efficiency improvements which have been achieved in recent years and provide impetus to industry-led knowledge sharing and technology transfer initiatives including Dairy New Zealand's Dairy Action for Climate Change Initiative and Beef + Lamb NZ's Environment Strategy and Implementation Plan.
- 4.4 Adopting a broad innovation framework would also provide for a systems-based approach that would deliver co-benefits across policy programmes and Government's policy imperatives. For instance, the establishment of woody vegetation to removing carbon from the atmosphere will in many situations also contribute to slope stability and erosion control reducing water quality risk from suspended sediment and also to enhancing biodiversity values.

5. CHAPTER 7 – LAWS AND INSTITUTIONS

- 5.1 Federated Farmers is comfortable with the framework of recommendations in this chapter.
- 5.2 In particular, Federated Farmers agrees with Recommendation 7.2 that the Government should seek to achieve a high level of political support for new climate change legislation. The Government should also seek to achieve similar support for the institutional arrangements put in place to support any legislation.
- 5.3 Federated Farmers concurs that a stable and consistent policy and institutional framework is required to provide investment certainty to support all sectors of the economy transition towards a low carbon economy. Such a stable and consistent policy and institutional framework depends on the cumulative actions of Government's across electoral cycles, that is, a bipartisan approach is required.
- 5.4 Experience of recent years of climate change policy settings not having been stable across Governments is reflected in emissions reductions progress to date.
- 5.5 Investment certainty is particularly important to emissions reductions technologies being deployed in agriculture and to the establishment of new forest plantings being incentivised. Production systems in both sectors involve long investment cycles and rely on biological systems that take time to adjust and adapt.

6. CHAPTER 8 – SHORT-LIVED AND LONG-LIVED GASES

- 6.1 Federated Farmers agrees with Recommendation 8.1 that the Government should establish separate domestic targets for short-lived (e.g., ruminant methane) and long-lived gases (e.g., carbon dioxide and nitrous oxide).
- 6.2 There are many potential strategies and pathways to a low-emissions economy. New Zealand has to choose the approach that best suits its unique circumstances, particularly the high proportion of ruminant methane, a short-lived 'flow' gas, in the emissions profile.

- 6.3 The Intergovernmental Panel on Climate Change's (IPCC) commented in 2014 that the focus for long term carbon neutrality should be on fuel shifting (electrification), heating and industry, and greater efficiency and less waste in all sectors – essentially a focus on the long-lived 'stock' gases.
- 6.4 So, consistent with the IPCC position Federated Farmers considers that New Zealand's main focus for emissions reduction in the near future should be on long-lived 'stock' gases, with emission reductions achieved through greater efficiency and reducing waste in transport, heating, industry and, within the limits of available technologies, agriculture.
- 6.5 On short-term 'flow' gases, notably ruminant methane, we believe the objective should be to stabilise emissions rather than aim to aggressively cut them, especially when cost effective methane reduction technologies are not yet available and trade competitors are not yet including their equivalent emissions in their domestic policies, such as emissions trading schemes.
- 6.6 That said, we continue to support the development of a long-term solution to achieving reductions in methane production from ruminant animals and to further refine emissions intensity in agricultural production. Federated Farmers supports Recommendation 10.8 that the Government should increase its yearly funding for research on agricultural mitigation technologies to a level that better reflects the potential value of successful outcomes. Given its importance as a long-lived gas, a stronger focus on nitrous oxide might be appropriate.
- 6.7 New Zealand should also seek to build global consensus around the two baskets approach.

7. CHAPTER 10 – LAND USE

- 7.1 Federated Farmers agrees with the analysis that rural land use will change and adapt during the transition to a low-emissions economy.
- 7.2 An imperative will be that land use change occurs within a context of the free market and individual property rights where land owners respond to international market demand and price signals along with domestic policy requirements. This is the context within which the current land use pattern has developed, and continues to develop, as a major part of New Zealand's economic prosperity.
- 7.3 Federated Farmers reiterates its earlier submission that governments should not seek to 'pick winners' on land use. We are concerned by erroneous assumptions that sheep and beef is a 'sunset industry' and that many of the country's existing sheep and beef farms could or should be converted to forestry. While it is correct that there are (in aggregate) large areas of land on sheep and beef farms which could be planted, Federated Farmers submits that this will most often be complimentary to the farming operation rather than instead of it. There are a number of sheep and beef farms which have successfully incorporated forestry into their farming businesses.
- 7.4 Individual members of the Gisborne-Wairoa and Ruapehu provinces of Federated Farmers have seen first-hand the economic, environmental and social impacts of 1990s large-scale land use change from sheep and beef to forestry during the 1990s. They are particularly concerned about the prospect of further conversion of remaining sheep and beef farming to forestry and what this would mean for their communities. The assumption that foresters will want to plant on marginal land is highly questionable.

In practice they will want to plant trees on land that is easy to maintain and harvest and close to transport infrastructure and processing facilities.

- 7.5 Sheep and beef farming has an important role to play in the economic and social wellbeing in most districts, regions, and the country as a whole, and we submit that the government policy should allow this important role to continue into the future.
- 7.6 Similarly, land use change from dairy to horticulture might happen in some areas depending on economic drivers but governments should not be seeking to deliberately push this through climate change or other environmental policies.
- 7.7 The individual land owners and commercial entities' investment and management decisions will be directed by a range of issues and opportunities that confront their businesses. Achieving low-emissions outcomes will need to be considered alongside improved water quality outcomes, biodiversity and pest management outcomes while remaining profitable. It is then important that interventions directed to achieving a low-emissions economy adopt a systems approach that aligns with other programmes and interventions and avoids market distortions.
- 7.8 It will also be important that interventions are designed to reflect New Zealand's unique circumstances and that all initiatives and responses that contribute to net emissions reductions are fully accounted for.
- 7.9 Federated Farmers notes that significant areas of woody vegetation planted post-1990 within farm boundaries are excluded from carbon reductions accounting within the New Zealand Greenhouse Gas Inventory and from participation in the NZETS as currently configured. This exclusion is based on international accounting rules rather than 'what the atmosphere sees'. Opportunity for carbon removals into the future from farm woodlots, shelter belts, slope stability and erosion control planting and riparian planting are substantial and need to be fully accounted for.
- 7.10 While Federated Farmers agrees with Recommendations 10.1 and 10.2, the direction to MPI and LINZ should be broadened to require research and assessment of planting systems, and the potential areas available, for the wide range of non-commercial sites requiring the establishment of woody vegetation for water quality improvement along with carbon removals.
- 7.11 Conceptually then afforestation targeting achieving a net zero emissions profile in 2050 would involve a mix of largely exotic commercial production forestry and protection (slope stability, erosion control and biodiversity) planting:
 - Production sites, commercial forests and farm forestry blocks, established on sites that are viable for establishment, silviculture and harvesting provide for 'quick gain' carbon sequestration, and
 - Protection sites, usually on farm, established through site specific exotic and native planting providing for slower carbon sequestration likely to contribute to carbon reductions accounting for a longer time period.
- 7.12 Decisions regards production or protection systems would require site specific assessment.
- 7.13 In this context Federated Farmers supports Recommendation 10.7 that the Government should continue to refine the NZETS to make it easier for small foresters, and farmers, to participate.

- 7.14 Taxpayer support for planting programmes, including the Afforestation Grants Scheme, Hill Country Erosion Fund and One Billion Trees, should reflect the relative costs and benefits of production and protection planting, but should also be informed by rigorous analysis of economic and social costs and benefits to districts, regions and the country as a whole.
- 7.15 As noted earlier in this submission Federated Farmers does not however agree with the recommendation 10.3 the agricultural greenhouse gases should be fully included in the NZETS at this time.
- 7.16 Question 10.1:** What are the advantages and disadvantages of the following options for a point of obligation for agricultural emissions within the NZETS:
- Full processor level?
 - Full farm level, above a minimum threshold?
 - Farm level for dairying only with processor level for sheep, beef, horticulture and arable?
- 7.17 Federated Farmers considers that if agricultural biological emissions are to be included in the ETS then it is preferable to make the farm the point of obligation rather than having emissions socialised at the processor level. A farm level point of obligation will provide individual farmers a tangible incentive to reduce their emissions. A processor point of obligation will not (unless a processor could provide that incentive, which in most cases is not possible).
- 7.18 With regard to the hybrid option (third bullet point above), Federated Farmers does not believe this would be suitable for sheep and beef. Many sheep and beef farmers regularly change meat processors or in some instances do not engage with them directly at all. This would make it extremely difficult for meat processors to ‘reward’ sheep and beef farmers for their on-farm emissions reduction efforts. Turned around the option might be more feasible for dairy but even then not universally so.
- 7.19 The challenge to an on-farm point of obligation is that to date it has not been feasible to measure biological emissions at farm level. The application of OVERSEER to this task will require further development of the tool to ensure confidence in its representation of farm-scale greenhouse gas losses. This is not just to make OVERSEER more accurate in all conditions but also to make it more user-friendly so farmers can use it themselves rather than have to engage experts. Trust will also be needed, just as IRD generally trusts taxpayers to get their GST, PAYE and income tax returns right, albeit with the recourse of audits.
- 7.20 Federated Farmers supports Recommendation 10.5 that the owners of OVERSEER further improve the tool’s capability to model farm-level emissions. The injection of development funding in Budget 2018 reflects this priority.
- 7.21 Question 10.2:** With developing technology and aggregation for accounting purposes is it technically feasible and would it be cost effective to include small areas of planting (such as riparian planting) within the ETS?
- 7.22 As noted above significant areas of woody vegetation planted post 1990 within farm boundaries are excluded from carbon reductions accounting within the New Zealand Greenhouse Gas Inventory and from participation in the NZETS as currently configured.

7.23 Opportunity for carbon removals into the future from farm woodlots, shelter belts, slope stability and erosion control planting and riparian planting are substantial and need to be fully accounted for.

7.24 Federated Farmers supports investment to develop robust and defensible methodologies to better account for such removals.

8. CHAPTER 13 – HEAT AND INDUSTRIAL PROCESSES

8.1 Federated Farmers confines its interest in this chapter to the matter of dairy industry regulation, in particular Fonterra's obligation to accept milk supply.

8.2 Question 13.1: Would giving Fonterra discretion to refuse milk supply where this would lead to inefficient land use and/or a significant increase in the company's GHG emissions provide any benefit?

8.3 Federated Farmers would be opposed to providing Fonterra with a legislated mandate to refuse milk supply on the basis of climate change (or other environmental) considerations. This is especially in relation to land use efficiency which is not Fonterra's business (nor the business of any other dairy or meat processor).

8.4 Federated Farmers believes that a farm level point of obligation would negate the need for Fonterra (or indeed any other dairy or meat processor) to consider land use efficiency or on-farm performance.

8.5 Furthermore we are concerned about the potential for this approach to set a dangerous precedent for other environmental issues, where regional and district councils are already setting and implementing regulation based on national guidance, which is getting increasingly tougher.

8.6 We note that the Government has announced a wide ranging review of the Dairy Industry Restructuring Act. This will include whether the requirement for Fonterra to accept all milk supply offers from shareholding farmers and the ability for farmers to exit Fonterra be reconsidered (e.g. removed, modified or replaced with some other regulatory tool aimed to ensure contestability for the supply of milk from dairy farmers)?

8.7 The DIRA review excludes consideration of individual dairy farms' financial, environmental, and animal health and welfare performance. This is being considered as part of MPI's Farm Systems Change initiative designed to help close the gap between top-performing dairy farms and the rest of the dairy farming sector.

8.8 Federated Farmers therefore submits that there is no need for Fonterra to be given discretion to reject supply on the grounds of climate change, especially for on-farm considerations (such as land use).

9. CHAPTER 14 – WASTE

9.1 Federated Farmers notes a comment in the draft report that farm dumps were estimated to comprise 42% of total emissions from solid waste. This percentage came as a big surprise to us and we struggle to understand how it could be so high. These days we believe that most solid waste generated on-farm would be disposed off-farm to landfills or through recovery schemes. We note and support the draft report's caveat that the 42% figure should be treated with extreme caution due to high levels of uncertainty behind it.

10. ABOUT FEDERATED FARMERS

10.1 Federated Farmers is a member based organisation that represents farmers and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand's farmers.

10.2 The Federation aims to add value to its members' 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.