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DAIRY COMPANIES ASSOCIATION OF NEW ZEALAND SUBMISSION

TO THE PRODUCTIVITY COMMISSION

ON

THE LOW-EMISSIONS ECONOMY DRAFT REPORT

15/06/2018

1. Summary

The Dairy Companies Association of New Zealand (DCANZ) welcomes the opportunity to submit on the Productivity Commission's *Low-emissions Economy Inquiry* draft report. DCANZ represents the common position of New Zealand dairy manufacturing and exporting companies on matters of public policy. Our eleven member companies collectively account for 98% of the milk processed in New Zealand and the vast majority of New Zealand dairy exports.

DCANZ notes and appreciates the comprehensive nature of the report. It is important to continue to consider New Zealand's unique emissions profile and how that is tied to our economic success when making plans and comparisons. Both the economy and the environment are important to New Zealanders' long-term prosperity and businesses need stable, consistent, science-based policy.

The New Zealand dairy industry has made significant investments in improving its environmental performance, including in relation to climate change and is committed to continue this going forward. At the same time, we are committed to maintaining the important contribution that dairy's export earnings make to the New Zealand economy and New Zealanders' prosperity.

At a principles level we support policy approaches which are outcome focused and evidence based. In relation to New Zealand climate change policy it is important to us that New Zealand's policy frameworks result in a contribution to addressing climate change at a global level. In the past we have been concerned at the prospect that policy may result in costs within New Zealand which did not translate to real benefits for the global atmosphere.

DCANZ supports the avoidance of global warming while supporting New Zealand productivity growth through evidence and science-based climate stabilisation.

DCANZ considers that:

- The best way that New Zealand can contribute to avoidance of climate change is to focus on the long-term reduction of heat retention. This involves lowering our emissions by focusing on net zero emissions of longer-term gases such as CO₂ that accumulate in the atmosphere while stabilising short-term gases like Methane that cycle through the atmosphere in relatively short spaces of time;
- New Zealand's policy framework must recognise these differences between the emissions types (including via a split gases approach);
- New Zealand's policy tool kit should also ensure all mitigation activities can receive appropriate credit (for example small scale planting);
- New Zealand's policy tool kit should be broader than the ETS. For example, support for R&D has an important role to play in enabling emissions mitigations where technological solutions are currently limited;
- The inclusion of emissions in the ETS, must be preceded by development of appropriately robust measurement frameworks.

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2. Detailed Comments

Treatment of agricultural emissions:

NZ targets and the tools used to reach them should be fit for purpose

DCANZ's recommends that further consideration is given to the best approach to address agricultural emissions in New Zealand climate change policy frameworks. We believe greater consideration is needed as to how New Zealand can take an integrated policy approach to promoting both reduction in agricultural emissions and other linked sustainability objectives. For example, it needs to be examined whether the targeted outcomes for nitrous oxide reduction and nitrogen leaching reduction can be achieved through an integrated policy, rather than two separate policies for nitrous oxide emissions and addressing water quality considerations.

DCANZ supports a split gases approach, whereby long-lived gases (e.g. CO₂) and short-lived gases (e.g. methane) are treated differently within New Zealand climate change policy settings. We believe this is appropriate on the basis of research and science, including the recently published work by Victoria University and Oxford. In particular this recently published work highlighted that for climate stabilisation to be achieved long-lived gases such as CO₂ need to be reduced to zero, but methane, as a short-lived gas, does not need to go to net zero emissions but instead requires some mitigation to stabilise. Pricing methane and carbon equally, would therefore not drive the right policy tension for relative mitigation efforts between carbon and methane.

DCANZ supports more work being done to create more accurate forms of equivalence calculations between long-term and short-term gases that account more accurately their differing warming potential over time.

Point of obligation for agriculture in the NZ ETS

The Point of obligation should be placed where it will affect the most change If agricultural emissions are brought into the ETS, there must be potential for individual farmers to receive recognition for individual actions to reduce emissions.

A point of obligation other than at farm level would risk an averaging approach which waters down the incentives for individual improvement. Upstream or down-stream entities could choose to invest in systems to pass on costs in a way that recognised individual mitigation; this would require those individual upstream or downstream businesses to invest in the establishment of individual systems that mirrored an individual point of obligation reporting system for the farmers within their value chain. However, the efficiency of an approach that is left to multiple parties to develop systems for individual farm reporting is questionable in comparison with a single on-farm point of obligation system.

Whichever approach is taken, if agricultural emissions are brought into the ETS more work will be required to better establish robust accounting systems for biological emissions.

Accounting for small areas of planting

Practical actions should be recognised

DCANZ believes that all planting initiatives can and should count within the New Zealand ETS. Incentivising small areas of planting is a currently viable way of encouraging more trees on properties to enhance mitigation of current emissions, whilst at the same time promoting win-wins with other sustainability aspects (e.g. shelter, shade, erosion control).

It is important that the opportunity to encourage small scale planting within New Zealand is not overlooked in our policy frameworks as a result of short comings in international definitions. The technology already exists for geospatial mapping to track crop types and densities, and this should be leveraged to ensure all trees can count as trees in the NZ ETS. Incorporating other planting such as riparian into the scheme should also be looked at given its multiple benefits to the environment but high cost to the individual farmer.

Access to international units

Lowering Global Emission is the ultimate goal

DCANZ supports participants in the New Zealand ETS should being able to access international units to meet New Zealand emissions unit surrender obligations, so long as the integrity of those international units is maintained. Such an approach would achieve New Zealand's contribution to global atmospheric outcomes in the most cost-efficient way. So long as integrity of the emissions reduction unit is maintained there is no reason for New Zealand to place a border on our emissions reductions investments, when there is no corresponding border on the global atmosphere.

Energy-related emissions

Need viable lower-emission options DCANZ appreciates the commission acknowledging that there are currently few other viable options for generating industrial heat on the scale required. We support more research in this area.

DCANZ also supports further work being undertaken to model the flow on impact of the recently announced ban on new permits for offshore oil and gas exploration, including for stability of electricity pricing and use of natural gas as a transition fuel.

DCANZ is concerned that there has been a suggestion that the work of ECCA could be refocused towards solely working with small businesses. The role ECCA plays is equally relevant to all businesses regardless of size, and if changes are made it needs to flow through into funding models also.

Policy support other than emissions pricing

Need viable low emissions solutions

DCANZ supports the Productivity Commission taking a broader view of policy mechanisms to support the transition to a lower emissions economy. The ETS cannot be the only focus, or tool in the tool box. For example, climate-related R&D investment has an important role to play in relation to the new technologies that would support the reduction of emissions from agriculture and industrial thermal heat use. In both these areas there are significant limitations on the emissions reductions achievable with existing technology. It is therefore important that New Zealand's policy tool box includes support for technology advancement.

It is also important that there be a focus on reducing the regulatory barriers to transitioning to lower emissions options. This includes but should not be limited to barriers related to renewable electricity generation. Consideration of barriers in respect of other energy sources and support for large scale projects is also important.

Extension of the ETS to cover wastewater treatment

DCANZ opposes the inclusion of wastewater plants in the ETS at this time due to the need for further work to improve the measurement frameworks for these emissions.

ENDS.