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Re: Low-Emissions Economy; Issues Paper – August 2017

Thank you for the opportunity to comment on the above document.

This is a personal submission based on my past experience as an elected representative of Federated Farmers and the Waikato Region, and as a current dairy farm owner.

The ETS can never work to reduce land-use related climate change. Land availability is the limiting factor.

If you believe the future price of emissions will be higher than today and the ETS benefit from afforestation is a one-off taxed return (followed by an endless stream of compliance costs) then it makes sense to hold land bare. To the extent that there is value in the ETS 'opportunity' of your land holding you get it instantly and with no effort or outlay, in the form of a discounted increase in the tax free capital value of land.

The only time it makes sense to claim ETS credits for afforestation is if you consider the future value of carbon emissions will be lower than today. This does not look likely in the foreseeable future but assuming a fall in the ETS / carbon value was to happen you could 'sell' credits at (for example) \$18 a tonne and buy yourself out of the land flexibility liability created by that sale at a lower value. Credits fell to as low as 9 cents at one point and because the returns from such arbitrage were a change in capital value I suspect they were not taxed. The possibility cannot be discounted that a true carbon credit market might dip at some point over the usual 30 year rotation. To think that it might not or only increase is to assume the ETS is not a market and or the real opportunity lies in retaining land free of trees.

Government legislated overnight in the 2014 budget to preclude ETS arbitrage, which is another reason the ETS in land use does not make sense. There is no inherent value in carbon credits. They are a creature of policy advice and legislation. There is no inherent value in them that someone making a long term investment such as forestry can rely on. Worse than that, past Governments have acted against the interest of those who invested in forestry as their land use by expropriating the 'opportunity value' of the land by imposing without material compensation a 'deforestation tax (ie an ETS liability of 800 tonnes per hectare)' on forests planted before 1990. In so doing they greatly increased the 'sovereign risk' of forestry investments and effectively stopped afforestation intentions overnight as any examination of the afforestation rates over time demonstrates.

It is interesting to reflect on the similarities between the ETS applied to land use and the perverse outcomes of some Regional Councils efforts to address water quality. Waikato Regional Council has recently proposed via a Plan Change to grandparent rights to nitrate and other non-point source pollutants. Their Plan flags greater controls in the future. Those farmers who have made the greatest effort to reduce (or never cause) pollution in the past and on a voluntary basis are severely disadvantaged relative to the farmers with the most damaging practices. There has been a corresponding change in capital value of farm land, and that is before RMA Schedule 1 hearings and likely Environment Court appeals stages.

The message from both the ETS and WRC's PC1 is that the 'opportunity based' capital value of land determines its use. Efforts to address environmental externalities of land use, whether GHG emissions or water pollutants, need to target the pollutant directly and equitably. If not the incentive on the individual will be to maximise the windfall gain accruing to those who benefit from the unavoidable 'transition' to the new regulatory regime and disadvantage those who have made efforts voluntarily or were never part of the problem. Individuals can understandably be forgiven for acting in their short term interest. Good governance needs to recognise that fact in structuring policy and regulation to motivate the right behaviours over the medium and long term.

The ETS "market" has been described as selling something that doesn't exist to people who don't want it. It is probably best thought of as a compliance cost heavy carbon tax. If the intention is to impose a cost on the 'environmental externality' of burning fossil fuel it is simpler to impose a meaningful tax on the carbon content of such fuels. Government already imposes taxes on fuel meaning the compliance (collection) costs of a carbon tax are effectively zero. If the increased fiscal revenues gained from such a tax are offset by reductions in other taxes the effect is a shift in economic driver to reduce emissions throughout the economy.

I would be happy to provide further clarification of these submissions on request and look forward to any opportunity for further input to the Commission's work in this area.

Yours Sincerely,

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