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Ministry for the Environment,
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Attn: David Parker

Submission from the Manawatū District Council on the Pricing Agricultural Emissions Consultation Document

Manawatū District Council (MDC) thanks the Ministry for Environment for the opportunity to comment on the consultation document for pricing agricultural emissions. The Manawatū District is recognised as the hub for the region in terms of intensive agriculture, agribusiness technology, agricultural servicing, innovation, precision agriculture and primary sector processing. Consequently, Manawatū District would be significantly impacted by central government direction on pricing agricultural emissions. This submission stems from Council's concern about the impact of the government's proposals on the wider community.

MDC recognises the deleterious effects of methane as a potent greenhouse gas on the climate and its capacity to trap heat in the atmosphere resulting in atmospheric global warming. MDC acknowledges that business-as-usual agricultural practices that exacerbate the release of methane in the atmosphere needs to be replaced with more sustainable techniques, technology, and products. However, as the first country to price agricultural emissions, it is crucial that the mechanisms contemplated to administer the process of pricing agricultural emissions are well informed, equitable and do not compromise New Zealand's economy and wellbeing. Further, it is imperative that the Government's proposed timeline for implementing the levy is reflective of adequate consideration of emerging research in on-farm emissions reductions and the availability and usability of on-farm emissions mitigation technologies.

While MDC acknowledges that central government has accepted some of He Waka Eke Noa's recommendations, MDC notes that more work is needed in the government's approach in pricing emissions to ensure that the mechanisms designed effectively reduce emissions in the agricultural sector. Government needs to ensure that the mechanism and regulations align with other national policies, for example, the National Policy Statement on Highly Productive Land and the work going on in the production forestry space.

BACKGROUND

The primary industries sector which includes agriculture, forestry, horticulture, and fishing is the largest contributor to the Manawatū District's economy. According to 2020 estimates, primary industries accounted for 16.8% of Manawatū District's GDP which is almost three times the contribution primary industries made to the national economy (6.2%). Farming and related processing are large employers in sheep, beef and dairy farming and agricultural services.

This submission is premised on the preamble and Article 2 of the Paris Agreement. New Zealand is a signatory to the Paris Agreement and must in good faith comply with the provisions of the Paris Agreement. The preamble of the Paris Agreement urges all parties to recognise the fundamental priority of safeguarding food security and ending hunger while Article 2 states that Parties, while increasing the ability to adapt to the adverse impacts of climate change and fostering climate resilience and low greenhouse gas emissions development, should do so in a manner that does not threaten food production. MDC is concerned that the unique levy price proposed to be set by the government may reduce farm profitability that would consequently impact food production. Small scale farmers will bear the brunt as the agricultural levy tax may make it uneconomic to farm, thereby making smaller owner-operated farms unviable. These farmers are highly likely to convert their farmland to exotic afforestation due to the incentive provided by the New Zealand ETS. Such conversion of land leads to reduced food production for domestic consumption and global exportation, thereby damaging the economy and compromising the nutritional wellbeing of New Zealanders.

New Zealand's updated Nationally Determined Contributions (NDC) clearly states that "it has an export-dependent economy, with a significant reliance on the agriculture sector. Some 85 per cent of New Zealand's total food production goes to the international market." While it is acknowledged that gross emissions are dominated by the agriculture and energy sectors, which together comprise approximately 90 per cent of gross emissions, emissions reductions from the sector need to be strategic and informed by the best available science. Further, it is imperative that the socio-economic impacts from the proposed pricing levy mechanism are duly considered when implementing the proposal. Central government would need to continue conversations and collaborate with the farming community groups to achieve desirable outcomes for the environment and the farming community.

This submission highlights eight aspects of the proposal where challenges have been identified which require further work. These are outlined below.

FARMER WELLBEING CONCERNS

Council is aware of the concerns raised by farmers within the Manawatū district through Federated Farmers. They have expressed strong concerns on the impact of government's proposal to price agricultural emissions on their wellbeing. Currently, farmers across the district are low on morale and uncertain about their ability to earn without running into huge losses and the future of their farms. MDC notes that the government's proposal departed from He Waka Eke Noa's proposal recommendation for the maximum price of methane to be no greater than $0.11/kg for the first 3 years of pricing until 2028. Government has instead opted to have the price determined by the ability for New Zealand to meet its biogenic methane targets. MDC is concerned that the government's proposal has not adequately considered the socioeconomic impacts of the levy prices on farmers once Ministers set it in the regulation. It is imperative that the agricultural pricing system is structured in a way that makes it beneficial for New Zealand farmers while ensuring that farming methods are more efficient.

EMISSIONS PRICING

Central government is inviting submissions on the proposed farm-level, split-gas levy for pricing agricultural emissions, however, the levy prices will be set separately through regulations that are not part of this consultation. Until the regulations are drafted and those affected have an indication of the levy prices, it will be difficult for them to agree to the pricing framework. While those affected will have an opportunity to submit on the regulations before they are finalised, they will have little influence over the outcome, as the framework that establishes the charges will already be set. It is unclear at this time what the price of the levy will cost the farmers as the consultation did not offer any specific estimated levy prices although the government's modelling indicates that a low price would be enough to achieve methane targets. As the estimates of pricing are not available within the consultation and will be set by regulation toward 2025, farmers will be unable to comment specifically about the levy prices and what it would cost them in terms of production and profitability. More clarity and detail are required to ensure that the levy prices are not only equitable but effective in emissions reductions in the sector.

PREFERRED OPTIONS FOR PRICING AGRICULTURAL EMISSIONS

MDC is concerned about central government's inclination toward the processor-level levy when the Partnership had indicated a preference for the farm-level levy. MDC considers that there will be more benefit in taking the time and resources to establish the farm-level levy rather than setting up an interim processor level levy which would require further transition to the farm-level levy setup for pricing agricultural emissions. MDC considers that pricing emissions using the processor-level levy may be problematic and can potentially trigger equity considerations. For example, there is a risk of arbitrary increment in the price of synthetic nitrogen fertiliser which will impact all farmers, whether large scale or small scale. If the levies are charged at the farm level, then farmers only pay for what they utilise. Charging levies at the farm-level would more likely drive emissions reductions as farmers could influence the direct cost of their levy through their modified practices. For example, pricing synthetic nitrogen fertiliser at the farm-level can enable farmers and growers to have a better understanding of their emissions profile and make the necessary changes to reduce their emissions.

NEED FOR INVESTMENT IN EMISSIONS REDUCTION TECHNOLOGY

While MDC recognises the global need for emissions reduction, there is equally a need for the government to invest in and focus on researching into and developing technology that can enable emissions reductions in the agricultural sector. MDC is concerned that a methane price levy will be decided on without any scientific statistics to justify any price set. Further, there are no viable and commercially available methane emissions reductions technology available at this time and it is unclear how farmers could benefit from the proposed incentive payment for the uptake of approved actions that reduce emissions, such as the proposed methane inhibitors.

EMISSIONS LEAKAGE

According to statistics from World's Top Exports, New Zealand is the second top exporter of sheep and lamb accounting for up to $2.89 billion (up 24.8%). MDC is concerned that the levy prices set by government may disincentivise farming in New Zealand. Farmers within the district have expressed concern that if farming and food production is disincentivised in New Zealand, other countries with less sustainable farming methods will fill the gap created by New Zealand's reduced exports. Further farmers argue that emissions avoided by New Zealand will be generated elsewhere by countries who have not committed to tangible emissions reductions in the agricultural sector. MDC recognises that business-as-usual agricultural practices that contribute to global emissions should not continue and encourages central government to ensure that its global commitment to reducing emissions in the agricultural sector is balanced with equitable mitigation methods.

SEQUESTRATION RECOGNITION

One specific concern around the need for further work relates to on-farm sequestration as part of the proposed system. The government's proposal is limited in comparison to He Waka Eke Noa's recommendation in that it does not recognise a wider range of permanent and cyclical forms of vegetation, which could offset the cost of the emissions levy. There are various vegetation types that are currently outside eligible ETS categories that can effectively sequester carbon and these forms of vegetation should be recognised and included from 2025 rather than later. The government proposes to reward sequestration primarily from riparian margins planted after 2008 and additional sequestration from active management of indigenous vegetation where stock is excluded through contract payments. Some scholars have suggested that earning credits from sequestration could be advantageous, particularly, where it reduces the need for New Zealand's expensive purchase of offshore emissions units. MDC considers that the government's proposal to reward sequestrations from only riparian margins by 2025 may not be equitable, however, MDC welcomes the government's proposal to reward sequestration from managing indigenous vegetation.

Further the government's approach in proposing a system "where those willing can invest or co-invest in the necessary science and measurement required to include new vegetation categories into the NZ ETS" may be unnecessarily burdensome to farmers.

COLLECTIVES

The consultation document highlights that the government would allow some collectives, primarily Māori agribusiness, iwi, hapu and whanau groups to report and pay for emissions as a group and other collectives would be enabled in the future. This proposal is inequitable as there are smaller farms who are not part of collective groups that would find it onerous to conduct their reporting and payment obligations within the new farm-level pricing system.

EMISSIONS TARGETS

Central government set domestic emissions targets and committed to a 24 percent to 47 percent reduction below 2017 in biogenic methane emissions by 2050. These targets were set to align with New Zealand's commitment to limiting global warming to 1.5 degrees Celsius.

The consultation document clearly admits that biogenic methane and long-lived gas emissions on farms are impossible to directly measure. It is unclear whether the proposed models that will use a combination of livestock and fertiliser information, scientific data on biogenic methane emissions per unit of feed intake, and nitrous oxide or carbon dioxide emissions per unit of nitrogen application to soils, are adequate to determine on farm emissions and whether they will be on track to meet the national targets. It is imperative that the government utilise the best available science to determine the pricing mechanism needed to achieve the 2050 target and it should be set at a rate that does not result in reductions in food production, avoids negative economic impacts on rural communities and supports the uptake of new mitigation technologies.

RESPONSES TO CONSULTATION QUESTIONS

Question 1: Do you think modifications are required to the proposed farm-level levy system to ensure it delivers sufficient reductions in gross emissions from the agriculture sector? Please explain.

No comment

Question 2: Are tradeable methane quotas an option the Government should consider further in the future? Why?

No comment

Question 3: Which option do you prefer for pricing agricultural emissions by 2025 and why? (a) A farm-level levy system including fertiliser? (b) A farm-level levy system and fertiliser in the New Zealand Emissions Trading Scheme (NZ ETS) (c) A processor-level NZ ETS?

Response: MDC prefers option A.

Highlighted earlier in this submission are equity concerns associated with utilising a processor-level pricing system for emissions pricing. While that method would ensure consistency and uniformity across New Zealand, it would mean that importers will spread the costs from the levy by increasing the price of fertilisers across board. This means that small scale farmers may need to pay a higher cost than they would if they were levied for what they use and generate on their individual farms. Consequently, MDC supports He Waka Eke Noa's recommendation to price synthetic nitrogen emissions from fertiliser within the farm-level levy.

Question 4: Do you support the proposed approach for reporting of emissions? Why, and what improvements should be considered?

MDC generally supports the proposed approach for emissions reporting.

Question 5: Do you support the proposed approach to setting levy prices? Why, and what improvements should be considered?

MDC does not support the proposed approach to setting levy prices. MDC is concerned that the government's proposal for levy prices to be set by Ministers via regulations removes the collaborative governance approach with the sector which He Waka Eke Noa had recommended in its report. The government had indicated that it wants to collaborate with the sector, however the current proposal will potentially prevent the sector from exercising a key role in advising Ministers on levy prices.

Question 6: Do you support the proposed approach to revenue recycling? Why, and what improvements should be considered?

No comment

Question 7: Do you support the proposed approach for incentive payments to encourage additional emissions reductions? Why, and what improvements should be considered?

MDC notes that incentive payments will be beneficial to farmers and growers, however, the emissions reductions technologies that can enable these incentive payments and discounts will not be widely available for NZ farmers by 2025.

Question 8: Do you support the proposed approach for recognising carbon sequestration from riparian plantings and management of indigenous vegetation, both in the short and long term? Why, and what improvements should be considered?

MDC does not support the proposed approach for recognising carbon sequestration from *only* ***riparian plantings and management of indigenous vegetation. The other categories suggested by He Waka Eke Noa need to be equally recognised and count towards a deduction in the farm's total levy before their transition to the emissions trading scheme.***

Question 9: Do you support the introduction of an interim processor-level levy in 2025 if the farm-level system is not ready? If not, what alternative would you propose to ensure agricultural emissions pricing starts in 2025?

Response: MDC does not support the interim processor levy. Introducing an interim processor-level levy in 2025 with the intention of transitioning to the farm-level system raises cost and time efficiency issues and would potentially create administrative difficulties. As the processor-level levy will be captured within the NZETS, it is unclear what cost and administrative issues the further transition would entail.

Question 10: Do you think the proposed systems for pricing agricultural emissions is equitable, both within the agriculture sector, and across other sectors, and across New Zealand generally? Why and what changes to the system would be required to make it equitable?

MDC does not think that the proposed system for pricing agricultural emissions in its current form is equitable. These concerns have been captured in the sections that discuss the exclusionary approach to on-farm sequestration. The government's proposal also places the socioeconomic impacts of the levy pricing as secondary rather than equally with environmental considerations.

Question 11: In principle, do you think the agricultural sector should pay for any shortfall in its emissions reductions? If so, do you think using levy revenue would be an appropriate mechanism for this?

No comment

Question 12: What impacts or implications do you foresee as a result of each of the Government's proposals in the short and long term?

Response: As highlighted earlier in this submission, MDC supports the proposal to price synthetic nitrogen fertiliser within the farm-level levy

Question 13: What steps should the Crown be taking to protect relevant iwi and Māori interests, in line with Te Tiriti o Waitangi? How should the Crown support Māori landowners, farmers, and growers in a pricing system?

Response: The impacts, disadvantages, and barriers that Iwi Māori face have been captured within the document. Prioritising their ability to collectivise for effective participation is supported, as are other options that would allow Iwi Māori to participate in the scheme in an equitable manner that upholds Te Tiriti.

Question 14: Do you support the proposed approach for verification, compliance, and enforcement? Why, and what improvements should be considered?

Response: MDC generally supports the government's proposed verification, compliance, and enforcement approach

Question 15: Do you have any other priority issues that you would like to share on the Government's proposals for addressing agricultural emissions?

CONCLUSION

While MDC agrees that measures need to be put in place to encourage sustainable farming, we are particularly concerned with the impact of central government's pricing agricultural emissions proposal on farmer wellbeing, the district's economy, and the world's food security in general. Socioeconomic impacts of the proposals should not be overlooked, the government needs to find the right balance between reducing emissions and maintaining viable farm businesses. The right balance could potentially result in farmers farming better rather than less.

Yours Sincerely,

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