



**DEER INDUSTRY
NEW ZEALAND**

**SUBMISSION TO THE
EMISSIONS TRADING SCHEME REVIEW COMMITTEE**

on the

Review of the Emissions Trading Scheme and related matters

By

DEER INDUSTRY NEW ZEALAND

27 February 2009



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Hon Peter Dunne
Chairman
Emissions Trading Scheme Review Committee
Parliament Buildings
Wellington

Dear Mr Dunne

REVIEW OF THE EMISSIONS TRADING SCHEME AND RELATED MATTERS

Deer Industry New Zealand (DINZ) is the levy funded industry-good body established under the Deer Industry New Zealand Regulations (2004). One of its key functions is to promote and assist the development of the deer industry in New Zealand.

DINZ has made previous submissions on:

- Climate change on 30 March 2007 to the Ministry of Agriculture and Forestry discussion document "Sustainable Land Management and Climate Change – Options for A Plan of Action."
- The Emissions Trading Scheme on 29 February 2008 to the Finance and Expenditure Select Committee considering the "Climate Change (Emissions Trading and Renewable Preference) Bill" – in partnership with other pastoral-based industry organisations (Meat and Wool New Zealand and the Meat Industry Association).

DINZ regards the present situation regarding the Climate Change Response (Emissions Trading) Amendment Act 2008 ("The Act"), as unsatisfactory and therefore welcomes the opportunity to provide further comment on this and related matters. DINZ works closely with other pastoral industry organisations on these issues and communicates regularly with other non-agricultural industries with regards to The Act.

DINZ has seen the joint submission to this committee from Meat and Wool New Zealand (M&WNZ) and the Meat Industry Association (MIA) – collectively referred to as "The Meat and Wool Industries" and supports its recommendations: As this is a comprehensive analysis and discussion of the issues and complexities, DINZ does not wish to add further to the subjects raised but wishes to re-emphasise key recommendations.

International Considerations

In determining a domestic response to climate change DINZ considers that it is of fundamental importance that consideration of international aspects be taken into account. This includes:

Page 2

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**DEER INDUSTRY
NEW ZEALAND**

- Actions or priorities that the international community focuses on for mitigating or adapting to climate change. *Fossil fuel efficiency, alternative fuel and energy, all areas where there is technological feasibility to reduce emissions. Methane is not a high priority in international fora.*
- The role of agriculture (food production and security) relative to its environmental impacts. *While agriculture does contribute to greenhouse gas (GHG) emissions, New Zealand's pastoral-based highly productive approach is comparatively benign.*
- The operating conditions that agriculture sectors in other countries will face (with particular reference to major competitors of New Zealand pastoral livestock products). *All agriculture sectors in other countries are shielded from costs of GHG emissions for the foreseeable future.*

DINZ re-iterates its stance in the previous (29 February 2008) submission that New Zealand's greenhouse gas (GHG) emissions are insignificant on a global scale and have negligible impact on the global prevalence of atmospheric GHGs. DINZ therefore supports the recommendations of the Meat and Wool Industries that:

- ☑ *"... New Zealand negotiators take a stronger stance on the treatment of biological methane in discussions on any subsequent international policy frameworks. ... with a view to achieving in the medium-term recognition of the desirability of applying differential treatment to agricultural emissions."* – paragraph 87
- ☑ *"... that the New Zealand international negotiators take a very strong stance for differential treatment of Agricultural emissions in the post-Kyoto agreement. This should be in the interests of both developed and developing countries if a comprehensive agreement is to be reached by the globe."* – paragraph 100

If there is international agreement on how agriculture sectors are treated and there is consistency between countries, the risk of a domestic policy that reduces competitiveness of New Zealand agricultural products in overseas markets is greatly reduced. An example would be alignment of time frames with Australia on decisions for treatment of agricultural emissions (2015).

Domestic Policy

The New Zealand Emissions Trading Scheme (NZETS) as one tool to promote behaviour change and minimise or reduce GHG emissions (including methane and nitrous oxide) will need to balance "cost-of-carbon" pressures against maintaining economic viability. Based upon all analysis to date (from MAF and Treasury¹, NZIER² and M&WNZ), DINZ has serious concerns that this approach will not be sustainable for farmed-deer enterprises in the long-term. Of particular concern is the inclusion of methane which is a natural result of biological processes and currently has no significant mitigation tool or technology.



**DEER INDUSTRY
NEW ZEALAND**

Imposing a cost-of-carbon for methane is therefore a punitive tax and unless there are other mechanisms in place to offset this tax, the result would be a disincentive to further investment in the deer industry.

This is an important consideration as DINZ and other pastoral industry organisations struggle to view the current NZETS as a mechanism for encouraging behaviour change and more of an attempt to devolve international obligations signed by the Government (and hence should be considered as Crown liabilities) to NZETS participants (willing or otherwise). While the NZETS may have been promoted as a mechanism for behaviour change, the Act does not provide any clear signal that this can be achieved for GHG emissions attributed to livestock. It is in essence, similar to *"a pig with lipstick."*

It should be noted that the pastoral industries will still be faced with the same costs-of-carbon that the rest of society will face: namely costs for fuel, energy and any other goods or services where costs are passed on to the consumer. Placing costs on natural biological processes, where there is no immediately available technology to reduce or prevent these processes and no ability to pass these on to customers, penalises a productive component of society and limits freedom of choice for the consumer (if NZ products are reduced or unavailable as a result).

DINZ has supported the concept of a trading scheme, but has consistently voiced concern over the current structure and design, and questions the priority of a scheme in relation to other initiatives to mitigate GHG emissions. Major concerns raised in the previous submission and still unresolved are:

- **Linear phase-out of NZ emissions units:** The linear approach is arbitrary and more of a bureaucratic convenience rather than a pragmatic approach to implementing on-farm behaviour change. The approach, as well as the arbitrary initial cap of units at 90 % of 2005 levels for agriculture, is completely disconnected from "real world" developments with respect to development of mitigation technologies, consumer demands, market access and competitors' advantage/competitive disadvantage.
- **Lack of independent review:** While there is provision in the Act for periodic review of the NZETS, DINZ strongly supports the use of regular independent reviews throughout the duration of the NZETS to guide the level of exposure that agriculture faces to carbon costs, based on considerations of market conditions such as those noted above. Such reviews would best be carried out by a panel of experts and DINZ endorses the Meat and Wool Industries' submission that existing bodies provide good models:

"M&WNZ/MIA recommends an independent crown entity constituted under the Crown Entities Act 2004 is established to administer the entire scheme for all GHG emissions in New Zealand. The scheme regulator should be as independent of the Minister as is the Commerce Commission and Reserve Bank..." – paragraph 158



**DEER INDUSTRY
NEW ZEALAND**

- ☑ *"...the administering agency regularly undertakes a review to establish the best measurement science, research and techniques to determine agricultural GHG emissions and these are updated and incorporated into regulation..." – paragraph 177*
- **Affordability:** Where there is limited ability to pass the cost-of-carbon on to the consumer and there is little that can be done to mitigate livestock GHG emissions, DINZ can only regard the NZETS as a tax on food production and does not believe that such a tax will effectively promote behaviour change (other than to reduce existing investment and discourage new investment in the industry). Any further design of the NZETS should consider smarter methods to balance cost-of-carbon with innovation and behaviour change (i.e. the scheme needs to be affordable).

DINZ has previously submitted a logical argument that costs of administering the NZETS be considered a public good (the scheme is intended to provide national benefits and should be funded by the Crown) which would greatly enhance its affordability, further concepts as suggested by New Zealand Institute of Economic Research (NZIER) and the pastoral sector industries include considerations of:

An intensity-based approach:

- ☑ *"M&WNZ/MIA recommend the select committee adopts an intensity-based scheme as New Zealand's response for agricultural emissions to climate change..." – paragraph 150*

DINZ stresses that this approach is within the context of pastoral-based livestock farming systems which provide comparative advantages of animal welfare and environmental benefits, and marketing positions over non-pastoral-based production systems. It would be a perverse outcome if an unintended consequence of encouraging an intensity-based approach would be to favour non-pastoral livestock production.

An upper limit on the price of carbon to reduce volatility in an immature market:

- ☑ *"...the ETS should incorporate a number of internal stabilisers and constraints on carbon prices - at least in the short-term - to allow New Zealand to establish a robust scheme in due time while reducing the risks and vulnerability of damaging the economy." – paragraph 164 (and stabilisers listed in paragraph 165)*

Recognition and inclusion of latest mitigation and adaptation research, technology and tools that are relevant to New Zealand:

- ☑ *"...the administering agency undertakes periodic reviews of mitigation technology and farm management procedures against pre-defined criteria and incorporate them into limits on emissions and best practice procedures when satisfied. The independent agency should then pursue the process of getting the*



DEER INDUSTRY NEW ZEALAND

new technology and farm management procedure incorporated into international agreements.” – paragraph 183

- **NZETS design detail:** DINZ endorses a report by NZIER³ which has examined design criteria for the NZETS and considers this report as a commonsense approach to undertake further work on the design of the NZETS. The principles in this report, if followed would provide for more acceptance by deer farmers based on feedback to date. DINZ also notes that the select committee’s own terms of reference require further analysis that would guide decision making and design of the NZETS if this was the preferred option:

“require a high quality, quantified regulatory impact analysis to be produced to identify the net benefits or costs to New Zealand of any policy action, including international relations and commercial benefits and costs”

International and National Leadership

DINZ has stated on several occasions that the challenge of finding practical solutions to mitigate methane and nitrous oxide emissions is very large, and the probability of success in this area would be maximised by a whole of government-industry partnership focusing on this single issue as is currently occurring via the Pastoral Greenhouse Gas Research Consortium (PGGRC), co-funded and supported by the deer industry. This would continue to show real leadership of which the Government could use in international fora as well as making a tangible and meaningful contribution to GHG mitigation. This sentiment is echoed by the Meat and Wool Industries:

- ☑ *“M&WNZ/MIA recommend the New Zealand Government commit to an ongoing investment in GHG emissions research for at least another 15-20 years, aimed at finding practical solutions to reduce agricultural GHG emissions and improve efficiency gains in New Zealand pastoral systems.”* – paragraph 250
- ☑ *“The New Zealand Government engages with the PGGRC and industry stakeholders ... to lead the proposed Centre of Excellence for Agricultural GHG Research, to ensure private buy-in and leadership from the agricultural sector. This will guide the direction of research to ensure practical and usable solutions for uptake by farmers.”* – paragraph 251
- ☑ *“M&WNZ/MIA recommend the Government provide further research and development to build resilience into New Zealand pastoral systems. This would be across a number of platforms that could have other co-benefits to communities such as:*
 - *Better water storage for irrigation and stock. Increasing food production and producing greater economic and emissions efficiency.*
 - *Investment in research and development that builds resilience and improves productivity such as drought resistant grass species to avoid the need for supplementation with higher carbon footprint feeds and better manage dry climatic conditions.*



**DEER INDUSTRY
NEW ZEALAND**

- *Policy and capability to respond to adverse events.* – paragraph 256

In conclusion DINZ does not dispute that anthropogenic activity impacts on climate change and considers New Zealand has a role to play in mitigating impacts. DINZ however questions the need for New Zealand as a very small emitter of GHGs to ideologically lead the world on action which at best will disadvantage the nation's main economic wealth generation drivers and at worst create major restructuring of the economy, loss of export earnings as competitors in other countries replace our products in the market, and no discernable change in world GHG emissions. Nationally this would result in a loss of wealth and a subsequent fall in OECD economic ratings compared with other countries.

DINZ calls on the Committee to consider these consequences of implementing poorly designed domestic policy in the government's effort to seek international recognition of its commitment to mitigating climate change impacts. If a trading scheme is to be used as a major policy tool, it should be designed to encourage pragmatic, cost-effective business behaviour change and efficiencies rather than punishing natural, biological processes from livestock. This demonstrates more meaningful leadership compared with penalising world-leading pastoral industries for efficient production of food.

At a time when globally more demands are being placed upon (natural) biophysical resources, New Zealand should be able to use its comparative advantages of abundant resources and efficient pastoral production systems to maintain high environmental standards, existing quality of life and contribute to world food production.

On behalf of Deer Industry New Zealand.

Mark O'Connor
Chief Executive Officer

Referenced Reports:

¹ *Projected Impacts of the New Zealand Emissions Trading Scheme at Farm Level.* MAF. April 2008.

² *Deboning the New Zealand economy. A review of the likely impacts of the proposed Emissions Trading Scheme on the pastoral sector and rural regions.* NZIER. April 2008.

³ *Where to from here? A Sustainable Emissions Trading Scheme for New Zealand.* NZIER. September 2008.