

Submission

on the Ministry of Agriculture and Forestry's Consultation Document:

New Zealand Emissions Trading Scheme;

Regulations for exemptions and thresholds, and methodologies for calculating agricultural emissions

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Submitted by:



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About the Submitters

The Meat Industry Association of New Zealand Incorporated (MIA) is a voluntary trade association representing New Zealand meat processors, marketers and exporters. It is an Incorporated Society (owned by members) that represents companies supplying virtually all of New Zealand sheepmeat exports and all beef exports, producing 15 per cent of our nation's exports by value (26 percent of New Zealand's primary sector export revenue). The New Zealand meat industry earned \$5.5 billion in export revenue in the year ended May 2008

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 on behalf of deer farmer and venison processing levy payers.

The New Zealand Deer Farmers' Association (NZDFA), an Incorporated Society, formally represents the views and interests of 3100 current known DINZ levy paying deer farmers through its 23 regional branches and 3 special interest breed societies and working groups. The NZDFA, now in its 35th year, also represents the political and industry views of active deer farmers who have paid a voluntary annual subscription, representing an estimated 70% of the farmed deer of NZ.

This submission represents the shared views of MIA, DINZ and NZDFA, together The Parties.

Introduction

The Parties have serious concerns with the process that has been applied for the development of the proposed regulations, and would note that:

- Like many industry bodies, the Parties operate on the basis of consultation with members and, in submission on draft policy, will seek to communicate a consensus view of all members.
- The New Zealand Emissions Trading Scheme (the ETS) is a complex and unprecedented mechanism and regulation to implement it is similarly complex with potentially serious unknown and unexpected consequences.

Given the complexity and ramifications of the subject matter and the requirement to engage broadly with members and then formulate a shared view, the Parties consider that a 4-week consultation period for the proposed regulations is completely inappropriate.

It is only through thorough discussion and testing of the proposed methodologies that industry or officials can begin to comprehend the practical difficulties or the possible consequences of the proposed regulation. This submission outlines observations and recommendations that members of the Parties have developed in a short period and we are concerned that there are a number of problems and unintended side-effects of the proposed approach that we have not yet formulated resolutions for, or more worryingly, have not yet identified because of a lack of time for due diligence.

Overarching principles

With respect to the treatment of agricultural greenhouse gas emissions within the ETS, the Parties note the following overarching principles.

- In all previous submissions to government, MIA has stated that it accepts a market based approach as New Zealand's most appropriate policy for management of greenhouse gas emissions. MIA is not opposed to the implementation of an ETS, provided it does not place the New Zealand economy at risk by undermining the competitiveness of New Zealand industries competing globally.

- DINZ and NZDFA wish to note previously stated fundamental opposition to any ETS including in agriculture until other countries price carbon from farming operations and there are practical, recognised means to decrease emissions.
- In the Parties' view, introduction of a price on agricultural emissions while no international competitor is contemplating such a price and while there are few practical tools to reduce emissions is unhelpful and risks the New Zealand agricultural sector's competitiveness.
- If and when it becomes appropriate to apply a price to emissions in the agricultural sector, the mechanism must be designed such that those who are able to modify emissions performance are properly incentivised to do so. A price on agricultural emissions will not benefit New Zealand if it has the effect of driving agricultural land out of production.
- The only practical way to encourage farmer behaviour change through a price on emissions is to measure or assess farmer behaviours and to apply appropriate economic signals to the desired and non-desired behaviours.
- Consistent assessment and incentivising of on-farm behaviours can realistically only be achieved through an on-farm point of obligation for agricultural emissions (a view held widely across the agricultural sector, including by farmers).
- The Parties' underlying position is therefore that:
 - It is not appropriate to include agricultural emissions in the ETS at this time.
 - At such a time that it is appropriate to include them, agricultural emissions should be accounted in the ETS through an on-farm point of obligation, thereby providing an opportunity to incentivise appropriate emissions reduction behaviour.

The Parties will continue to seek to communicate their views as set out above to policymakers, including through the parliamentary review of the ETS that is required to be undertaken in 2011.

Proposed regulations

Notwithstanding the underlying positions outlined above, the Parties acknowledge that the currently enacted ETS legislation (the Climate Change Response Act 2002 – the Act) requires the development of regulation under which processors of agricultural products might report data that allows for the estimation of agricultural emissions.

The Parties will comment on the proposal for ETS agricultural regulations¹ on the basis that such regulations are unavoidable under the Act but noting that the Parties object strongly to the concept of a processor level point of obligation for agricultural emissions.

Comments on the proposed regulations will be made below in the order set out in the consultation document.

Exemptions

- In principle, the Parties object to the exemption from the regulations of any genuine source of agricultural emissions, on the basis that:
 - Exemptions will create market distortions, providing financial incentive to use land for one purpose over another, without any underlying economic rationale.
 - Those agricultural emissions sources that are not excluded are likely to be made liable for the emissions of the exempted sources – increasing the burden on non-exempted emissions.

¹ As described in the Consultation document: New Zealand Emissions Trading Scheme; Regulations for exemptions and thresholds, and methodologies for calculating agricultural emissions, May 2010

- In practicality, the Parties acknowledge that in some cases, the challenge and expense of gathering the data on which to assess emissions from certain sources is likely to outweigh the economic distortion and equity problems outlined above. On that basis, the Parties agree that where data is particularly difficult and expensive to gather, exemptions should be allowed.

The Parties recommend that:

- No ruminants slaughtered by Meat Processors (as defined by the Act²) be exempted, on the basis that records of slaughtering are readily available and commercial operators will be providing returns detailing all slaughtering anyway. Omitting certain species is more likely to add work than reduce cost. In particular, MIA recommends that commercially slaughtered horses, feral goats and deer not be exempted. This maintains relativity in costs incurred to suppliers and does not distort returns between the feral or farmed animal suppliers.
- Live exports not be exempted. Details of live export consignments are very thoroughly documented and there should be no difficulty in accessing that data and therefore there is no sound basis not to account for emissions of those animals. The proposed minimum thresholds for live animal exports are not insignificant and MIA strongly objects to any economic incentive for persons to export live animals rather than have them processed in New Zealand. Despite the suggestion in the consultation document, there is currently no legislative or regulatory prohibition on the export of live animals for slaughter.

Emissions Methodologies

Notwithstanding the general objection to a processor-level point of obligation, the Parties do not support the proposed approach to development of emissions factors for livestock products. The Parties' concerns are as follows:

- The proposed **bottom-up approach** to modelling at an individual animal level the emissions that the animal is responsible for is poorly explained and confusing, but also infers a spurious level of science and accuracy and creates a heightened risk of estimated emissions substantially misrepresenting actual emissions.
- The proposed **two-factor approach** (per-head and per-weight) is an understandable attempt to include an efficiency driver in the methodology but will, in our view, not improve emissions efficiency and more likely act counter-productively to increase emissions intensity.

Bottom-up versus top-down approach

The modelling approach outlined in the discussion document is difficult to understand for industry representatives who are as well-versed on agriculture in the ETS as anyone in the sector. We expect that the proposal would be completely incomprehensible for many in our sector.

It is acknowledged that a robust bottom-up modelling approach would be essential to promote behaviour change with a farm-level point of obligation. However, a processor-level point of obligation, coupled with a complex and sometimes arbitrary bottom-up approach will be cumbersome and problematic to implement.

The proposed approach is difficult to understand partly because many of the implicit assumptions and estimations are hidden and not explained or detailed. Factors such as: accounting for the emissions of dead stock and dry stock; estimating the average

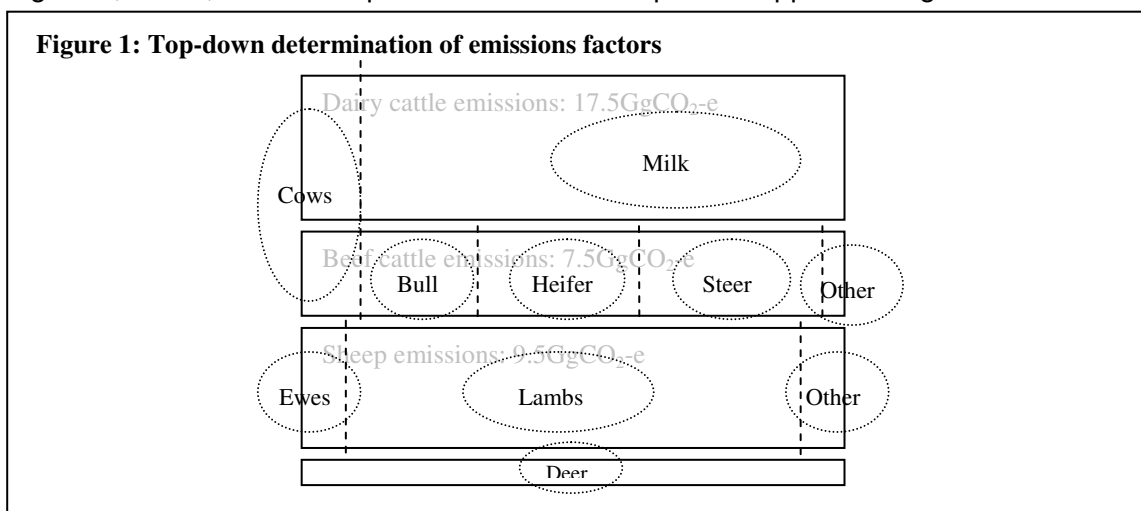
² Please Note: MIA strongly objects to the Act's definition of Meat Processors that are Participants in the ETS and particularly the exemption of non-RMP holders and Retail Butchers. These exempted processors already gain a significant competitive advantage from avoiding a range of costly but important sanitary and other regulatory requirements. Exemption from ETS liability further distorts an already unfair market where fully compliant MIA members compete in the local market against a rapidly growing, unregulated 'home-kill' trade.

age of breeding stock at culling; and the proportion of calves that are reared or slaughtered, are all necessary assumptions but are not visible within the approach described.

Application of a bottom-up modelling approach places a significant amount of pressure on the accuracy of the modelling. Any errors in modelling or assumptions are amplified by the number of animals concerned and present the possibility of the total regulated emissions liability varying significantly from the known (or at least carefully estimated) national emissions volume from livestock. One example of an error that could dramatically overestimate emissions (or at least sheep emissions) through a bottom-up approach is the proposed application of a 100% offspring percentage for both sheep and cattle – this is clearly grossly inequitable and would create a massive and unfair relative disadvantage for sheep relative to cattle (dairy or beef).

In our view, a top-down approach has significant advantages over the proposed approach. In simple terms, a top-down approach would start with the best possible estimate of New Zealand's total livestock emissions in a relevant period (either a historical year or forecast for the year in which participants are reporting), and divide that total amongst the livestock outputs (milk and meat) that are expected to be processed.

Figure 1, below, seeks to represent how such a top-down approach might work.



The total emissions pools (at species and sub-sector level) would be allocated between streams of product outputs, at a high-level and on a long-term basis. The allocation ratio between products should be approximate, and not infer a level of science or accuracy that does not exist. The allocation to different product streams would be determined primarily on the basis of biological drivers of emissions, but with reference to the following principles:

- Pragmatic ability to attach liabilities to a product stream that is easily captured.
- Ensuring emissions liabilities do not fall a long way out of step with economic drivers (particularly – ensuring that emissions liabilities allocated to low value products do not create incentives for undesirable or unproductive behaviour).
- Ensuring that different treatment of different product streams does not create perverse drivers of on-farm practices (for instance by encouraging the slaughter of emissions exempt bobby calves at the expense of growing emissions efficient bull beef)

To observe the principles suggested above, some minor 'tweaks' will be required to allocations, as are envisaged under the current proposal. Required 'tweaks' include:

- Because dairy and beef cows are not routinely distinguished at processing³, then both types of cows need to carry the same emissions factor. The 'cow' emission factor would need to be a compromise between the value ratio of (dairy cow : milk) and the value ratio of (beef cow : prime beef).
- While the Parties have some reservations about using ETS regulation to drive animal welfare compliance, we understand the rationale for applying no emissions value to bobby calves. In effect, this means assuming that bobby calves have a zero economic value at 4 days of age, and therefore allocating zero dairy herd emissions to that zero value output. In order to avoid market distortion, the same assumption would need to be applied to bull calves that are sold for rearing – they would be assumed to have zero economic value and therefore be allocated none of the dairy herd's emissions.
- Because the Act does not allow for an alternate point of obligation for wool, emissions that would logically have been associated with that output would need to be allocated back across sheep for slaughter.
- Similarly to beef and dairy cows, a compromise allocation to 'adult sheep' may be required rather than separate allocations to ewes, rams and wethers.

Once total sub-sector emissions are allocated out to the pools of different livestock outputs, the total amount allocated can be simply divided by the amount of outputs expected in the pool – as discussed in the section below.

Two-factor versus single factor approach

We understand that officials have sought to design a methodology that makes some recognition of factors that may improve the emissions efficiency of livestock production.

It is our strong view, however, that any emissions assessment levelled at processor-level can achieve nothing more than a straight levy on production, which will have no positive impact on the on-farm practices of farmers.

Our expectation is that, if applied with an emissions price, the proposed approach would most likely have no effect on on-farm practices, but if there was any effect, it would be to worsen on-farm emissions performance. This expectation is based on the following:

- The price signal introduced by the differential treatment of heavy and light livestock is likely to be very small in relation to the very clear signals that meat consumers and retailers provide regarding their most desirable carcass size. These market signals, along with constraints on feed availability will be far more important in driving farmer behaviour with regard livestock weights than anything introduced by the ETS.
- The emissions efficiency gain achieved through growing livestock to heavier weights is small – this is due to the tendency of heavier stock to require greater maintenance energy and therefore to emit more – thus reducing the benefits gained by diluting the fixed (gestation and lactation) emissions costs across heavier animals.
- Other on-farm practices are likely to have a much larger impact on emissions efficiency than higher livestock weights. The most obvious of these is the fecundity of breeding stock. The incentivisation of higher livestock weights may act as a disincentive to other, more effective efficiency improvements and therefore encourage increased emissions. If, for instance, triplet and twin lambs tend to grow more slowly and to smaller finished weights than singles, then the proposed approach disincentivises breeding for higher lambing percentage – a much more effective tool in emissions reduction than higher finished weights.

³ MIA would note that while beef and dairy cows are not currently distinguished, officials should not discount the possibility that they could be in the future. Processors would require some time to consider a proposed definition for the different animal types and implement an acceptable classification, but such a distinction is possible.

- Encouraging higher weights in livestock may also drive unproductive outcomes such as increasing weights through higher bone or fat levels. Given that extra fat or bone is effectively not saleable product, then the emissions intensity of lean meat production would actually increase as a result of such measures.

It is the view of the Parties that there should be a single emissions factor per livestock output type. For meat outputs, this single factor should be either per head or per kilo of carcass weight. We expect that a per kilo charge would be most closely correlated to both emissions and economic value.

The Parties recommend that:

- Emissions factors be calculated on a top-down basis, starting with the best estimates of New Zealand's total agricultural emissions, by sub-sector, and allocating those emissions out between different agricultural outputs (primarily) on the basis of the economic value of different outputs.
- Emissions factors be re-calculated on an annual basis, as estimates of New Zealand's total agricultural emissions are updated.
- There be a single emissions factor for each livestock output – on either a per-head or per kilo basis for meat, not both.

Discussion points

The consultation document poses several questions around specific issues that the proposed regulations seek to deal with. Those that are not mentioned above are discussed below.

- Merino wool emissions. MIA considers that emissions relating to all wool, including merino, would be most usefully dealt with by creating a further pool of outputs onto which an appropriate amount of emissions would be allocated. Given that this logical approach is precluded because the Act does not enable points of obligation in the wool sector, then there seems little option but to allocate wool emissions back across sheep slaughtered. MIA members have no means or appetite to identify merino, or any other high-wool-value sheep and therefore cannot propose a solution that addresses the inequity created by not having a wool-specific point of obligation.
- Velvet production emissions. The Parties consider this as a parallel situation to merino wool emissions. Velvet production stages of mixed aged entering the venison production system will need to have their emissions allocated towards venison production as there is no possibility of a velvet-specific point of obligation. As per merino wool, the Parties' clear view is that an alternative point of obligation for velvet should be created in order to avoid inequity between meat focused producers and those that derive significant revenues from alternative value streams.
- The assumed 100% lambing percentage – and its equivalence to the offspring percentage for cattle and deer is completely unacceptable. We do not understand why it has been proposed. This issue becomes irrelevant if the recommended top-down approach is adopted.
- Any concerns about double-counting of dairy emissions are eliminated if the recommended top-down approach is adopted.
- Any concerns regarding the estimation of emissions associated with once-bred-heifers are eliminated if the recommended top-down approach is adopted and emissions are allocated on the basis of value of outputs rather than breeding status of animals.