



Submission

6 September 2023

TO THE

Ministry for the Environment

ON THE

**Deferral of NZ ETS Reporting Obligations for
Animals-Farmer Activities**

BY

**Beef + Lamb New Zealand Limited and
Deer Industry New Zealand Limited**

SUBMISSION ON THE DEFERRAL OF NZ ETS REPORTING OBLIGATIONS FOR ANIMALS-FARMER ACTIVITIES

To the: Ministry for the Environment

Email: AgEmissionsPricing@mfe.govt.nz

Name of Submitter: Beef + Lamb New Zealand Limited (B+LNZ) and Deer Industry New Zealand Limited (DINZ)

Date: 6th September 2023

Address for service:

Name	Position	Phone Number	Email Address
Beef + Lamb New Zealand Limited			
Lucy Evans	Environment Policy Analyst	027 211 2303	Lucy.evans@beeflambnz.com
Dave Harrison	GM Policy and Advocacy	027 248 3510	Dave.harrison@beeflambnz.com
Deer New Zealand Limited			
Sara Elmes	Environmental Stewardship Manager	027 699 5070	Sara.elmes@deernz.org

Executive Summary

Beef + Lamb New Zealand (B+LNZ) and the Deer Industry New Zealand (DINZ) appreciate the opportunity to give feedback on the *Deferral of NZ ETS reporting obligations for animals-farmer activities* consultation.

We support the proposal to defer the reporting obligations of agricultural emissions but are not supportive of the proposed date change of 1 January 2026 unless some pre-conditions are met. Emissions reporting is important, but it is important to get it right, with robust systems that have the confidence of those using them.

Based on our experience in developing and implementing national management programmes – including freshwater farm plans, the proposed timeframe between now and 2026 is too ambitious. We must take the time to get things right to ensure an effective design and implementation. This includes creating a system that will adequately work alongside farmers reporting their own farm data for market-related purposes. It is important for any potential emissions reporting, pricing, and monitoring system to be well-designed, tested, and pragmatic before being implemented to ensure farmers and New Zealand get equitable and efficient results.

The emissions reporting obligations and system are intended to align with the potential emissions pricing system. B+LNZ and DINZ must emphasize that we do not support the mandatory pricing of agricultural emissions as a tool to drive down emissions. We do not accept that the current target for methane reductions of 10% by 2030 is scientifically justified, and regardless of the current target, we do not believe that pricing emissions is the best way to achieve emissions reductions.

We submit that if the government does decide to proceed with the pricing of agricultural emissions, then pricing should be deferred beyond the proposed date of 1 January 2026 and should only be considered when a number of pre-conditions for reporting, monitoring, and pricing can be met.

For reporting these include:

- A monitoring and reporting system that is practical to administer, cost-effective, and of benefit to a farmer's business.
- A system that includes adequate support and resources to ensure efficient and effective use.
- Decision-making that is informed in partnership with the sector.

For pricing these include:

- Strong consideration of the sectors' progress towards emissions reduction targets (the sheep, beef, and deer sector will likely hit the 10% by 2030 target regardless of any pricing mechanism).
- The likelihood and scale of emissions leakage as a result of emissions pricing and alignment with competitors' emissions reductions obligations.
- Full recognition and reward for sequestration taking place on farms.
- The availability of mitigation tools before any emissions pricing is implemented.
- Equity and fairness within the sector and with other sectors is strongly accounted for as part of a just transition.

- Decision-making that is informed in partnership with the sector.
- A full analysis of the financial, social, cultural, and environmental impacts on rural communities and the wider economy.
- Adequate alignment with other obligations and market expectations.

We are deeply concerned about the potential impacts of the Government's proposed agricultural pricing system on extensive sheep, beef, and deer farmers. The implications are that if the Government gets this wrong, we could unjustifiably threaten the viability of our farms which will have significantly damaging long-term implications for rural communities and negative knock-ons for the wider New Zealand economy.

We request that B+LNZ and DINZ have further input into any decisions by Ministers on a preferred farm-level pricing mechanism before the end of the year.

Our context

B+LNZ is an industry-good body funded under the Commodity Levies Act 1990, through a levy paid on all cattle and sheep slaughtered in New Zealand (except bobby calves). B+LNZ represents sheep and beef levy-payers and has the mandate to submit on their behalf on matters that affect them. In all, we represent around 9,000 commercial farming businesses with red-meat interests located across the country. B+LNZ is actively engaged in environmental management, with a particular emphasis on building farmers' capability and capacity to support an ethos of environmental stewardship as part of a vibrant, resilient, and profitable sector based around thriving communities. Protecting and enhancing New Zealand's natural capital and economic opportunities and the ecosystem services they provide is fundamental to the sustainability of the sector and to New Zealand's wellbeing for current and future generations.

DINZ is a levy funded industry-good body established by the Deer Industry New Zealand Regulations (2004) under the Primary Products Marketing Act 1953 to promote and assist the development of the New Zealand deer industry. Its vision statement is 'Enabling our land, our people and our consumers to thrive.' DINZ's levy payers are producers and processors of venison and velvet. There are roughly 1,200 deer farmers and 7 venison processing plants with approximately one million animals on-farms. The deer industry is the youngest pastoral-based industry in New Zealand with the first deer farm license issued in 1970 but provides complementary land use, diversified markets and additional revenue to other pastoral farming industries.

The sheep, beef, and deer sector is essential to maintaining rural communities and their cultural, societal, and environmental wellbeing, as well as contributing to the country's economic wellbeing. For the year ending 31 December 2022 the red meat industry contributed \$11.4 billion to New Zealand's export revenue. This making the sector New Zealand's second largest goods exporter. As New Zealand's largest manufacturing sector, it supports over 92,000 jobs, 35,700 directly and an additional 56,700 indirectly employed.

Just under a third of New Zealand's total land area is used for sheep, beef, and deer (mixed agriculture), comprising about three quarters of pastoral lands. Sheep, beef, and deer farmers manage approximately 2.8 million hectares (ha) of native habitat, including 1.4 million ha of native forest. This is the second largest holding of native forest and native biodiversity in the country and represents almost 25 percent of New Zealand's remaining native vegetation. This places sheep, beef and deer farmers as significant kaitiaki of New Zealand native vegetation.

The sheep, beef, and deer sector understands the importance of keeping temperature rise within prescribed limits as critical to the wellbeing of New Zealand and the world as we currently know it. As stewards of the land and the natural resources, sheep, beef, and deer farmers are at the forefront of the impacts of climate change. Farmers are already seeing those changes on an everyday basis and are continually updating and adapting their management practices and will continue to do so.

Sheep, beef, and deer farmers are playing their part in the actions needed to achieve the Paris Agreement with methane reductions approximately 1% annually since 1990. Most recently as part of our commitments to the He Waka Eke Noa Partnership, we developed a GHG calculator to help farmers understand their on-farm emissions, with over 95 percent of commercial sheep, beef, and deer farmers now knowing their emissions and 55 percent already having a plan to manage them.

Introduction

Beef + Lamb New Zealand (B+LNZ) and the Deer Industry New Zealand (DINZ) appreciate the opportunity to give feedback on the *Deferral of NZ ETS reporting obligations for animals-farmer activities* consultation.

We see the potential value for farmers to have the ability to record and report emissions in a standardised form across the sector for their own data collection and for market-related purposes. An effective and well-designed system that will work for our farmers will require a deferral. The consultation proposes to defer reporting obligations to the 1st of January 2026. We argue that we need to defer to a date that will give adequate time for effective system design and will meet a number of pre-conditions:

- A monitoring and reporting system that is practical to administer, cost-effective, and of benefit to a farmer's business.
- A system that includes adequate education, support, and resources to ensure efficient and effective uptake and use.
- Decision-making that is informed in partnership with the sector.

Although we see the benefits of reporting emissions for our farmers and market expectations, B+LNZ and DINZ must highlight that we do not support the mandatory pricing of emissions as a tool to drive down emissions for the following reasons:

1. We do not accept that the current target for methane reductions of 10% by 2030 is scientifically justified.
2. Regardless of the current target, we do not believe that taxing farmers is the best way to achieve emissions reductions.

We submit that if the government does decide to proceed with the pricing of agricultural emissions, pricing should be deferred beyond the proposed date of 1 January 2026 and should only be considered when a number of preconditions can be met. Many of these were made clear throughout our involvement in the He Waka Eke Noa Partnership. They include but are not limited to:

Any pricing of emissions needs to be justified and aligned with other obligations and market expectations: We do not want agricultural emissions to be priced in isolation from international obligations and market expectations. Reporting and pricing requirements must meet the fair targets and needs of larger processors, banks, and export markets.

We cannot penalise our farmers at the expense of emissions leakages: New Zealand is the first country in the world looking to price emissions from food production and given the significance of our economy's ties to food production and exports we need to remain focused on creating a system that works. We cannot afford to get it wrong, as it would threaten the viability of farm businesses and see less-efficient producers around the world fill the gap in food production, increasing emissions globally. If the Government chooses pricing as a tool, then it needs to be proven to incentivise change and to be a better option than other mechanisms. We believe there are other ways to achieve justified emissions reductions without jeopardising New Zealand's second-largest goods exporter.

The current system infrastructure is not adequate: It is vital we get the overall architecture and structure of the monitoring, reporting, and pricing system right to ensure farmers and New Zealand get equitable and efficient results that in turn progress towards reducing emissions, meeting our emissions reduction targets and without delivering unintended or unnecessary

consequences to our society, economy, and environment. We need to allow enough time to plan, create, test, educate, and implement an effective, efficient, fair, and useful system for farmers. We must take the time to get things right whilst making pragmatic changes such as aligning reporting with the farming calendar.

Working in partnership: The system needs to be built upon working together and understanding the needs of farmers, growers, and our rural communities, processors, exporters, and other relevant stakeholders. We cannot accept a system that does not work in partnership with those that will be most impacted.

Adequate and robust science: We cannot accept a system that is not built upon adequate and robust science which in turn has farmers going beyond what is needed to address their own contribution to warming and being unfairly penalised. Current legislated methane reduction targets are too high and are asking agriculture to do far more than its fair share in reducing warming, and do not recognise the importance of food production relative to other sources of greenhouse gas (GHG) emissions. B+LNZ and DINZ continue to strongly call for a review of the methane targets and their impact on global warming to reflect the most up-to-date scientific understanding of different GHG warming impacts. Appropriate targets, and better measurement of the current and likely trajectory towards targets, impacted by existing government policies, and other factors should be assessed before any pricing is considered. It looks likely that the sheep, beef, and deer sector is likely to achieve reduction targets reinforcing that a pricing/tax system is not justified.

Viable mitigation tools: Food producers cannot be faced with a price on emissions if they have no alternative option to manage their emissions nor if they have not been contributing to significant warming or are already warming neutral. Pricing emissions before viable mitigation options and tools are in place will have a severe negative impact on our farmers. The flow-on impacts of individual farms can lead to a cumulative impact to our society and communities.

Farmers are not being recognised for all on-farm sequestration: There needs to be more work completed into how a potential system fully recognises on-farm sequestration. Sheep, beef, and deer farmers manage approximately 2.8 million hectares of native habitat, including 1.4 million hectares of native forest. This is the second largest holding of native forest and native biodiversity in the country and represents almost 25 percent of New Zealand's remaining native vegetation. Much of this vegetation is not able to be recognised under current settings and farmers must be able to use all of their additional carbon removals to offset their GHG emissions prior to any consideration of emissions pricing.

There is no system in place for transitional support: Not all farm systems are the same nor do they have the same access to potential mitigation technologies and sequestration. We cannot place blanket policies and provisions across our farmers that will have differing impacts to New Zealand's food production and producers. We argue that for those that do not have access to mitigation tools or carbon removal opportunities should have transitional support. Delaying the reporting, monitoring, and pricing timeframes will allow for better development of measures that can offer transitional support.

Question Responses:

1. Do you agree with the proposal to defer obligations for animals–farmer activities from 1 January 2024 to 1 January 2026 under the NZ ETS? If not, what alternative options should be explored? Please explain your answer here.

We support the proposal to defer the reporting obligations of agricultural emissions but are not supportive of the proposed date change of 1 January 2026 unless some pre-conditions are met. Emissions reporting is important, but it is important to get it right, with robust systems that have the confidence of those using them. The date of 1 January 2026 is overly ambitious to establish a practical, cost-effective, sector-wide farm-level measuring and reporting system that is fair and equitable to our farmers within this timeframe.

For the reporting of emissions, we need a system that meets a number of pre-conditions including:

- A monitoring and reporting system that is practical to administer, cost-effective, and of benefit to a farmer's business.
- A system that includes adequate support and resources to ensure efficient and effective use.
- Decision-making that is informed in partnership with the sector.

It is vital we get the overall architecture and structure of the monitoring, and reporting system right to ensure equitable and efficient results that in turn progress towards meeting our emissions reduction targets. The timeframe of requiring emissions reporting by 1 January 2024, or 1 January 2026 does not provide adequate time to plan, create, test, educate, and implement a fair system.

In the consultation document, some key issues are highlighted if the implementation of the proposed system begins on 1 January 2024 including:

- Likely significant difficulties and costs of implementation.
- Insufficient time for farmer support/service businesses to prepare.
- Insufficient time for farmers to prepare for participation and ensure effective compliance.
- Insufficient time for regulators to administer statutory reporting and compliance structures.

Having a reporting system that is rushed and poorly implemented will lead to confusion across the sector, a potentially overly complicated system that has high costs to run and implement, and results that discourage farmers from making beneficial changes to their farming operations.

The architecture of the emissions reporting system was something that was well discussed within the He Waka Eke Noa partnership and can be reviewed in the partnerships submission. Effectively, a simplified version of a farm-level reporting system was proposed starting in 2025, transitioning to a full farm-level system in 2027. Note though that this was before the significant delays in government decision making which has meant that the system planning is still in its early stages.

Emissions reporting should also be aligned with the farming calendar. Most farms within New Zealand have a financial balance date of May 31 (dairy) or June 30 (sheep and beef). The shifting of reporting from a start date of January to a start date of June or July is a pragmatic

solution to create a system that is more efficient for farmers and would be inconsequential in terms of emissions reductions. Additionally, starting on the 1 July would align with IRD reporting requirements for the sector. Thus, this allows for the use of farm accounts to be used.

The emissions reporting obligations and system is intended to align with the potential emissions pricing system. B+LNZ and DINZ must emphasize that we do not support the mandatory pricing of agricultural emissions as a tool to drive down emissions. We do not accept that the current target for methane reductions of 10% by 2030 is scientifically justified, and regardless of the current target, we do not believe that pricing emissions is the best way to achieve emissions reductions.

In addition to a deferral of reporting obligations, we do not support the pricing of agricultural emissions. We submit that if the government does decide to proceed with the pricing of agricultural emissions, pricing should be deferred beyond the proposed date of 1 January 2026 and should only be considered when a number of preconditions can be met. These include:

- A monitoring and reporting system that is practical to administer, cost-effective, and of benefit to a farmer's business.
- Strong consideration of the sectors' progress towards emissions reduction targets (the sheep, beef, and deer sector will likely hit the 10% by 2030 target regardless of any pricing mechanism).
- The likelihood and scale of emissions leakage as a result of emissions pricing and alignment with competitors' emissions reductions obligations.
- Full recognition and reward for sequestration taking place on farms.
- The availability of mitigation tools before any emissions pricing is implemented.
- Equity and fairness within the sector and with other sectors is strongly accounted for as part of a just transition.
- Decision-making is informed by partnership with the sector.
- A full analysis of the financial, social, cultural, and environmental impacts on rural communities and the wider economy.
- Adequate alignment with other obligations and market expectations.

We must not ignore the scale of issues that still need to be addressed prior to emissions pricing implementation including setting reasonable targets, recognising sequestration, and viable mitigation options.

The He Waka Eke Noa partnership has also considered various options including processor-level backstop. Please see the partnership recommendations on this that state that the processor level backstop will not be equitable and will result in a tax, not an incentive.

2. Do you think the deferral will have a significant impact on our path to reducing agricultural emissions? Why? Please explain your answer here.

No, we do not see the deferral having a significant impact on our path to managing (and reducing as required) our agricultural emissions.

Based on a recent B+LNZ analysis of the land use change that has occurred in the sector, we are likely to see a decline of 6.5-13% of methane emissions since 2017 by 2030¹. Comparing this to the He Waka Eke Noa Partnership modelling, an emissions pricing system could contribute about a 5.5% decline by 2030 in methane emissions if they were priced at a low level from 2025. Note that it is likely that further declines will be seen as a result of freshwater policy, in addition to drivers within the NZ ETS. Based on B+LNZ's assessment of the current reductions occurring in emissions reduction we expect the sheep, beef, and deer sector to hit the legislated target, therefore reinforcing that there is no need for the pricing of emissions.

Thus, depending on the interaction with other policy mechanisms, a delay in emissions pricing will not have a significant impact on our ability to meet our emissions reduction targets, and if anything could result in greater reductions at a faster pace than what is needed. As noted earlier in our submission we do not see pricing as a necessary or justified driver of emissions reductions.

The deferral will better allow us to design an emissions reporting and management system that is effective, fair, and efficient. Taking the time needed to design and implement a system that can meet farmers' needs is much more likely to result in the required emissions reductions of agricultural emissions.

A deferral in emissions reporting requirements will give us the much-needed time to design and implement an effective emissions reporting system. Given the diversity of emissions reporting tools on the market and the opportunity that this provides to align systems and processes, officials need to design a regulatory framework that is adaptable and well-aligned to the existing reporting systems in place.

A deferral will also provide the time needed to better integrate, and encourage the uptake of, mitigation options that sheep, beef, and deer farmers need. Currently, the only available mitigation tool is the use of low-methane sheep genetics which at present cannot be delivered at scale. Without the ability to use mitigation tools, a price on emissions will not encourage the desired behaviour change and would just become another cost burden for farming businesses.

¹ B+LNZ modelled rates of afforestation of 25,000- 80,000ha/year from 2025 which displaces 8 stocking units per hectare planted. At 25,000ha afforestation per year, there is a modelled 6.5% decline in sheep, beef, and deer sector methane emissions since 2017 by 2030. At 50,000ha afforestation per year, there is a modelled 8.9% decline in sheep, beef, and deer methane emissions since 2017. Lastly, at 80,000ha afforestation per year, there is a modelled 13% decline in sheep, beef, and deer methane emissions since 2017

3. What impact do you consider there would be on compliance and administrative costs as a result of animals–farmers participating in the NZ ETS? Why? Please explain your answer here.

It is now widely accepted by experts that agriculture entering the NZ ETS and pricing ruminant emissions through the NZ ETS is not the right thing to do so we struggle to understand what this question is trying to achieve.

We do not have the knowledge or details needed to be able to fully answer this question. However, we do know that administration and compliance costs of animal-farmers participation in the NZ ETS would be unjustifiable, and unlikely to be beneficial to a farmer's business, one of the pre-conditions outlined at the start of this submission. Requiring every individual who has farm-animals for the purpose of selling or consumption to become a participant in the NZ ETS would require all individuals who have animals for the purpose of reward or trade to also face reporting and pricing obligations. This would take the total estimated number of participants from 23,000 in the He Waka Eke Noa proposals to close to 100,000 in the NZ ETS farm-level backstop. Given the costs of managing this number of participants (many with limited stock numbers), we do not believe the benefits that would arise from including these sectors at this time would outweigh the costs.

The unreasonably high costs of compliance and administration within the NZ ETS is demonstrated through Te Uru Rakau's experience administrating the forestry elements of the NZ ETS. Although the scheme has just over 2,000 participants, the cost of implementation is close to \$16,900,000. Noting that more than 80% of participants have less than 100ha registered, the cost per participant is \$8,500. Although this system provides substantial incentives to establish new forests, there are significant questions about the relative costs and benefits of its implementation as currently managed.

Compliance and administrative costs must be minimised as part of any emissions reporting system. Given that the system is government mandated, the system development should not be a cost to farmers. Should the Government choose to set up a pricing system – which should be outside the NZ ETS any charges on farmers should be ringfenced for investments that would support emissions reductions without compromising food production.

The past few years have seen an increase in regulations and costs for farmers. For example, increased costs for fencing of stock and requirement for audited freshwater farm plans. These increased burdens have come at the same time as increased interest rates and inflated farm costs.

Conclusion

To reiterate, we support the deferral of the reporting obligations of agricultural emissions but do not see any justification for implementing the pricing of emissions for the sheep, beef, and deer sector. Although we support the deferral to 1st January 2026 we see this timeframe as overly ambitious in creating a system that is well-designed, tested, and pragmatic. In our submission, we have highlighted that a reporting system should only be implemented by the 1st of January 2026 if it meets a number of pre-conditions including:

- A monitoring and reporting system that is practical to administer, cost-effective, and of benefit to a farmer's business.
- A system that includes adequate support and resources to ensure efficient and effective use.
- Decision-making that is informed in partnership with the sector.

We need to ensure that any system we implement is done with the engagement of our farmers, growers, and rural communities, is fair and equitable, and delivers the best results for our society, economy, and the environment.

Despite the consultation not focusing on the pricing of emissions we highlighted the connection between reporting and pricing systems and stated that there is no justification for the pricing of agricultural emissions. This is because we believe that the current targets for methane reductions are not scientifically justified, and taxing farmers is not the best way to achieve emissions reductions. If the Government decides to proceed with pricing we have made it clear that several pre-conditions must be met:

- Strong consideration of the sectors' progress towards emissions reduction targets (the sheep, beef, and deer sector will likely hit the 10% by 2030 target regardless of any pricing mechanism).
- The likelihood and scale of emissions leakage as a result of emissions pricing and alignment with competitors' emissions reductions obligations.
- Full recognition and reward for sequestration taking place on-farms.
- The availability of mitigation tools before any emissions pricing is implemented.
- Equity and fairness within the sector and with other sectors is strongly accounted for as part of a just transition.
- Decision-making informed by partnership with the sector.
- A full analysis of the financial, social, cultural, and environmental impacts for rural communities and the wider economy.
- Any pricing system must adequately align with other obligations and market expectations.

If you have any further questions please do not hesitate to contact us for further information.