Submission to the Ministry for the Environment

Te tātai utu o ngā tukunga ahuwhenua: Pricing agricultural emissions consultation

18 November 2022

Introduction

The Timaru District Council (the Council) thanks the Ministry for the Environment for the opportunity to submit on the *Te tātai utu o ngā tukunga ahuwhenua: Pricing agricultural emissions* consultation.

This submission is made by the Timaru District Council, 2 King George Place, Timaru. The contact person for Council is Nigel Bowen, Mayor of the Timaru District, who can be contacted at Timaru District Council, phone (03) 687 7200 or PO Box 522, Timaru 7940.

The contact person regarding the submission content is Rhys Taylor (Climate Change Advisor), who can be contacted via rhys.taylor@timdc.govt.nz. We wish to speak to this submission if there is an opportunity to do so.

Climate change and agricultural emissions in Timaru District

The Timaru District Council is a local authority in the South Island serving over 48,000 people in South Canterbury. The main settlement is Timaru, with other smaller settlements of Geraldine, Pleasant Point and Temuka.

Our District is already experiencing the effects of a warming climate, from coastal erosion to weather events affecting crops and livestock. Council has made a clear commitment to addressing climate change by educating the public and actively planning for adaptation and mitigation. Most notably, Council is currently developing a Climate Change Strategy, in part informed by a citizens-based Advisory Group. Venture Timaru (the economic arm of Council) is leading a national "Sustainable is Attainable" effort to decarbonise food processing and manufacturing.

Agriculture is the largest source of methane and nitrous dioxide emissions for Canterbury. By proportion, agriculture contributes more to Canterbury's overall emissions than it does for New Zealand as a whole (69% v 54% in 2021). This is at least partially accounted for by Canterbury having a larger agricultural sector (the sector) than the New Zealand average. Timaru District specific emission statistics are not available.

Our District is home to one of the largest and most diverse range of food production and processing in New Zealand. From three dairy factories to frozen foods processing, arable farming to the second largest carrot juice factory in the world, businesses are drawn to our District due to its central location, access to suppliers and infrastructure, and high quality natural resources.

General comments

Climate change is the greatest challenge of our times, and, alarmingly, the world is on track to miss the 1.5 degrees Celsius target identified in the 2015 Paris Agreement as necessary to avoid significant climate impacts. Missing this target will have significant impacts on all communities. More must be done to reduce climate emissions. We acknowledge that all people and sectors – including the agricultural sector – in New Zealand have a role to play in the transition to a lower-carbon economy, and all must share the cost. The issue we must then consider is how to best make that transition, and how to share the costs equitably without a punitive effect on our agricultural sector.

This is why Council welcomes the government taking action on the issue of climate change, is supportive of the purpose of this proposal, and appreciates the wide-ranging discussions that have been held via the He Waka Eka Noa working group and other means. However, Council has significant reservations about the effectiveness and equity of some of the mechanisms this proposal would use to achieve this purpose.

Summary of changes sought

- Amend the proposal to be more closely aligned with He Waka Eka Noa's recommendations (published 31 May 2022), particularly with regards to pricing and sequestration
- Review land-use and land-conversion policies in order to incentivise the retention of productive land for productive use, and reduce the trend towards a proliferation of conifer plantations
- Intensify research into and use of alternative measures to reduce and offset carbon emissions in other sectors of the economy, such as energy generation and food processing
- Reconsider the management of this reform so as to foster a positive relationship with the agricultural sector and rural communities

Pricing

Council supports a split-gas levy approach. Prices should be set at a level that incentivises the sector to reduce and offset emissions, but which keeps their businesses viable and profitable.

We therefore recommend that the pricing take an incremental approach so that transitions can be managed, the effects understood and unintended consequences minimised. This proposal runs the risk of creating a negative net effect – economically and environmentally – if the price is set too high initially.

The price should be set every three years to allow the sector to have greater certainty for their own pricing structures. There should be a mechanism for an emergency reduction (outside of the three yearly revision) to the price if the effect on the sector is greater than anticipated.

Council does not believe that the Climate Change Commission is the appropriate agency to solely advise government on the price, as it does not properly represent the various parties affected by the decision or have an adequate holistic understanding of the pressures faced by the agricultural sector. Therefore, we argue that the price should be set by government after receiving joint advice from the cross-sector body (as per He Waka Eka Noa's recommendation) and the Climate Change Commission.

Finally, a split-gas levy at the farm level is preferable compared to bringing the agricultural sector into the Emissions Trading Scheme (ETS). The ETS is a very blunt tool and has its own flaws. In this instance, because it cannot consider a wide range of factors such as varying international climate change policies and their effect on the sector's international competitiveness, the ETS would not be appropriate for a sector of this size and national importance.

Effect on rural economy and communities

Council is concerned at the impact the current proposal is forecast to have on the sector and, by extension, on rural communities. By the government's own modelling, sheep and beef production is forecast to contract by 20%. If such a significant contraction is deemed acceptable by the government, what level of contraction does it deem unacceptable?

The agricultural sector is a major contributor to New Zealand's economy, sustaining 92,000 FTE jobs nationally (5% of total employment), and – in 2019 – providing 40% of our national export revenue. This economic vibrancy flows through the economy and touches every Kiwi regardless of where they live by, for example, sustaining imports or providing taxes for schools, roads and hospitals. A decrease in the vibrancy of the sector decreases our national ability to afford what we need to sustain and improve public services, infrastructure and our general lifestyle. The wide ranging impacts of the proposal makes Council concerned that government is not adequately considering its broader implications and potential unintended consequences.

Within the District, primary industries directly comprise 12.6% of GDP as of 2021, more than double the national average. The District's economy has diversified over time, but agriculture remains its backbone and economic champion.

An economic contraction in the sector will have flow on effects for ancillary industries within the District – such as processing plants and PrimePort servicing the central South Island – and rural communities. For instance, 20% of the workforce is employed on farm or in support services. Of these, 5.2% of the District's workforce is employed in meat processing and another 1.3% in other agricultural and fishing support services.

The cumulative effect of this proposal and other reforms risks eroding the viability of rural communities. It is highly likely that decreasing job opportunities in the sector will reduce rural populations, increase the rural-urban economic and social divide, reduce opportunities for all age groups in rural communities, and exacerbate the issues with the current local government funding model. The proposal states that support will be provided to communities affected by the scheme, but greater detail about this is needed before we could have a view as to whether this is sufficient.

The corollary of this proposal being "world-leading" is that our sector will face emission taxes that their international competitors will not. It is unfair to ask the farming industry to compete internationally with significantly stronger headwinds than their rivals, particularly given New Zealand's agricultural heritage and reliance on agriculture for our economic wellbeing. The vast majority of international competition is on price. This is why Council agrees with He Waka Eka Noa's proposal that the set price takes into account factors such as international competitiveness.

We acknowledge that the sector's international competitiveness may receive some value-added benefit from a more sustainable brand. However, these benefits are as yet unquantifiable – even in the government's Regulatory Impact Statement – and thus we do not consider it reasonable to rely in any meaningful way on these hypothetical opportunities at present.

As an export-led economy with a persistently negative balance of trade, protecting such a significant national sector that allows New Zealand to "pay its way in the world" should be of paramount importance to the government.

It is not necessarily advantageous to the environment for New Zealand to be "poorer but cleaner". Wealthier countries – all other things being equal – have a greater ability to address climate change via increased investment in mitigation, adaptation and technology.

To reiterate, Council believes that the sector must contribute towards the cost of its emissions, but the impact as modelled clearly indicates that the proposal is going too far, too fast, and is far too likely to create to an overall negative net result.

Sequestration

Sequestration is an important mechanism to offset emissions and, vitally, recognise the large contributions that the sector makes to addressing climate change.

Council accepts that sequestration systems are administratively difficult to implement, measure and maintain, and that, therefore, careful consideration needs to be given to what is included or excluded. We note that the use of artificial intelligence and satellite imagery should improve this situation, over time.

Whilst the offsetting effects of smaller plantations (such as smaller shelter belts) cannot yet be definitively determined, they can be estimated with a degree of accuracy and do make an undeniable contribution to offsetting emissions. The sector should be given the benefit of the doubt in this regard with a broader definition of sequestration, and therefore Council asks the government to consider how to more closely align with He Waka Eka Noa's recommendations in this area.

Further, we understand that the science is improving to the point that the offset effects of these smaller areas can be effectively calculated, and that it is likely that the definition will continue to expand into the future. The government's willingness to expand the definition of sequestration over time is appreciated. We encourage the government to provide a clear signal about how the definition of sequestration at a smaller scale will be modified into the future, to allow the sector to plan ahead.

Finally, we believe that farm-level sequestration offsets should be calculated annually to reflect changing mitigation efforts.

Proliferation of forestry

Council is deeply concerned that the current proposal further incentivises the conversion of productive land into forestry as higher costs drive farmers to sell. Whilst some land may be converted to productive horticulture, it is likely, due to recent trends and current market conditions, that the significant majority would be purchased by offshore corporates and converted to conifer forests for carbon credits. Between 2017 – 2020, 92,000 hectares were wholly converted to forestry nationally, comprising 70% of farm sales.

Council has grave concerns that a failure to address this conversion of productive land use to forestry will have long term and largely irreversible deleterious effects for all of New Zealand, culturally, socially, environmentally and economically.

Incentivising additional sequestration may seem beneficial. However it poses a significant risk to our national biodiversity and, in the long run, is economically detrimental. In regards to biodiversity, conifers (such as pines) acidify the soil, take a significant amount of water from the soil to the detriment of other species, and, if not properly maintained, create a large fire risk. Economically, conifer forestry reduces local employment as it requires far less intensive labour and only creates a one-off economic benefit when harvested.

Further, there is the potential for the land conversion to have unintended consequences and hamper climate change efforts. If forestry conversion continues at pace, the price of carbon in the ETS will decrease or be lower than it otherwise would be, reducing the price incentives for polluting industries elsewhere to decrease their own emissions.

There is a close relationship between the price that is set and the likelihood of land being converted to forestry. The price should not be set at a point that the outcome is an almost inevitable conversion, especially on marginal farming land. The government should hedge against the deleterious effects of conifer plantations by incentivising native and hardwood forestry in its place. To be clear, Council's view is that conversion from productive land to forestry should not be encouraged but that, if and when it occurs, it should be converted to native and hardwood forestry so that negative effects are minimised.

Council strongly recommends that the government review its broader land-use and land-conversion policies in order to retain productive land for productive uses. In doing so, the government should intensify its consideration of and investment in alternative measures to reduce and offset carbon emissions, such as solar farms and wind turbines, building insulation and public transport. This will help meet our national emission targets, thus reducing the emissions price that the sector needs to pay to achieve the same environmental result.

Goodwill and support paramount

Council notes the vital role that the agricultural sector plays in the national life of New Zealand – economically, socially, culturally and environmentally. A vibrant sector is good for all New Zealand.

With respect to climate change, farmers are part of the solution to the problem, and not the problem itself. The work-ethic, innovation and can-do attitude of New Zealand farmers are well regarded internationally. Further, our current farming practices are amongst the most efficient and sustainable in the world. Whilst the research regarding "leakage" is disputed, this is another reason why the government should take an incremental approach to avoid negative unintended consequences.

With effective legislation and a positive relationship between all parties, the sector can be leveraged to help meet the challenge of climate change. Unfortunately, the current proposal represents a missed opportunity. Government needs to get "alongside" the sector to help create sector champions, support transition and provide guidance. Several meaningful steps that could be taken would be making technological transitions to less-polluting farming methods cost-neutral to farmers, and supporting independent farm advisors to reduce the sector's dependence on expensive consultants. Regardless, the focus must be on supporting the sector, rather than simply creating a price incentive and – to be frank – hoping that farmers will have the capacity and ability to respond in the way the government intends.

Council is cognisant that the government risks losing the goodwill of the sector and wider rural community. The key risk here is that these groups stop trusting and engaging with the government, irrespective of the merits of any proposals.

The breakdown in goodwill is due to, mainly, how reforms are being managed and communicated. It appears that change is being dictated to, rather than occurring in genuine partnership with, the sector and rural communities. In this particular instance, the proposal's dismissal of key aspects of He Waka Eka Noa's recommendations has contributed to a noticeable loss of goodwill.

Council recommends that the government urgently consider its management of this reform, lest its objectives be undermined by an eroding relationship with the sector. Specifically, for this proposal, reverting to a closer alignment with He Waka Eka Noa’s recommendations would be an important first step.

Conclusion

Council agrees with the purpose of the proposal, and strongly encourages the government to align more closely with He Waka Eka Noa’s recommendations, particularly regarding price setting and sequestration. The current proposal risks significant unintended consequences and – economically and environmentally – a negative net effect. Further, the government needs to more closely support and “get alongside” the sector if it is to achieve positive outcomes.

In Council’s view, the combined changes that we have outlined in this submission provide the best chance of creating a balanced and equitable emissions pricing scheme that achieves positive environmental outcomes while concurrently fostering better relations with the sector and protecting its economic viability for the benefit of all New Zealanders.

Thank you again for the opportunity to submit on this proposal. Please do not hesitate to contact us via rhys.taylor@timdc.govt.nz if you have any questions or wish to discuss aspects further.

Ngā mihi

Nigel Bowen

Mayor