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Agricultural emissions pricing consultation,  
Ministry for the Environment,  
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## Subject: Pricing Agriculture Emissions

This submission is from:

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The Bioenergy Association is pleased that the Government supports a farm-level emissions pricing system as the best approach to incentivise farmers and growers to reduce agricultural emissions. It is also pleased with the funding allocated in May 2022 to start assisting farmers to achieve mitigation. However much of this good work will not achieve its potential, and at the speed required to address climate change with the proposals for:

- Incentives
- Reward for mitigation greater than liabilities
- Lack of full recognition of sequestration of no-NZETS vegetation
- A lack of recognition of mitigation from reduction in use of fossil fuels from sale of biomass residues from the farm.

Further work should be done in these areas to improve the proposed pricing system.

**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.

### **The proposals are supported in principle but details require modification**

The proposals are supported in principle but some of the details of Government proposed farm-level levy system will reduce the ability of farmers to make optimal land use decisions and result in reduced emissions reduction.

A principle that gets confused in the wording is whether the government is proposing a net or a gross emissions reduction system. In other words – if you can mitigate your emissions by reduction or offsets to the extent that you have net zero emissions then you will not have to pay a levy on your gross emissions. If this is the case then anyone having a net reduction in emissions, for example offsets and reduction are greater

than emissions from animals then the farm should get a tradable credit which could come from the levy fund.

There are a lot of mitigation initiatives which farms can do with regards to the use of bioenergy and biofuels tools. For example the sale from the farm of crop residues, tree harvest residues or supplementary feedstocks can be used to produce renewable biofuels which can be used to offset the use of fossil fuels. These don't appear to be encouraged by what is proposed yet could be included if there was a will to include them. The impression is that many opportunities for emissions mitigation are excluded on the excuse that they are too hard. It is accepted that a number of mitigation opportunities may not be ready by 2025 but provision should be allowed to encourage their addition at a later date.

The proposed pricing system is imbalanced between liabilities and mitigation. All liabilities are included but all mitigation is not included. The calculation should assess all liabilities and all mitigation that occurred in that year. The fact that mitigation may be derived from vegetation that was planted pre 2008 is irrelevant. Also, the extensive exclusion of many sequestration sources such as small woodlots, shelterbelts etc is an encouragement for farmers to not adopt good land use practices. In the interim default values can be used so that at least all mitigation is recognised.

The lack of recognition of all mitigation will lead to a degradation of soil management and is counter to many other Government policies. With the current exclusions the adverse environmental effects of this policy could be greater than the benefits because it encourages poor land use decision making.

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

**No**

A quota approach takes away a major strength of the proposed scheme in that it isolates methane produced from many mitigation opportunities. E.g. animal effluent from dairy can be used to produce energy and biofertiliser. The pricing scheme should be based on a calculation of all farm liabilities and all mitigation and if there more liabilities than mitigation then a levy is paid. If there is more mitigation, then the farm should receive a tradable credit. This is how all other business works so why should a farm which is a business be different.

**Question 3:** Which option do you prefer for pricing agricultural emissions by 2025 and why?

**Option a.**

**a.** A farm-level levy system including fertiliser?

The scheme should be inclusive of all emission and mitigation actions available to farmers so that they can optimise animal and land management decisions. For example, farmers who have dairy sheds or stand-off pads and can collect animal excrement have an ability to recycle the organic matter to produce energy and biofertiliser via anaerobic digestion. The biofertiliser can be used to offset use of synthetic fertiliser, with a resulting reduction in emissions. The alternative of uncontrolled discharge of animal excrement results in lower grade fertilising and no management of where it is spread.

The decision making on fertiliser sourcing and application can be put directly into the hands of the farmers when sourcing can be from their own farm activities.

**b.** A farm-level levy system and fertiliser in the New Zealand Emissions Trading Scheme (NZ ETS)

Putting fertiliser into the NZETS takes away from farmers a powerful tool for soil management and emissions reduction. The pricing scheme should be incentivising farmers, not disincentivising them.

**c.** A processor-level NZ ETS?

This is the worst of all possible options as it removed any incentive for farmers to reduce emissions, as they are separate from the actions. This also just becomes a tax on farmers for no benefit.

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

**Yes**

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

**Yes**

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

**Yes**

However, it is not crystal clear that all levy will be used only within the scheme. There has been suggestions that surplus funds may be used in other sector and worse still, used to purchase offshore emission credits. All levies should be used within the scheme (including administration)

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

**No**

The proposed incentive suggestion are arbitrary and open to poor use. Any surplus of mitigation over liabilities should be paid to the creator in the form of tradable credits. That provides a financial incentive for those who can reduce the most emissions to be rewarded directly. That would be a powerful incentive. The agriculture credits could be traded or converted into NZUs.

**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?

Yes but it should include all vegetation.

Including riparian plantings and indigenous vegetation should be recognised as a valid mitigation tool and that would provide good incentives for farms to have wise land use practices. The Pricing system should not be considered in a silo away from other government policies such as land use and avoidance of use of fossil fuels.

**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?

## No

It would be preferable to start with what can be developed by 2025, and then expanded with experience. That will put the pressure on development of the farm level scheme. A processor level scheme is a copout for poor policy development, and it is better that the resources working on the backstop scheme are focused on the scheme which is required.

**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?

### No

There are so many historical distortions in what is proposed it is far from equitable. It fails to recognise the large amount of mitigation that many farms have already been doing. It counts all the liabilities but only a few of the mitigation opportunities.

It is also inequitable with other business where all their annual liabilities are stacked up against their mitigation and if they have surplus mitigation, they can obtain tradable credits.

**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

Shortfall should not be paid for by the sector as that penalises good performing farms. Any shortfall levy should be paid by those farms who have nett emissions. Farms which have a nett reduction in emissions should be able to get credits for their reductions.

The levy should be used for programmes to assist all the sector get to nett zero emissions. Ideally the aim should be that there is zero net emissions in which case there is no need for further assistance.

A strength of a farm-based system and an annual calculation of all farm liabilities and mitigation is that it incentivises farmers to make good decisions to reduce their liabilities.

**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?

It will encourage good farmers to do more of what they are already doing and provide incentives for other farmers to start doing the same. The strength is that it puts the decision making on what mitigation to do in the hands of the farmers who can do what is best for their soil management and their business.

**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?

Many farmers regardless of whether Maori or not will need assistance and the agriculture advisory services should be providing specific attention to assisting them. Some policies such as the recognition of collectives will be a significant help but the devil will be in the detail and attention should be provided here.

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

### Yes

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

**Yes**

The proposed pricing system fails to provide recognition for farmers who sell biomass (tree harvest residues, agriculture crop residues) from their farm because removing trees will be a liability.

Analysis by the Bioenergy Association indicates that there could be around 23 PJ of biofuels sourced from farms to reduce the use of fossil fuels. This is equivalent to a third of the low-grade logs currently exported. The removal and sale of crop residues can be a significant feedstock for the replacement of natural gas.

The liability created by removal and use of biomass grown on a farm would be a significant barrier to growth of a bioeconomy. This would be a major disincentive for farmers to use all types of vegetation for optimal soil management.

Regards



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