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Guardians of New Zealand Superannuation Response to:

Action on agricultural emissions: A discussion document on proposals to address greenhouse gas emissions from agriculture

Thank you for the opportunity to provide feedback on the Ministry for the Environment's discussion document on action on agricultural emissions.

Guardians of New Zealand Superannuation is a Crown entity that manages and invests the New Zealand Superannuation Fund to help pay for the increased cost of universal superannuation entitlements in the future. As at 31 March 2019, the Fund totalled \$41.6 billion of which approximately \$6 billion is invested domestically, including investments in New Zealand's primary sector. Further information with respect to our approach to investing in New Zealand is available [here](#).

We welcome the consensus building between Government, political parties and farmer organisations, and congratulate the Interim Climate Change Committee (ICCC) for its vital and independent work and reports on the New Zealand agriculture sector.

The New Zealand Super Fund's long-term horizon and purpose requires prudent long-term investment decisions. It is important that the risks and opportunities stemming from climate change are factored into our investment strategies and ownership practices. The goal of our [climate change strategy](#), which we announced in October 2016, is to make the Fund more resilient to climate-related risk. We believe it will improve our portfolio.

The New Zealand Super Fund is a major investor in New Zealand primary sector through its agricultural assets (primarily dairy farms) horticulture and forestry (NZD2.5 billion). The physical impacts of climate change, if left unchecked, will have far-reaching and unpredictable impacts on our rural assets and communities.

We believe the New Zealand agricultural sector must reduce its emissions profile materially to retain its licence to operate, protect its brand and maintain market access over the long term, or face losing market share to other producers or to substitute products. The pace of change on farm needs to increase significantly to reduce emissions. Delaying action will, we believe, be more costly in the long term, as the adjustment needed to meet targets will then be more severe.

A 95% free allocation, where calculations currently suggest a \$0.01 cost per kg milk, will not incentivise action. More work should be done on what allocation factor will generate an appropriately active response at farm-level. Bringing farmers into the Emissions Trading Scheme (ETS) is the best way to establish the ground rules to enable better long-term business decisions. The new Climate Change Commission (CCC) and Government should progress further work to test with farmers the best means to administer entry into the ETS at farm-level. This may include a deeper understanding of the farmer's cost and ability to directly trade units, pros and cons of a separate levy-rebate process linked to the ETS, or optionality for farmers to choose which approach best suits them.

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Our responses to the discussion document's questions are set out in the table below.

<p>1. What is the best way to incentivise farmers to reduce on-farm emission?</p>
<ul style="list-style-type: none"> • Farmers are very sensitive to cost and hence a charging mechanism that is easily related to metrics that they run their business on, i.e. \$/Kg milk solids for dairy, \$//kg of carcass weight for non-dairy animals, are considered most relatable and hence effective. • A charge on a unit of production will generally be more effective in highlighting the cost of emissions at a farmer level. • The issue will be for a system to be designed in such a way that those with more efficient conversion systems per unit of greenhouse gas emitted will be rewarded compared to the average. • The system should be flexible enough to reward a range of emissions reduction measures. • It should incentivise reduction of the key types of agricultural greenhouse gas emissions.
<p>2. Do the pros of pricing emissions at farm level outweigh the cons, compared with processor level, for (a) livestock and (b) fertiliser? Why or why not</p>
<p>The key with any system is to ensure the signal provided by the charge is visible to farmers to drive behavioural/system change.</p> <ul style="list-style-type: none"> • a) Livestock: <ul style="list-style-type: none"> ○ Any system for livestock emissions (based for example on kgs weight / kgs of milk) should evolve to one that is calculated and charged at a farm level. ○ There are a number of factors to consider before anything other than a charge based on the average across all producers can be derived. ○ However a period of max 5 years should be allowed for a farm level reporting system to be developed and implemented. ○ As for with fertiliser, it is important in terms of driving behaviour that the value of emissions charges are shown transparently. ○ A farm-level pricing system will be able to reward lower-emissions farmers. ○ The IPCC reports a high confidence in emissions efficiency measures farmers can adopt now and a medium-high confidence in new measures such as methane inhibitors in feed, farmers will be able to differentiate themselves according to their emissions profile. ○ Farm-level pricing for livestock emissions is more likely to incentivise innovation. • b) Fertiliser <ul style="list-style-type: none"> ○ Given the current inability to offset fertiliser emissions there doesn't seem to be a clear benefit in pricing at a farm level. ○ The efficiency of charging at the fertiliser processor level is high. ○ Any emissions charge attached to a unit of fertiliser should be identified as such (similar to a surcharge or GST) on invoices to farmers so it is clear the component of price that is related to the emissions charge and how this may change over time. ○ Such transparency will provide a signal to farmers that want to improve efficiency i.e. units of production per unit of fertiliser emission. ○ It is easy to measure nitrogen fertiliser purchases and use. ○ Farmers using Overseer will be better equipped to reduce nitrogen fertiliser use. ○ Lower-intensity organic farming could benefit as use of processed nitrogen fertiliser application is lower.
<p>c) What are the key building blocks for a workable and effective scheme that prices emissions at farm level.</p>
<ul style="list-style-type: none"> • Efficient systems/tools to collect and report on data relative to the likely emissions charges being sought. • Sufficiently sophisticated to allow for calculations to be made at a farm level based on such things as animal conversion efficiency (breed), type of feed inputs, management system (i.e. barn vs open air), production volume, and location. • Allows for credit for offsetting activities where proven and auditable.

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<ul style="list-style-type: none"> • Allow for farmers that want to operate on an average to do so, this might be important for smaller and less sophisticated farmers. • Something similar to the forestry ETS scheme with standardised tables that can be adopted, with the ability to divert from those if the farmer can prove it can be justified. • The funding raised from ETS contributions can be used to support uptake amongst farmers of nutrient budgeting and emissions footprinting systems and Farm Environment Plans.
<p>d) What should Government be taking into consideration when choosing between Option 1: pricing emissions at the processor level through the NZ ETS and Option 2: a formal sector-government agreement.</p>
<ul style="list-style-type: none"> • Complexity and cost of collection • That appropriate clear signals are being provided to enable farmers to identify the economics of modifying behaviours • Farmers are able to benefit directly where practices they adopt reduce the emissions profile relative to the average. • Assess how costs are ultimately distributed between farmers, processors and consumers. • Consideration that farmers might convert farming to other land use (horticulture etc). This may or may not have other positive or negative flow on impacts to the NZ economy. • Urgency for action to be taken • Consistency with other business sectors • ICCC recommendations to adopt processor level ETS option whilst best options for farm-level pricing explored e.g. levy tied to ETS.
<p>e) As an interim measure, which would be best, Option 1: pricing emissions at the processor level through the NZETS with recycling funds raised back to the sector to incentivise emissions reduction or Option 2: a formal sector-government agreement? Why?</p>
<ul style="list-style-type: none"> • Option 1 - if funds are earmarked to be recycled to drive research into reducing emissions profiles via science, management practice, alternative land use etc. We believe the pace of change and buy in will be greater than under a sector government agreement which may be subject to political cycles. Funds should be used to support, in particular, small family-owned farms to increase emissions efficiency and adopt Farm Environment Plans and associated support tools for data gathering and reporting (one stop shop type of concept where all farm related information can be reported on).
<p>f) What additional steps should we be taking to protect relevant Iwi/Maori interests, in line with the Treaty of Waitangi</p>
<ul style="list-style-type: none"> • It is imperative to appropriately recognise the obligations of the Treaty and subsequent rulings. • Fully understand the implications of any measures proposed to ensure that Maori landowning entities across the spectrum (corporations to family owned) so that any unduly unfair outcomes relative to the Treaty are mitigated. • Ensuring that any measures do not adversely affect Maori from being able to develop their land to higher and better use.
<p>g) What barriers or opportunities are there across the broader agriculture sector for reducing agricultural emission's? What could the Government investigate further?</p>
<ul style="list-style-type: none"> • Barriers: <ul style="list-style-type: none"> ○ The available science to identify and measure mitigation options ○ Strong lobbying groups within the agricultural sector against the proposal ○ Significant numbers of voters in the agricultural sector ○ Large number of small family owned farms many of which may not be sufficiently well resourced to undertake upskilling or invest in the areas of understanding the issues, gathering data and improving their operations. ○ Relatively high debt levels in some farming operations making additional charges and compliance costs seem daunting ○ Some reluctance among many to a) accept climate change might be happening b) NZ can make any difference given how small we are on the word scale c) that other

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<p>global producers have higher emissions profiles than NZ so pushing production to somewhere else is actually a net negative for the world.</p> <ul style="list-style-type: none"> ○ Limited understanding of the risk of non-action – whether this is driven by regulators in our overseas markets or by consumer preferences – not doing something to reduce agricultural emissions represents a significant risk for the economy in terms of acceptance of our products in our major markets ○ Reluctance to consider non-dairy land uses as being viable alternatives, <ul style="list-style-type: none"> ▪ Narrow view or trust in alternatives, history of success in dairy, skill set, finances to consider anything else, ▪ Debt incurred, for example conversion to dairy ○ The effort farmers make to reduce agricultural emissions on farm for milk products is undermined by use of coal for process heat at the milk factory – this coal use should be phased out with urgency. <ul style="list-style-type: none"> ● Opportunities <ul style="list-style-type: none"> ○ Assistance with identifying possibilities for improvements ○ Identifying options for alternative land use considering labour, financial returns etc. ○ New Zealand land owners have shown innovation and flexibility in the past – venison, kiwifruit, cattle to dairy – and can draw on this experience. ○ Support of schemes to de-risk water availability but only when used for land use change to lower emissions intensity operations. ○ Accounting for on-farm carbon sinks in on-farm emissions – such as riparian planting or hill-country planting – would be beneficial for carbon emissions reduction, water protection and erosion control. ○ Recycle funding into NZ brand and research and assurance to promote a higher value product. This includes NZ attributes such as lower intensity grass-fed systems, free range animals, GMO-free, organic, and in the future lower carbon, meat and milk. In this respect, NZ’s renewable energy electricity profile used in the milking shed is a potential brand bonus.
<p>h) What impacts do you foresee as a result of the Government’s proposals in the short and the long term.</p>
<ul style="list-style-type: none"> ● The proposal (95% free allocation) is too generous and will not likely change any on farm behaviour to any degree. The calculations suggest \$0.01 per kg milk solids on a dairy farm which is very low when compared to cost structures of say \$4.00 - \$5.50. ● To get short term change and some urgency the free allocation should reduce significantly over the next 10 years. ● In the long term the recycled funds if directed appropriately will add to our understanding and tools to reduce emissions whilst still having a thriving agricultural sector.
<p>i) Do you have any other comments on the Government’s proposals for addressing agricultural emissions</p>
<ul style="list-style-type: none"> ● This needs cross-partisan political support ● It is long over-due to bring the agricultural sector in to the arena ● In many cases moving some farms away from being animal-based to more horticultural-based will benefit NZ balance of payments, employment and environment. ● Cross-party support is important to lower the political risk in decision making for farmers, (and their banks, investors, and suppliers), to fund farm enhancements, or land-use changes. ● In particular, land conversion to dairy will come under the spotlight and needs to be properly priced for the long-term.
<p>Supplementary Questions:</p>
<p>A. Do you agree that the method for free allocation of emission units at processor level should be output based? Why or why not? Yes – see answer to Q1.</p>
<p>B. Do you agree that free allocation of emission units should be provided at the same time emissions obligations are due? Why or why not?</p>

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<p>Yes – we agree with this proposal in order to reduce volatility in the unit price, particularly for small farmers.</p>
<p>C. Do you agree with the ICCC that allocation factors should be updated in line with business-as-usual improvements in emissions intensity? Why or why not?</p> <ul style="list-style-type: none"> We agree, up-to-a point. Firstly, the free allocation should start at a level that will incentivise farmers to implement practices that can be taken reasonably quickly, prepare for the decline in allocation and for an increase in carbon pricing. Leakage should be addressed in the allocation factor, but this should also account for practical actions that are ahead of the game i.e. not (yet) business-as-usual. Finally the allocation factor decline should be sufficient to incentivise transition to lower emissions to meet targets (see response to Q 8.).
<p>D. Do you agree the process for making decisions on any phase down of free allocation of emission units should be set in legislation and informed by the Climate Change Commission? Why or why not?</p> <ul style="list-style-type: none"> Phase down of free allocation should be set in legislation and the CCC's role clearly defined in legislation. "Informed" implies an optional response which softens the CCCs leverage. Business and society will have trust in the independence of the ICCC and will be less inclined to lobby along political party lines if the ICCC has a strong role. However, decisions do need flexibility to take into account wider issues not considered within the scope of the ICCC's mandate or work, hence the need to have this as a whole of government policy initiative.

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Contacts:

Catherine Etheredge, Head of Communications, NZ Super Fund – cetheredge@nzsuperfund.co.nz

Neil Woods, Portfolio Manager, Direct Investments, NZ Super Fund – nwoods@nzsuperfund.co.nz