

SUBMISSION TO
THE MINISTRY FOR THE ENVIRONMENT
AND MINISTRY FOR PRIMARY INDUSTRIES

on

Pricing agricultural emissions

Deer Industry New Zealand



18 November 2022

Key contact for this submission:

Innes Moffat
Chief Executive
Deer Industry NZ
innes.moffat@deernz.org
021 465 121

1. Introduction

- 1.1 Deer Industry New Zealand (DINZ) welcomes the opportunity to make a submission to The Ministry for the Environment (MfE) and Ministry for Primary Industries (MPI) in response to the consultation document *"Pricing agricultural emissions"*.
- 1.2 DINZ has been a partner in the He Waka Eke Noa process and aligns itself to the He Waka Eke Noa submission on the government consultation document *"Pricing agricultural emissions"*. The He Waka Eke Noa submission represents a finely balanced package of recommendations that seeks to preserve equity across the sector while supporting effectiveness. DINZ support is contingent on the full package of He Waka Eke Noa recommendations being accepted. If elements are not accepted, then DINZ will need to reconsider its position. DINZ supported the He Waka Eke Noa recommendations presented to government in May but noted at that time concerns about the impact of greenhouse gas pricing on properties without mitigations or sequestration.
- 1.3 As noted in the He Waka Eke Noa submission government proposals have shifted the overall balance of the pricing system and as a result do not offer any assurance that emissions pricing will not threaten the viability of the New Zealand deer sector. The government proposals are not acceptable to DINZ or the farmers we represent.
- 1.4 The deer industry shares concerns with all the other pastoral-based industry bodies but has particular affinity with the sheep and beef industry as:
 - i. Deer farms tend to be multi-species operations.
 - ii. Products derived from deer farms are similar (venison alongside beef and lamb, annual velvet harvesting alongside wool).
 - iii. Deer farms occupy the same land classes, run similar production systems (breeding, venison finishing/velvet), and have similar levels of stocking rates and inputs.
- 1.5 This submission focuses on those areas of the He Waka Eke Noa recommendations and/or government proposals where DINZ feels it would be useful to provide a specific deer industry perspective.
- 1.6 This submission focuses on two key areas of the proposed emissions pricing system:
 - Price settings and transitional arrangements.
 - Sequestration and nature-based solution incentives/biodiversity credits (that would be available outside the He Waka Eke Noa system).

2. The New Zealand Deer Industry

- 2.1 New Zealand has around 1,400 farms with deer. The main products marketed from deer are venison and deer antler velvet and approximately 95% of products are exported. In the year ending 30 September 2021, deer products were worth approximately \$300 m in export receipts to New Zealand. Although returns were

badly affected by restaurant closures around the world during the covid pandemic.

- 2.2 Deer Industry New Zealand ('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 deer industry in New Zealand. DINZ's levy payers are producers and processors of venison and velvet. As well the industry consists of 9 venison processing plants across the country, and associated service providers.
- 2.3 The industry is the youngest pastoral-based industry in New Zealand (the first deer farm licence was issued in 1970) but provides diversified markets and additional revenue to and complementary land use with other pastoral farming industries. Indeed about 80% of deer farmers also farm other livestock species and/or arable crops. Farmed deer contribute less than 2% of New Zealand's greenhouse gas emissions.

3. Key points

- 3.1 The deer industry is creating real added value for NZ and the communities we live in. We want to continue to be viable and grow the sector, while being part of the answer to better environmental outcomes and solving climate change.
- 3.2 We will need the tools to do this and a key issue with emissions pricing of any nature for deer farmers is that there is likely to be limited mitigation options (beyond reducing stock and therefore profit) in the near future. The deer sector may well be the last cab off the rank in terms of commercially available mitigations and it will be a priority for us to accelerate R&D in this area.
- 3.3 This is compounded for those properties where either regional rules or climatic conditions (e.g., in parts of the South Island) constrain or completely remove the availability to use genuine sequestration to lower the impact of the emissions levy. The resulting impact, particularly for hill country breeding operations (where revenue per unit of output is lower and which supply stock to the rest of the industry), is potentially large impacts on Effective Farm Surplus (EFS). This is also likely to cause emissions leakage given NZ's efficient deer and velvet production systems.
- 3.4 The impact of the principle that the price of methane should be the same price per kg regardless of source and not be related to emissions per hectare or emissions per unit of product, is that some farm systems, like deer, face a higher methane cost per unit of output. The key give-and-take in the recommended He Waka Eke Noa system was that those sectors that had access to early mitigations would lead the way for the whole sector in achieving the required emissions reductions, and in recognition of strong existing pressures from ETS forestry on sheep, beef, and deer farms, and to reward genuine sequestration, recognition for sequestration would be a critical feature of the scheme.
- 3.5 Hopefully mitigation technologies that are available in the short term for some parts of the primary sector are successful in reducing emissions sufficiently on behalf of the whole sector. But the timeframe in which this plays out is also critical. The deer sector will be contributing fully to the revenue of the scheme but will unlikely have access to early mitigations and many of our farmers will be constrained in their ability to access sequestration. These constraints elevate the short to medium term viability risks for some of our farmers.
- 3.6 This means a critical focus for DINZ is ensuring the agriculture emissions pricing

system is able to effectively support otherwise viable farmers to transition to lower emissions systems in a way that allows them to remain profitable. We don't want a lack of mitigations and/or access to sequestration to put otherwise viable farmers out of business while good work takes place to create and implement solutions across the sector.

3.7 DINZ believes this will require a number of concurrent elements:

- The development of more accurate emissions factors for deer. [MPI has signalled this is on their work programme].
- A methane price as low as necessary and no higher than 5c/kg.
- A requirement to balance the range of factors recommended by He Waka Eke Noa in setting levy rates.
- Recognition of the availability of cost-effective mitigations by farm system and sub-sector.
- Provision of levy relief on a case-by-case basis, as a transitional measure.
- Annual reporting of emissions reductions and the impact emissions pricing is having at the sub-sector level. This will be used to inform system improvements e.g., price settings, incentives, and transitional price relief.
- That the same sequestration categories that were put forward in the He Waka Eke Noa Recommendations Report be eligible for payment from 2025.
- That government accelerates work on nature-based solution incentives/biodiversity credits outside the He waka Eke Noa system. Biodiversity credits would provide a mechanism for farmers and growers to be rewarded for the public good of investing in on-farm indigenous vegetation restoration projects through helping to overcome the capital investment challenges associated with these projects.
- We believe that our collective endeavours to reduce greenhouse gas emissions will be more successful if they are managed within a system that recognises the wholistic nature of farming. We support the government vision of Te Taiao, that the needs of the land, water, air and people need to be enhanced. A focus on only one will have unintended consequences for the others.

4. Pricing setting and transitional arrangements

- 4.1 As noted in the He Waka Eke Noa submission all the modelling conducted to support analysis of emissions pricing (He Waka Eke Noa sectoral impacts, Beef and Lamb modelling, case studies that DINZ commissioned, and the government modelling) indicates that the impact of emissions pricing would fall heavily on sheep, beef, and deer farmers.
- 4.2 It needs to be stressed that these are not 'unprofitable farms on marginal land'. They are efficient profitable operations using low input systems with high stock numbers at very low stocking rates.
- 4.3 They are low output per unit of input while in many cases enhancing biodiversity with virtually no impact on water quality. Despite this, they will carry the heaviest burden of greenhouse gas costs per \$ income.
- 4.4 By removing key elements of the recommended He Waka Eke Noa system, the

government proposals elevate the risk that a larger number of deer farms become unviable due to emissions pricing. This would add to the strong existing pressure of current ETS forestry settings that incentivise blanket afforestation of productive sheep, beef, and deer farms with exotic and monoculture pine trees (in those areas of the country where this is allowed).

4.5 Additional DINZ analysis of 40 (mainly) deer farms, confirms that the burden falls more heavily on hill country breeding properties (Table 1). The key characteristics of those deer farms likely to be more heavily impacted by emissions pricing are:

- Hill country properties – on classes 5-7 land.
- Larger farms and relatively lightly stocked i.e., more extensive.
- Breeding properties with a focus on breeding.
- Using country well suited to extensive breeding operations to supply stock for finishing in other parts of the country
- In areas where regional rules and/or climatic conditions constrain access to sequestration.

Table 1. Examples of the impact of different emissions pricing on New Zealand hill and high country deer farms.

	Hill country deer breeding	Hill country mixed livestock
SU / Ha	7.3	7.5
Total CH ₄ (kgs)	150,558	561,020
Total N ₂ O (Tonnes)	1,375	4,299
Year 2025 cost		
Cost of CH ₄ at 5c and N ₂ O 5% of \$85	\$13,372	\$46,320
Cost of CH ₄ at 11c and N ₂ O 5% of \$85	\$22,406	\$79,981
% impact on EBITR	12 - 21%	6 - 11%
Year 2030 cost		
Cost at CH ₄ at 5c and 10% of \$108	\$22,379	\$74,476
Cost at CH ₄ at 11c and 10% of \$108	\$31,413	\$108,137
% impact on EBITR	21 - 29%	10 - 14%

Source: Deer Industry New Zealand

4.6 As noted above a critical focus for DINZ is ensuring the agriculture emissions pricing system is able to effectively support otherwise viable farmers to transition to lower emissions systems in a way that allows them to remain profitable. The sector is agreed that we don't want a lack of mitigations and/or access to sequestration to put otherwise viable farmers out of business through to a point where there are viable mitigation options.

4.7 DINZ believes this will require a number of elements relating to price setting and transitional arrangements:

4.8 **An initial levy rate for methane that has a starting level of no more than 5 cents per kg in 2025, and for the first 5 years is capped at no more than 8 cents per kg.**

We are strongly aligned with the He Waka Eke Noa submission.

Emissions pricing is not the primary driver of change in the He Waka Eke system. Pricing is primarily a means to fund the activities that will support incentives for farmers and growers to make the changes needed to reduce emissions and has been designed to work alongside other drivers of change e.g., signals from processors, banks etc.

The levy rates should be set at the level required to incentivise emissions reductions while maintaining the viability of the primary sector; set at the minimum level needed to balance the factors outlined in para 4.9 below, provide for incentives, research and development and administration costs,

He Waka Eke Noa modelling indicates that there is enough revenue generated at 5c/kg for methane and the proposed starting point for nitrous oxide pricing to cover the cost of incentives, He Waka Eke Noa sequestration, and a contribution toward administration costs.

This recommendation supports a cautious approach to pricing. It helps to avoid unintended consequences for rural communities, would fit within the system proposed by He Waka Eke Noa and the Government, and avoid additional administration costs or implementation complexity.

The impact on deer farmers of starting at 5c per kg of methane is not immaterial, but it will help to mitigate the elevated viability risks for our sector.

4.9 A requirement to balance the range of factors recommended by He Waka Eke Noa in setting levy rates.

We are strongly aligned with the He Waka Eke Noa submission.

This is critical as we cannot meet the objective of reducing emissions while maintaining a viable productive primary sector if meeting emissions reductions is the sole primary factor for consideration.

He Waka Eke Noa Partners recommended a broader set of criteria for levy setting because of concern that the targets may not be achievable in a way that is economically sustainable for the country, and/or in a way that lowers global agricultural emissions. These factors are:

- Trajectory of emissions reductions towards emissions targets
- Availability and cost of (current and future) on-farm mitigations across the different sectors
- Social, cultural, and economic impacts on farmers, regional communities, and Māori agribusiness
- Best available scientific, mātauranga Māori, and economic information
- Emissions leakage from production moving offshore
- Impact on food security (both domestically and internationally).

4.10 Provision of levy relief on a case-by-case basis, as a transitional measure.

We are aligned with the He Waka Eke Noa submission.

This is an important aspect of the system for DINZ. While we would rather this not be

needed, we do think it is an important backstop for those farms where access to sequestration (both NZ ETS and He Waka Eke Noa) is severely restricted by national and local body regulation; where there is no access to effective mitigation technologies; and where emissions pricing is having a severe impact on the viability of otherwise viable farming operations

As noted above we don't want a lack of mitigations and/or access to sequestration to put otherwise viable farmers out of business while good work takes place to create and implement solutions across the sector.

We also support further work to address potential administrative inefficiencies in a case-by-case approach. We would like to work with government to ensure further detailed design of the transitional price relief mechanism meets the needs of deer farmers who may find themselves in this position. Our recommendation to start with a cautious approach to pricing, and to consider a broader range of factors in setting prices, stems from the significant uncertainty about the future effects of emissions pricing, including the emissions reductions that will be achieved and the impacts on farm profits. If the system operates well, it will avoid the use of this mechanism.

This links closely with the following recommendation.

4.11 Annual reporting of emissions reductions at the sub-sector level.

We are strongly aligned with the He Waka Eke Noa submission.

The significant uncertainty about the future effects of emissions pricing means that it will be important to collect robust data to inform system improvements e.g., price settings, incentives, and transitional price relief.

He Waka Eke Noa modelling also indicated that each subsector would contribute broadly equally to reducing emissions (via land use change via existing ETS Forestry policy in the sheep, beef, and deer sector and through the use of early mitigations in the dairy sector). Government modelling shows emission reductions predominately arising from the sheep and beef sector. While we do not agree with some key assumptions in the government modelling it has flagged a risk that the current proposals do not have appropriate safeguards to avoid all of the emissions reductions being achieved through land use change and stock reductions in particular sub-sectors.

We think regular reporting at the sub-sector level will be critical in implementing a system that is both effective and equitable across the sector.

5. Sequestration and biodiversity credits

- 5.1 DINZ supports the recommendations made in the He Waka Eke Noa submission, that the same sequestration categories that were put forward in the He Waka Eke Noa Recommendations Report be eligible for payment from 2025.
- 5.2 It is critical that if farmers are going to be charged for their livestock emissions, that all their areas of permanent and cyclical vegetation should also be acknowledged.
- 5.3 Not all farms, particularly those in the hill and high-country, have the opportunity to sequester carbon due to climatic conditions or regional rules in the area they farm.

We nevertheless think that recognition of sequestration is made available so farmers that have invested considerably in planting woody vegetation on their farms can be recognised for this by offsetting it against their emissions cost.

- 5.4 As the He Waka Eke Noa submission notes, recent farm-scale modelling shows that the indigenous vegetation offset potential will make a considerable difference to the emissions cost faced for some farms, and that riparian vegetation also creates an opportunity to alleviate the impact of the emissions cost for many more.
- 5.5 DINZ also strongly encourages the government to accelerate work on nature-based solution incentives/biodiversity credits that would sit outside the He Waka Eke Noa system.
- 5.6 Many farmers are spending heavily on fencing waterways, native planting, pest exclusion and pest management, not only to comply with recent changes to freshwater regulation, but also for the public good of enhancing biodiversity. Farmers can only spend a dollar once. A dollar taken from the system by a greenhouse gas levy will not be spent on ecological enhancement.
- 5.7 Biodiversity credits would provide a mechanism for farmers and growers to be rewarded for the public good of investing in on-farm indigenous vegetation restoration projects through helping to overcome the capital investment challenges associated with these projects. This would also help to alleviate the impacts of the emissions cost upon many farmers and growers, while reducing the socio-economic impacts of blanket afforestation.
- 5.8 Ministers have previously acknowledged the importance of enabling a biodiversity credit system as a pathway for enhancing biodiversity restoration alongside encouraging the planting of indigenous vegetation over exotic forestry for permanent carbon offsetting; action is now urgently required.

Appendix 1: DINZ response to consultation questions

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.

Yes. But not in relation to ensuring sufficient reductions in gross emissions. Greater emphasis is required on balancing the objectives we all say we want – reducing emissions while maintaining a viable productive primary sector. The primacy of meeting gross emission targets in the context of no meaningful mitigation technologies runs large viability risks for the deer sector.

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

No. A cap-and-trade system has a number of components that could be highly problematic for deer farmers – the strict cap to provide certainty for emissions reductions; auctioning where deer farmers would need to compete with dairy (and other) farmers for available units OR an allocation mechanism likely based on historical production (i.e., a grandparenting approach that disadvantages early adopters). A cap-and-trade system that had subsector allocations would help to resolve some but not all of these issues.

Question 3: Which option do you prefer for pricing agricultural emissions by 2025 and why? (a) (b) (c) A farm-level levy system including fertiliser? A farm-level levy system and fertiliser in the New Zealand Emissions Trading Scheme (NZ ETS) A processor-level NZ ETS?

A farm-level levy system including fertiliser. On the basis that fertiliser is one of the only levers that deer farmers will have available in the short-term and it would be useful to have this captured in the central calculator.

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

We support the recommendations made by He Waka Eke Noa in May 2022.

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

No. We align ourselves with the He Waka Eke Noa submission. In addition, the Climate Change Commission must have in its governance and appointment process people familiar with and knowledgeable of the breadth of New Zealand agricultural systems who will understand the environmental, social and economic impact on rural communities of changes to government policy.

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

We align ourselves with the He Waka Eke Noa submission.

He Waka Eke Noa continues to recommend the revenue from the levy will be invested back into the primary sector and cover appropriate administration costs.

He Waka Eke Noa does not support any use of ring-fencing of farm levies collected through He Waka Eke Noa to offset any of the Government's \$338m existing commitment to climate change research and adaptation.

He Waka Eke Noa does not support the use of levy revenue to purchase credits offshore or re pay government investment in science and technology for mitigating emissions from agriculture.

Note, a priority for DINZ will be to appropriately weight and accelerate R&D on mitigations for those farm systems/sectors that do not yet have a mitigation technology pathway.

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

Yes. We align ourselves with the He Waka Eke Noa submission.

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?

No. We align ourselves with the He Waka Eke Noa submission.

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. We align ourselves with the He Waka Eke Noa submission.

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?

The impact of the principle that the price of methane should be the same price per kg regardless of source and not be related to emissions per hectare or emissions per unit of product, is that some farm systems, like deer, face a higher methane cost per unit of output.

As discussed in this submission, this means that careful attention will be required to any unintended consequences, particularly where access to mitigation technologies and/or sequestration is limited.

This will require a package of 'safeguards' as outlined in Section 3. Critical to this will be starting with a prudent approach to pricing that recognises the impact across the agricultural sector and the consideration of a broader range of factors in setting prices.

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. The primary role of agricultural emissions pricing is to fund the activities that will support farmers and growers to make the changes needed to reduce emissions. Purchasing offshore credits could increase levy costs to unaffordable levels and result in a transition pathway that is not economically sustainable for the country, and/or consistent with lowering global agricultural emissions.

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?

The government proposals will lead to a larger number of farms –mainly sheep, beef, and deer farmers – becoming unviable due to emissions pricing. This would add to the strong existing pressure of current ETS forestry settings that incentivise blanket afforestation of productive sheep, beef, and deer farms with exotic and monoculture pine trees.

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?

He Waka Eke Noa built these considerations into the recommended system.

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

Yes, broadly. We support the recommendations made by He Waka Ele Noa in May 2022.

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

We reiterate our concerns that the impact of emissions pricing could be significant for some deer farmers. All of the modelling conducted to support analysis of emissions pricing indicates that the impact of emissions pricing could fall relatively heavily on mainly sheep, beef, and deer farmers. This will require careful navigation and a package of 'safeguards' as outlined in Section 3

