



SUBMISSION

On

Te tātai utu o ngā tukunga ahuhenu - Pricing agricultural emissions

to

Ministry for the Environment

AgEmissionsPricing@mfe.govt.nz

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Contact: Greg Sneath, Vera Power
Organisation: The Fertiliser Association of New Zealand
Postal Address: PO Box 11519, Manners St, Wellington, 6142
Phone: (04) 473 6552
E-mail: info@fertiliser.org.nz

About the Fertiliser Association of New Zealand

1. The Fertiliser Association of New Zealand (the Association) is an industry association funded by member companies to address issues of common public good. Member companies include Ballance Agri-Nutrients Ltd and Ravensdown Ltd. Both are farmer co-operatives with some 35,000 farmer shareholders. Between them, our members supply over 95% of all fertiliser used in New Zealand. As co-operatives, they are not driven by maximising the value of product sales to farmer shareholders, but by delivering best value to farmer shareholders.
2. The Association member companies have invested significantly in products, systems and procedures which support responsible nutrient management to support a viable primary industry within environmental limits.

Context for this submission

3. The Government has identified three objectives for the pricing system for agricultural emissions. These are that the system is:
 - effective – in incentivising emissions reductions that contribute to achievement of the country's domestic and international targets
 - practical – in being able to be implemented within statutory timeframes and established, operated and modified in a cost-effective manner
 - equitable – within the agriculture sector, between the agriculture sector, other industries and the broader economy, and in terms of the effect on Māori agribusiness and Māori overall, including Māori aspirations.
4. This feedback is provided in the context of ensuring the government 'Pricing of Agricultural Emissions' provides:
5. The Association strongly supports the pricing mechanism as originally outlined in the He Waka Eka Noa partnership proposal. The proposal provides a path forward for managing agricultural emissions, while recognising the importance of our primary exports to the New Zealand economy.
6. Critically, the proposals consider the issue of fairness and equity across all farms systems. As a package, they support achieving the objectives of reducing emissions, increasing sequestration, and minimising impacts on primary sector production and profitability. This includes providing for investment in research and development into new mitigations technologies to reduce emissions.
7. New Zealand's has a role to play in creating an internationally credible system that deals with emissions from agriculture. Cutting back on emissions in New Zealand will not be effective if offshore emissions from agriculture continue to grow. New Zealand has an opportunity to develop a sustainable solution to agricultural greenhouse gas emissions that can have impact globally, if New Zealand solutions, can be adopted internationally.
8. Our comments in this submission are targeted at pricing of emissions from nitrogen and the proposal for transitional requirements.
9. Our response in brief:

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

 - (a) A farm-level levy system including fertiliser?

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

Response: The Association supports Option 'a', a farm-level levy system which includes nitrogen fertiliser, as it will support farmer choices, and reduce emissions at least cost.

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?

Response: The Association opposes an interim processor-level levy in 2025. Creating regulatory certainty is critical to enabling change. An interim approach creates uncertainty for farmers seeking to plan and invest in future farm systems.

Supporting information and reasoning

10. Fertiliser contributes approximately 6% of agricultural greenhouse gas emissions. Most nitrogen fertiliser in New Zealand is applied to pasture (approx. 90%).
11. Farm level accounting for nitrogen fertiliser means farmers can better make changes to their use of nitrogen fertiliser and other farm nutrient sources to reduce farm emissions overall.

Visibility drives effectiveness

12. To manage emissions effectively, farmers must have visibility of the consequences of their choices. If a carbon price is visible to farmers, it is more likely to drive positive change without creating an excessive cost burden.
13. The importance of the point of obligation is that if a price is applied at the processor/manufacturer level, the price is effectively 'hidden' from farmers. While they will be aware a price is involved, the size of this is not readily apparent. If the point of obligation is at a farm level, then the price is readily apparent, as the farmer pays for it directly. This could suggest that a lower price at the farm level will have more impact than a comparable price at the processor/manufacturer level.
14. Overseas research (Bird, 2010)¹ has shown that consumers are much more aware of a tax if it is visible and will definitely make different and fewer purchases if the taxes (in most cases GST/VAT) are clearly visible. Varela (2016)² noted that people are more likely to change their behaviour in response to highly visible and highly salient taxes, and that as a result of not showing the taxes at the shelf, people don't fully incorporate them into purchasing decisions.
15. From a motivational perspective, having the point of obligation at the farm level is more likely to influence farmer behaviour.

¹ Bird, R. M., 2010. Policy Forum: Visibility and Accountability— Is Tax-Inclusive Pricing a Good Thing? Canadian tax journal / Revue fiscale canadienne (2010) vol. 58, no 1, 63 - 76

² Varela, P. 2016. What is tax salience? TTPI – Policy Brief 4/2016 March 2016. Australian National University

16. The use of nitrogen fertiliser is relatively inelastic to price. Demand does not reduce much as a result of an increase in price as alternatives are usually more expensive.³
17. Where the emissions price is embedded in the fertiliser price, there would need to be a high price put on carbon in the ETS for it to be effective at reducing fertiliser emissions. For example, there has recently been a 250% increase in the price of nitrogen fertiliser, but only a moderate reduction in national nitrogen use - 12% over the last two years (Figure 1). This reduction is thought to be attributable to freshwater regulations and controls as well as the price increase.

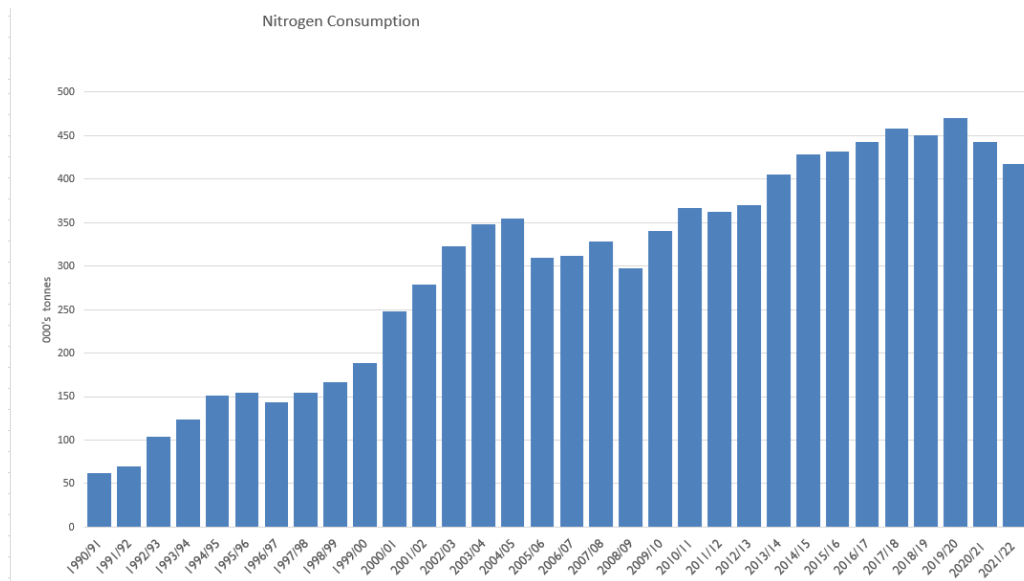


Figure 1. Annual Nitrogen fertiliser use in New Zealand

18. For pastoral farmers, fertiliser use is about feed for animal welfare and production. Farmers need to be able to make integrated decisions about sources of feed and what could be utilised - driving decisions on fertiliser use. If farmers are considering greenhouse gas emissions on farm they should have maximum visibility of the impact of those decisions to avoid inadvertently substituting one source of emissions with another.

An on-farm price will drive the uptake of innovation

19. We expect that making emissions and their sources visible on farm, will drive both interest and uptake of innovation.
20. In terms of agricultural greenhouse gas emissions, nitrogen fertiliser probably has the most mitigation potential in the medium term. Significant reductions through the use of smart products should be possible even at existing use levels. (Urease coated urea is already available, and a number of nitrification inhibitors which can significantly reduce nitrous oxide emissions have potential for commercialisation.)

³ *Farm Level Cost of a Carbon Tax on Nitrogen Fertiliser*, Prepared for the Fertiliser Association of NZ, Phil Journeaux, May 2020 ([Link](#))

21. This demand for mitigation is created by the visibility of emissions, so that farmers understand the opportunity for reduced emissions. A price at the supplier level creates a weak push for mitigation actions likely resulting in a 10-20 year time horizon for uptake of new technology and practices. A farm level price, creates a stronger pull for innovation potentially increasing the speed of uptake of technology. Farmers can immediately see any profitability and environmental benefits associated with a new technology and make choices based on the benefit and fit for their operations. To invest in change, farmers need to be able to see there is a direct advantage with low risk to their current production system.

Integration and Coherence

22. In the medium term we should be expecting better integration of decisions on water quality and greenhouse gas emissions. Water policy is focusing on actions on farm, including reporting and management of nitrogen fertiliser – it makes sense for decisions on climate change to have a degree of alignment with farm management for water quality outcomes.
23. This could reduce the cost to farmers. If we assume that the initial development of freshwater farm plans over the next decade will have an estimated cost of \$1,500 per farm; the inclusion of information of greenhouse gas emissions could essentially be a marginal cost (of about \$200). The 'marginality' of the cost is because any consultant used will likely have already developed and modelled information for one aspect of farm emissions, so should be in a position to use the same information in developing specific information on greenhouse gas emissions.

Climate Commission Advice

24. The Climate Commission recommends processor level of accountability for fertiliser and early entry into the ETS. This position fails to recognise the changing context for fertiliser use with a 250% increase in cost of N in the last year. It fails to acknowledge the relative inelasticity of nitrogen fertiliser to price, and that supporting farmers choices is best achieved through transparency in pricing.
25. He Haka Eke Noa has recommended a threshold of annual use of 40 t N. This is based on emissions of approximately 200 t CO₂-eq each year – and covers 96% of emissions from fertiliser.
26. Commercial livestock farms are already captured by a farm level point of obligation. The vast majority of arable farms have livestock incorporated in their systems so will be captured in the farm level obligation based on livestock emissions. There are a number of horticultural enterprises which fall below the proposed pricing threshold for fertiliser so would not be captured if a farm level price were implemented. These horticultural enterprises represent a very small proportion of total farm emissions so consideration should be given to the administrative cost of levying a price on these farms in comparison to the potential for emissions reduction.
27. The Commission has argued that setting nitrogen fertiliser pricing at a processor level will apply to all fertiliser used and is therefore broader and more equitable. This will increase coverage by 4%. Maximising the number of farms affected by a fertiliser price by including emissions in the ETS will likely result in a reduction in the overall mitigation of emissions.
28. The Commission's advice that an ETS based price would be more comprehensive and as a result potentially more equitable, however, this does not consider aspects of equity such as scale, capacity, impact on profitability or impact on pricing of domestic vegetable production. It does not consider effectiveness in farmers seeking to reduce emissions from use of nitrogen fertiliser.

Interim processor-level levy as a transitional step

29. An interim approach to establishing a levy, risks creating uncertainty for farmers seeking to plan and invest in future farm systems and is opposed.
30. Creating regulatory certainty enables adjustment and change. To achieve progress, farming in New Zealand will need to continue to adopt and embrace change with confidence to be able to invest accordingly. An interim approach will undermine this confidence.
31. Government has indicated that it wishes to see a pricing system in place by January 2025, but it is clear there is some concern at ensuring that a reporting system is in place at this time. An alternative approach to dealing with the challenge of tight timeframes is to establish the reporting period from January 2025, to identify how a price will be levied, but to delay the date of reporting until systems are established. That essentially gives more time for the delivery of the pricing system.

32. Thank you for the opportunity provide comment on the consultation document on Pricing Agricultural Emissions.

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