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Pricing Agricultural Emissions
Ministry for the Environment
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RABOBANK NEW ZEALAND SUBMISSION ON PRICING AGRICULTURAL EMISSIONS CONSULTATION DOCUMENT

Introduction

Rabobank is New Zealand's only specialist food and agribusiness bank. We are part of an international co-operative group based in the Netherlands, with over 500 staff working from 28 offices across New Zealand.

Bringing together our deep connections to the New Zealand rural sector, our specialist research expertise and our extensive international reach, we work closely with our clients under our global mission of 'Growing a Better World Together'.

In New Zealand and around the world, Rabobank engages constructively with clients and other stakeholders to improve their overall environmental sustainability as requirements and standards evolve.

With our co-operative roots and longstanding relationships with food and agribusinesses, Rabobank takes a long-term view of supporting farmers and food producers, who are critical to New Zealand's wider economic and social success.

It is within this context that we welcome the opportunity to make a submission on the Government's Pricing Agricultural Emissions consultation document.

In preparing this document, we have consulted with representatives of our four regional Rabobank Client Councils, who have provided client perspectives on the Government's proposals.

Rabobank's global approach to climate change

By 2050, there will be around 10 billion mouths to feed around the world. Although the world produces more food today than at any other time in history, we acknowledge that the global food production system is under stress.

Under our global mission of 'Growing a Better World Together', Rabobank has committed to pursuing the objectives of the Paris Agreement and we have also signed up to the United Nations Net Zero Banking Alliance. These ambitious initiatives are a good fit with Rabobank's values as a co-operative bank.

As part of supporting our clients to address their environmental and sustainability challenges, Rabobank New Zealand earlier this year issued a white paper '*Steering into the Food Transition – Rethinking the Climate Change Challenge for New Zealand Food and Agribusiness*'.

In the paper, we called for New Zealand's agricultural sector to be bold and to take advantage of the global food transition. We also presented some priorities to guide New Zealand's path to tackle the twin problems of needing to increase food production while needing to lower greenhouse gas emissions. As we noted, everyone has a part to play, including the Government, businesses and communities.

Internationally, the impacts of climate change threaten predictable growing seasons and farmer/grower livelihoods. Rural businesses that can respond to these demands will be best equipped to navigate the risks and have a healthy, sustainable and profitable future.

As we said in our submission on the Climate Change Response (Zero Carbon) Amendment Bill in 2019, Rabobank believes a thriving livestock sector is vital for both New Zealand's national economy and the wellbeing of rural communities in which livestock farms are located.

Furthermore, we firmly believe policy makers need to recognise and protect the role New Zealand plays in contributing to global food security, as a significant net exporter of food and agricultural products.

Our support for the He Waka Eke Noa Partnership's approach to emissions pricing

With the interests and concerns of our farming clients in mind, Rabobank supported the finely balanced approach to pricing agricultural emissions recommended earlier this year by the Primary Sector Climate Action Partnership, He Waka Eke Noa.

In particular, we agreed with the Partnership that if a price is put on agricultural emissions, then it should be at the farm level and outside the Emissions Trading Scheme. We see this being the most effective and fairest way to encourage agricultural emissions reductions, while at the same time helping the food and agricultural sector make the required transition and minimising impacts on food production.

We also agreed with the Partnership that farmers should be fully recognised for their on-farm sequestration as a core component of any agricultural emissions pricing system.

And importantly, we noted that commitments to the Paris Agreement were made on the basis that food production is protected alongside achieving emissions reductions. This must not be compromised.

Whatever agricultural pricing mechanism is introduced, it is essential to avoid unintended consequences such as inflicting unwarranted damage on rural and regional communities.

In both a domestic and global context, for example, it would be completely counterproductive for efficient New Zealand food producers to be displaced by less efficient and higher emitting producers in other countries.

As the European Union and other jurisdictions move to introduce measures such as Carbon Border Adjustment Mechanisms to reduce and/or eliminate carbon leakage, it makes no sense for the New Zealand Government to introduce measures that encourage carbon leakage by advantaging offshore high-emitting producers.

The He Waka Eke Noa Partnership's recommendations were not perfect for everyone.

However, Rabobank believes they did strike an appropriate overall policy balance in setting a workable pathway for agricultural emission reductions, while enabling sustainable food and fibre production for future generations and preserving this country's competitiveness in international markets.

Current Government proposals unfairly penalise farmers and rural communities

Rabobank New Zealand submits that all New Zealanders have a role to play in reducing greenhouse emissions, whether they live in cities, towns or rural communities. As a country, doing nothing is not an option, but the framework must be fair, equitable and workable.

With respect to managing agricultural emissions, we continue to support the key principle of individual farms and businesses being held responsible and accountable for their emissions. At the same time, they must also be fully recognised for mitigations they have put in place, including sequestration of carbon that sits outside the ETS.

We strongly support the Government committing to effectively reinvesting revenue generated by emissions pricing into the sector so as to meaningfully assist with ongoing emissions mitigation measures.

However, New Zealand's farmers should not be made to feel unduly targeted by policymakers with unfair or overly onerous emissions pricing requirements.

It is our view that the Government's latest proposals, as they stand, would unduly penalise farmers and the communities in which they live and work. Rather than support the social and environmental contract that lies at the heart of He Waka Eke Noa, the flow-on effects of the current proposals will undermine the partnership the Government seeks with rural communities.

The Government's own commentary shows the proposals could have the following impacts:

- Changes in net revenue of -6 to -7% for the dairy sector and -18 to -24% for sheep and beef
- Changes in production of -4 to -5% for the dairy sector and -6 to -20% for sheep and beef
- Significant socio-economic impacts on rural communities including:
 - Reduction in jobs or hours worked
 - Depopulation and an accompanying decline in community services
 - Reduction in quality of living
 - Increased stress and mental health issues

Policymakers should not underestimate what is at stake for these communities and, indeed, for the valuable contribution they make to New Zealand's broader economic and social wellbeing, should the Government get this wrong.

According to the Ministry for Primary Industries, the New Zealand food and fibre sector generates approximately \$52 billion of export earnings annually and employs almost 370,000 people. As a country facing challenging economic times, we should have an aspiration to build and nurture this significant contribution and not put it at risk through reduced production.

Rabobank believes the Government's emissions pricing proposals will have a much wider economic and social impact on New Zealanders than just the sheep and beef sectors or indeed the wider food and agri industry.

Our rural clients point out, with justification, that the Government's emissions pricing proposals come on top of a number of recent and ongoing obligations and regulations for rural New Zealand – some of which place competing requirements on farmers.

Furthermore, at a time when New Zealand households are under pressure from rising food prices, the last thing they need right now are more policies that would exacerbate those price pressures.

After careful consideration, Rabobank submits that the Government's own numbers and commentary suggest it has not struck an appropriate balance with its latest proposals.

In addition, we submit that the Government is proposing a system that will impact the rural sector for at least the next generation. It is vital to get it right, rather than acting in haste to meet an arbitrary 2025 deadline.

With more than 25,000 farms in New Zealand, implementing the proposed scheme nationwide by 2025, with all its associated complexities and practical requirements agreed and locked down, will be extremely tight.

We submit that if the Government cannot agree to implementing a fair and workable emissions reductions framework within its self-imposed timeframe – including efficiently pricing emissions and fully recognising emissions offsets – then the pricing of emissions should be delayed until this can be agreed.

The onus must be on the Government, not farmers, to lead implementation in a way that effectively recognises these concerns.

The Government's proposed policy response

Pricing agricultural emissions through a farm level, split gas approach presents the best opportunity for assisting New Zealand to meet its climate change targets.

However, we are concerned about three key changes the Government has proposed in its latest consultation document. After taking feedback from our clients, we submit that these changes should be reconsidered and amended to something more akin to the He Waka Eke Noa recommendations.

1. Setting the agricultural emissions price and governance

- The Government has proposed setting a biogenic methane levy price based on how New Zealand is tracking against its methane emissions target. Further, Ministers may consider other factors such as socioeconomic impacts, but these factors would be secondary to the main consideration of ensuring targets are achieved.
- With the focus primarily on achieving the methane emissions target, Rabobank is concerned there is no safeguard to protect against the potentially significant adverse impacts the levy could have on farm viability, farmer mental health and the sustainability of rural communities generally.
- Rabobank believes emissions pricing should be used to influence and incentivise farmers to adopt emissions reduction measures and activities. They should not directly threaten the viability of a business and contribute to impacts on farmer mental health and the broader sustainability of rural communities.
- Rabobank submits that the Government takes a broader 'wellness' approach to setting the levy that considers the impact it will have on farm viability across all sectors, the wellbeing of the farmers and the wider rural community, as well as the achievement of New Zealand's methane reduction target.
- Rabobank also believes it is important for farmers to have certainty about the levy price they face in the short-to-medium term to help inform their decisions around budgeting, on-farm investments and farm system changes. Therefore, we believe the levy price should be set for a minimum period of three years.

2. Recognition of sequestration from on-farm vegetation

- Rabobank submits that the principle of equity dictates that if farmers are going to face a price on all emissions generated from their farming systems, it is only fair to fully recognise and reward all the sequestration that same farm sequesters.
- The Government has stated it believes the Emissions Trading Scheme is the most appropriate mechanism for rewarding eligible sequestration from vegetation in the long term. However, changes to the ETS required to incorporate additional vegetation categories will not be ready for 2025 due to data availability constraints and the complexity of changing legislation and regulations – and there is no firm commitment that this will happen.

- In other countries, Rabobank has worked within local jurisdictions using technology to recognise various areas and types of vegetation. We would be happy to discuss how this works in practice and to determine suitability for implementation within the New Zealand landscape.
- Rabobank submits that the Government progresses the legislative and regulatory changes required to implement such technology in New Zealand, so that sequestration from on-farm vegetation can be fully recognised before introducing a price on emissions.

3. Pursuing an arbitrary implementation date of 2025

- As stated above, Rabobank believes that if a price is being put on agricultural emissions, then it should be at the farm level as we see this being the most effective and fair way to encourage agricultural emissions reductions.
- The Government proposes that, by mid to late 2023, ministers will recommend to Cabinet whether an interim processor-level levy comes into force in 2025 as a transitional step, if the farm-level pricing system cannot be introduced by 2025.
- Rabobank opposes the potential development of an interim processor-level levy. We believe developing a transitional alternative pricing mechanism would divert time, resources and focus away from establishing a fit-for-purpose farm level pricing mechanism.
- Rabobank submits that the onus to deliver a fit-for-purpose farm-level pricing mechanism should be on the Government, and the sector should not be forced to enter a transitional scheme that does not provide appropriate signals and incentives to reduce emissions. As we say above, if the Government cannot implement a farm level pricing mechanism by 2025, it should delay introducing a price on emissions until a fair, equitable, and fit-for-purpose scheme can be introduced.
- To those who oppose postponing the scheme's introduction because it would require greater reductions over a shorter timeframe in future, Rabobank submits that an interim processor level levy is unlikely to provide sufficient incentive to reduce emissions. Furthermore, this line of argument incorrectly assumes that in the absence of an emissions price there would be no other industry, processor, or market driven activities to drive emissions reductions. We believe an interim processor levy could perversely and unfairly penalise those farmers who are leading the way in agricultural emissions reductions, discouraging rather than incentivising farm-level emissions reductions during the period of the interim levy.

Conclusion

In summary, Rabobank agrees that the food and agriculture sector – along with the rest of New Zealand – has a role to play in contributing to New Zealand's overall greenhouse emissions reductions.

In that respect, the challenge is achieving an appropriate and workable balance in policy settings that do not unduly penalise a sector that is regarded widely as one of the most efficient in the world.

For that to happen, it is essential for policymakers to engage constructively with the farmers and food producers who live and work in the communities across New Zealand that will be directly impacted by policy decisions being made in Wellington.

Rabobank submits that the Government's latest proposals would unduly penalise farmers and permanently damage the social and economic fabric of the communities in which they live and work. And we would argue that the damage will ripple through the wider New Zealand economy and society.

Furthermore, implementing the proposed emissions pricing scheme in 2025 will be extremely tight. Rabobank strongly believes that it should not be rushed through at any price.

As a food and agribusiness specialist with global connections and local networks, Rabobank remains ready and willing to continue working with the Government and its agencies to ensure an optimal outcome is reached over the coming months.

Thank you for the opportunity to make a submission on the Government's Pricing Agricultural Emissions consultation document.

A handwritten signature in black ink, appearing to read 'Todd Charteris', with a long horizontal flourish extending to the right.

Todd Charteris
Chief Executive Officer
Rabobank New Zealand