

SUBMISSION ON

Annual updates to the NZ ETS limits and price control settings for units 2023

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To: Ministry for the Environment

Name of Submitter: Horticulture New Zealand

Contact for Service:

Emily Levenson

Environmental Policy Advisor

Horticulture New Zealand

PO Box 10-232 WELLINGTON

Ph: 027 305 4423

Email: Emily.levenson@hortnz.co.nz

OVERVIEW

Submission structure

- 1 Part 1: HortNZ's Role
- 2 Part 2: Submission

Our submission

Horticulture New Zealand (HortNZ) thanks the Ministry for the Environment for the opportunity to submit on the Annual updates to the NZ ETS limits and price control settings for units 2023 and welcomes any opportunity to continue to work with the Ministry for the Environment and to discuss our submission.

The details of HortNZ's submission and decisions we are seeking are set out in our submission below.

HortNZ's Role

Background to HortNZ

HortNZ represents the interests of approximately 5,500 commercial fruit and vegetable growers in New Zealand who grow around 100 different fruit, and vegetables. The horticultural sector provides over 40,000 jobs.

There is approximately, 80,000 hectares of land in New Zealand producing fruit and vegetables for domestic consumers and supplying our global trading partners with high quality food.

It is not just the direct economic benefits associated with horticultural production that are important. Horticulture production provides a platform for long term prosperity for communities, supports the growth of knowledge-intensive agri-tech and suppliers along the supply chain; and plays a key role in helping to achieve New Zealand's climate change objectives.

The horticulture sector plays an important role in food security for New Zealanders. Over 80% of vegetables grown are for the domestic market and many varieties of fruits are grown to serve the domestic market.

HortNZ's purpose is to create an enduring environment where growers prosper. This is done through enabling, promoting and advocating for growers in New Zealand.



Submission

1. Transition to a low emissions economy

Horticulture NZ supports the Government's aspirations to transition to a low emissions economy. Enabling land use change to horticulture presents an opportunity to reduce emissions while increasing food production.

The horticulture industry is undergoing decarbonisation, with efforts focused on the covered cropping sector. The initial focus is on reducing energy requirements and improving energy efficiency within operations.

2. Covered crops for food system resilience

Covered crops play an important part in providing supply of fresh produce at times of the year when outdoor cropping is challenging. Covered crop growers even out the supply of fresh produce, extending the availability of seasonal crops. Indoor growing systems are less vulnerable to environmental conditions and pressures such as significant weather events. During Cyclone Gabrielle, 80% of the tomatoes grown outdoors for processing were destroyed, whereas the supply of indoor grown greenhouse tomatoes was relatively unaffected.¹

The covered cropping sector is partnering with the Environmental Protection Authority (EPA) to give growers more information to join the Emissions Trading Scheme (ETS) and claim their Free Industrial Allocation (Free IA) through the *Grower* magazine.² ETS analysts from the EPA also presented directly to growers at an in-person workshop. These efforts have resulted in 40% of TomatoesNZ growers joining the ETS. Most growers use the Free IA against their fuel bills, but those that don't struggle to trade their allocation either because it is too small or due to administrative difficulties.

3. Consultation Document

In general, HortNZ believes the ETS should be treated as a free market without price controls that distort its purpose - to incentivise decarbonisation. Industrial allocations are an existing mechanism to manage carbon leakage. All New Zealand fresh tomato growers, both indoor and outdoor, receive industrial allocations due to the trade pressure. Price controls will disadvantage those who receive free allocations by deflating their value. Decisions around price control settings should reflect the outcome of the recent Market Governance of the ETS consultation.

¹ TomatoesNZ

² TomatoesNZ. "Industrial Allocation and how to register". 15/06/23. Accessed online 16/06/23.
<https://www.tomatoesnz.co.nz/hot-topics/industrial-allocation-and-how-to-register/>

3.1. Industrial allocations

Free IA should be used for their intended purpose. Our emissions-intensive, trade-exposed (EITE) growers use the Free IA to genuinely offset the costs of their activities.

Feedback from growers is that the administrative burden involved with accessing and registering with the EPA, the agency responsible for the administration of the IA process, is considerable. The EITE eligible growers are small participants, and the scheme is structured towards larger participants.

Free IA are designed to help minimise additional costs caused by ETS on eligible industries and businesses and participation in the scheme should reflect this. Growers' participation in the scheme should not result in additional staff or internal costs. From HortNZ's perspective, all eligible growers entitled to free IA, irrespective of size, should be able to complete registration and administration process without needing to employ additional resources.

Qualifying growers need the flexibility to work collectively to create scale or better enable access to the IA scheme.

Industrial allocations, while essential for softening the impact of the ETS, are not enough support on their own for the covered cropping sector to decarbonise. The transition costs and slow return on investment make the change untenable for horticultural businesses, which have the slimmest of margins. Growers need grants or low-interest loans to either switch fuels or improve energy efficiency because these changes are cost prohibitive and have slow returns on investment.

3.2. Cost of living and a just transition

HortNZ agrees with the Climate Change Commission that the impact of high ETS prices on lower income households is better managed through targeted policies than ETS price control settings.³ The Electricity Allocation Factor, which can affect the wholesale electricity price, is a better mechanism to genuinely impact the cost of living than artificially altering the ETS price.

³ [NZ ETS settings for 2023-2027](#), p 82.