

SUBMISSION ON NZ ETS Unit Settings and Annual Regulatory Updates 2024

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To: Ministry for the Environment

Name of Submitter: Horticulture New Zealand

Supported by: TomatoesNZ, Vegetables New Zealand Inc.

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Our submission

Horticulture New Zealand (HortNZ) thanks the Ministry for the Environment for the opportunity to submit on the NZ ETS Unit Settings and Annual Regulatory Updates 2024 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

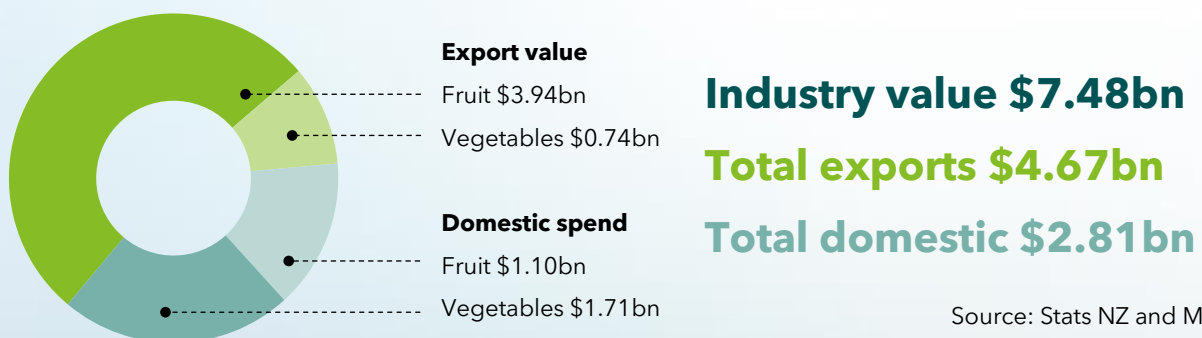
HortNZ represents the interests of approximately 4,200 commercial fruit and vegetable growers in New Zealand who grow around 100 different fruits and vegetables. The horticultural sector provides over 40,000 jobs.

There are 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.



Background Information

1. Horticulture in the Emissions Trading Scheme

The horticulture sector supports New Zealand's net-zero target and market mechanisms to achieve that goal. The horticulture industry is undergoing decarbonisation. Efforts focus on greenhouses, many of which use heating sources in colder months which produce greenhouse gas emissions. The initial focus for the industry is on reducing energy requirements and improving energy efficiency within operations.

1.1. Emissions Trading Scheme Involvement

Currently, in horticulture, only heated greenhouse growers who have emitting energy sources pay into the Emissions Trading Scheme (ETS). Growers of fresh tomatoes, cucumbers and capsicums are eligible for industrial allocation (Free IA) which recognises their "Emissions Intensive and Trade Exposed" status, whether they grow indoors or outdoors.¹ This is to prevent carbon leakage because they compete in the commercial market with imported vegetables which are not subject to the same emissions policies. All growers of these crops are eligible for Free IA to incentivise growing systems without carbon emissions (such as those which have decarbonised, grow with better carbon-efficiency or manage without heating in warmer climates). Most growers use their Free IA to offset their NZ ETS obligations for fuel use. The rest struggle to trade their allocation because it is too small or due to administrative difficulties.²

The covered cropping sector has partnered with the Environmental Protection Authority (EPA) to give growers more information to join the ETS and claim their Free IA through the *NZGrower* magazine.³ 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.

1.2. Covered Crops for Food System Resilience

Covered crops provide a 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 use technology to provide a stable growing environment for their crops through environmental controls. This reduces vulnerability to external environmental conditions and pressures such as significant weather events.

¹ <https://www.epa.govt.nz/industry-areas/emissions-trading-scheme/industries-in-the-emissions-trading-scheme/horticulture/>

² TomatoesNZ

³ 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/>

Submission

2. Take the Advice of the Climate Change Commission

HortNZ recommends that the Government accept the advice of the Climate Change Commission (CCC). In 2023, all four ETS auctions failed due to low demand and bids not meeting the confidential reserve (minimum) price⁴. Low demand was influenced by uncertainty over the future of industrial allocations and central government reviews of the ETS system. The CCC can provide the best advice as independent experts, and certainty of approach will drive confidence in the market. HortNZ's main interest is that auctions succeed, so that growers can get the best value from their industrial allocation to offset the cost of heating.

2.1. Unit Volumes

The consultation document presents options for each of the steps used to determine annual auction volumes. The first step is to align with climate change targets, including emissions budgets, New Zealand's international commitments, and the 2050 net-zero target.

Outcome sought: The CCC's recommended minimum adjustment to align unit limits with methodological changes to the Greenhouse Gas (GHG) Inventory should be adopted (Option 2 for Step 1: Align with climate change targets).

The impact of non-ETS policies, as discussed under Option 3, should be left out of ETS design to maintain the integrity and focus of the system.

3. Maintain a Free Market

In general, HortNZ believes the ETS should be treated as a free market. Frequently adjusting price controls distorts the market's purpose - to incentivise decarbonisation. Industrial allocations are an existing mechanism to manage carbon leakage. Changing price controls will reduce certainty and disadvantage those who receive free allocations by deflating their value.

Outcome sought: HortNZ seeks that CCC's advice is accepted to maintain the status quo approach to price controls.

Frequent consultations by central government seeking to adjust settings to the ETS have contributed to a lack of confidence in the market. ETS settings should be consistent, so that businesses and banks can have the confidence to invest in decarbonisation. This transition involves significant investment, especially for small and medium-size greenhouse businesses which do not have large margins. They need to know what cost

⁴ <https://environment.govt.nz/assets/publications/climate-change/NZ-ETS-interim-auction-monitor-report-06-December-2023.pdf>

pressures they will face before making large efficiency improvements or switching energy systems, investments that will take years to pay off.

HortNZ agrees with BusinessNZ's recommendation in their submission to build certainty "by way of legislating issued and allocated units out to 2050".

Outcome sought: Legislate ETS settings up to 2050 to establish regulatory certainty.