

SUBMISSION ON Government's Recommendations on Pricing Agricultural Emissions

18 November 2022

To: Ministry for Environment

Name of Submitter: Horticulture New Zealand

Contact for Service:

Michelle Sands
Strategy and Policy Manager
Horticulture New Zealand
PO Box 10-232 WELLINGTON
Ph: 021 610 653
Email: michelle.sands@hortnz.co.nz

OVERVIEW

Submission structure

- 1 Part 1: HortNZ's Role
- 2 Part 2: Executive Summary
- 3 Part 3: Submission - Discussion of grower feedback

Our submission

Horticulture New Zealand (HortNZ) thanks the Ministry for Environment for the opportunity to submit on the Pricing Agricultural Emissions Submission and welcomes any opportunity to continue to work with Ministry for Environment and to discuss our submission.

HortNZ supports the primary sector and Māori agribusiness partners submission on the government recommendations for pricing agricultural emissions

The purpose of this submission is to focus on elements of the He Waka Eke Noa and government recommendations, that are most relevant to the horticulture sector, and to reflect the views of growers on these topics.

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 fruits, and vegetables. The horticultural sector provides over 40,000 jobs.

The horticulture industry is valued at \$7b with \$4.6b in exports annually.

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 plays a 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 thrive. This is done through enabling, promoting and advocating for growers in New Zealand.

Executive Summary

He Waka Eke Noa

HortNZ is part of the He Waka Eke Noa Partnership and is represented on the steering group. Product group staff and growers have spent considerable time advising and testing ideas in support of the HortNZ staff engaged in the He Waka Eke Noa working and steering groups.

One of the key reasons HortNZ has participated in the He Waka Eke Noa partnership is because we believe the primary sector coming together to support climate change action is powerful and important.

HortNZ supports the He Waka Eke Noa recommendations. It was our experience that a fine balance was struck by the Partnership.

Government Recommendations on Pricing Agricultural Emissions

HortNZ supports the submission from primary sector and Māori agribusiness partners on the government recommendations for pricing agricultural emissions.

During the consultation phase for the government's recommendations, HortNZ has continued to participate in conversations with primary sector and Māori agribusiness, on options to respond to the government's consultation.

The proposal included in the primary sector and Māori agribusiness partners submission, will enable the primary sector and Māori agribusiness to come together to recognise the importance of climate change action, with a system that supports farmers and growers to make short and long-term decisions to manage and reduce emissions from their farming activities and to remain productive.

HortNZ Submission

The purpose of this submission is to focus on elements of the He Waka Eke Noa and government recommendations, that are most relevant to the horticulture sector, and to reflect the views of growers on these topics.

Growers hold a range of views, and the views of some growers differ from HortNZ's position.

Submission

1. Support for the Primary Sector and Māori Agribusiness Submission

HortNZ supports the primary sector and Māori-agribusiness submission on the governments recommendations on pricing agricultural emissions.

2. Reflecting Grower Views on Pricing Agricultural Emissions

The main purpose of this submission it to amplify the voice of growers, and the feedback that HortNZ has received from growers on the options for pricing and managing agricultural emissions. There are a range of views amongst growers:

Many growers, support climate change action, but do not support pricing agricultural emissions. This group is concerned about the adverse economic impact on grower's and farmers' businesses in combination with other increasing costs and pressures, (inflation, regulation, workforce).

Many growers, support climate action, and including action to reduce agricultural emissions. This group accept emissions pricing as part of a system to drive action. This group is focused on designing a system that is effective and fair.

2.1. Consultation with growers on He Waka Eke Noa

Over the past year HortNZ has undertaken considerable consultation with growers on the issue of the managing and pricing agricultural emissions.

Much of this consultation was to support growers to meet their He Waka Eke Noa milestones and to seek feedback from growers and product groups, so HortNZ could reflect their views and interests within the He Waka Eke Noa Partnership.

The consultation to inform the He Waka Eke Noa Partnership recommendations included:

November - December 2021

- Four in person grower meetings in Hawkes Bay and Otago, with over 50 attendees
- Five on-line meetings with over 50 attendees
- 130 survey responses to the HortNZ survey (the same as the He Waka Eke Noa survey)
- 4 newsletter articles linking to He Waka Eke Noa website and survey
- Two magazine articles (NZ Grower, the Orchardist)
- Feedback sought on a draft submission shared with product groups, district associations and growers captured by the farm level threshold.
- December - March 2021/22

- 170 growers have been spoken to on the telephone at least once by HortNZ contractor. (over 90% of farms over 80ha). The He Waka Eke Noa proposal was discussed and assistance to do their emissions calculations provided. 60% of growers: “know their number”

February - March 2022

- Three on-line meetings with 26 attendees
- 7 newsletter articles linking to He Waka Eke Noa website and survey
- 37 survey responses to the HortNZ survey (the same as the He Waka Eke Noa Survey)
- Two magazine articles (NZ Grower, the Orchardist and the HortNZ website)

2.1.1. KEY THEMES - GROWER FEEDBACK TO INFORM THE HE WAKA EKE NOA RECOMMENDATIONS

- Support for a system that works for NZ primary sector and is effective, given the importance of emissions management to our international reputation and the importance of the primary sector to NZ
- An expectation that low-emissions food production and domestic food security should be supported, not penalised through the He Waka Eke Noa pricing design.
- Important that there is a clear opportunity for revenue paid-in by the horticulture sector to be recycled to the sector, for emissions reductions or adaptation
- Horticulture is an opportunity to reduce agricultural emissions. Recycling of revenue should support research that improves yields of fruit and vegetables.
- Support for sequestration, including orchard trees and vines.
- Split views on the Farm Level and Hybrid Processor.
- Willingness to do emissions calculations and farm planning to reduce emissions and improve emissions efficiency of fruit and vegetables.
- A desire that He Waka Eke Noa not frustrate market led greenhouse gas management
- A desire to leverage off GAP, to reduce costs and better align to market drivers.
- System cost could be reduced with a focus on assurance rather than data reporting
- The admin costs should be distributed so those that benefit from the complexity pay more.

2.2. Consultation to inform this submission on the Government Recommendations on Agricultural Pricing

The HortNZ consultation to inform this submission on the government recommendations included:

October - November 2022

- Promoting the government consultation meetings and survey to growers on our website and 2 newsletters

- Three on-line industry and grower meetings with over 30 attendees
- Two conference presentations
- A grower survey with 42 responses
- Feedback sought on a draft submission shared with product groups, district associations and growers over 80ha.

In addition to the consultation that HortNZ has hosted, we are aware other horticultural groups have held grower meetings to discuss the consultation, and some product groups have made their own submissions.

2.2.1. KEY THEMES - GROWER FEEDBACK TO INFORM THIS SUBMISSION ON THE GOVERNMENT RECOMMENDATIONS

- Split views on fertiliser point of obligation between the Farm Level and ETS
- An expectation that low-emissions food production and domestic food security should be supported, not penalized through the pricing design.
- Concern that the money that is raised for the horticulture sector should be invested in research and development to benefit the sector
- Concern about the administration costs, and the strong desire for money raised to be invested in research and development rather than in system administration
- Support for sequestration, including orchard trees and vines.
- Uncertainty around if money would be recycled to horticulture if fertiliser is included in the ETS
- Concern about whether all fertiliser used in horticulture - e.g. foliar, hydroponic is accurately represented in the nitrous oxide emissions factors that are related to fertiliser application to soil.

2.3. Responses to the HortNZ Survey

To assist the government in understanding the opinion of growers on its recommendations, HortNZ developed a survey. We have received 42 responses to this survey.

The survey was focused on issues relevant to growers and constructed as a comparison between the He Waka Eke Noa recommendations and the government recommendations. The survey also included the option for growers to respond "other" and in all cases explain their opinions.

The responses to the survey are summarised below

2.3.1. METHOD OF SETTING THE NITROUS OXIDE PRICE

There was a split view amongst growers on whether the price of nitrous oxide should be linked to the ETS or a unique price, with most growers being unsure.

HortNZ view

While the prices estimated to 2030 are the same between the options, in the longer term the ETS option will be linked to the abatement cost of carbon and the He Waka Eke Noa cost will be linked to the abatement cost of nitrous oxide.

We consider it more appropriate to link the cost of the nitrous oxide emissions to achieving the nitrous oxide part of the emissions budgets

HortNZ supports the primary sector and Māori agribusiness submission that recommends a unique price with a price cap linked to the ETS with 95% Free Allocation and 1% phase out.

2.3.2. FERTILISIER IN THE ETS OR FARM LEVEL

There are split views on whether the point of obligation for fertiliser should be at the Farm Level or the ETS.

Over the past year, HortNZ has asked growers this question three times and received over 200 responses, in each survey there was a split view, with slightly more growers preferring Farm Level in all of the surveys. In this most recent survey 41% preferred Farm Level, 23% the ETS and 34% other.

The reasons given by growers for preferring one option or another centre on equity and efficiency.

- Growers who prefer the ETS consider it a more efficient and cost-effective option
- Growers who prefer the ETS, think the 200T CO₂e threshold is unfair. It captures most large vegetable growers but does not expose small vegetable growers to the emissions price.
- Growers who prefer the farm level, consider more efficient for managing emissions on mixed farms.
- Growers who prefer the farm level, consider that growers who produce very low emissions food, should not be subject to a lower emissions pricing threshold for nitrous oxide in the ETS than nitrous oxide in the Farm Level system.
- Growers who prefer farm level, think it is fair that small vegetables growers below the threshold are not exposed to the price when larger vegetables growers above the threshold are exposed to the price. These growers consider it increasingly economically difficult for small vegetable growers to operate, and that small growers offer little competition to large growers.

HortNZ view

There are pros and cons of both the Farm Level and ETS point of obligations.

Only 6% of synthetic fertiliser is used by the Horticultural Sector. We understand farmers prefer the farm level option because it enables them to manage their fertiliser emissions in an integrated way with their animals' emissions.

HortNZ supports the primary sector and Māori agribusiness submission that recommends the Farm Level point of obligation for fertiliser emissions.

2.3.3. EXCLUSION OF MINOR ANIMAL EMITTING SECTORS

Most growers thought that all sectors, should be included if their emissions were above the 200 TCO₂e threshold. The reason given were related to fairness

HortNZ view

The horticulture sector also has relatively minor emissions. Work undertaken by the He Waka Eke Noa programme office estimated the emissions for the horticulture sector may make 1.5% of NZ Agricultural Emission (CO₂e). Based on the data HortNZ has collected as part of the "know your number" milestone, we estimate the contribution is likely to be less than 1%.

HortNZ has participated in the partnership because we believe all farmers and growers need to manage their emissions, and because we believe the primary sector coming together to support climate change is powerful and important

2.3.4. FERTILISER EMISSIONS - SYNTHETIC AND ORGANIC

Most growers (37%) preferred pricing only on synthetic fertiliser. Many growers answered "other" to this question.

- Some thought it was unfair to include organic fertiliser because manure emissions should be priced once at the source, ie poultry farm, as with other animal emissions.
- Some thought it was fair, to price all emissions regardless of whether they are organic or synthetic
- Some thought it was counterproductive to price organic fertiliser because it would disincentive circular economy uses of waste streams.
- Some thought it was counterproductive to price organic fertiliser because it would disincentivise soil health co-benefits
- Those that answered 'other', tended to be against pricing of agricultural emissions

HortNZ view

HortNZ supports the primary sector and Māori agribusiness submission that recommends the organic manure is not subject to a price.

2.3.5. RECOGNITION OF SEQUESTRATION

Most growers (60%) preferred the full range of sequestration that was included within the He Waka Eke Noa option.

- Most growers thought that the sequestration from orchard trees should be eligible for sequestration payments
- Growers are aware that the sequestration achieved by orchard trees is modest. Some thought there was little point including it, others felt it should be included.

HortNZ view

The Climate Change Commission's proposal for a separate system to recognise the wider benefits of planted areas above and beyond carbon sequestration could have some merits. For example, the development of guidance or policies that would support private sector funding of biodiversity/ecosystem services initiatives on farms and orchards.

HortNZ supports the primary sector and Māori agribusiness submission that recommends that all sequestration categories included in the He Waka Eke Noa Partnership recommendations are included.

2.3.6. COLLECTIVES

Growers preferred the option for collectives for all.

- Many growers operate under multi-business groups under the GAP schemes.
- The GAP schemes offer an opportunity for supporting collectives.

HortNZ view

NZGAP has put forward a joint proposal with Te Awanui to use NZ GAP as a method to support Māori agribusiness collectives across horticultural and pastoral land uses for, He Waka Eke Noa and Freshwater Farm Plans.

HortNZ understands the importance of collectives for Māori agribusiness, and support access to Māori collectives from 2025. We also think that collective for all, could simplify the system, and that GAP provides a method for delivering collectives.

HortNZ supports the primary sector and Māori agribusiness submission that recommends collectives for all.

2.3.7. EQUITY OF THE PRICE IN AGRICULTURAL SECTOR, NZ AND OVERSEAS

Most growers did not think the proposed system was equitable, but some thought it was equitable in some way. The reasons given included:

- A higher emissions price being paid by NZ food producers, compared to overseas producers
- The emission price driving an increase the costs of vegetables that will increase inequity and negatively impact NZ consumers health.
- A negative impact on the NZ economy that will increase inequity in NZ
- An additional cost that growers cannot bear, because of inflation, labour and regulatory pressures
- An unfair impact on rural communities compared to urban communities in NZ
- Some thought the proposals are fair, and that our sector has an obligation to do its share to reduce gross emissions and to do so with the minimum possible distraction by compliance and administration requirements.

HortNZ view

HortNZ supports the primary sector and Māori agribusiness submission. We believe a balance has been struck with recommendations that will enable the primary sector to take climate change action, remain productive and respond to increasing market demands for climate action.