



**SUPPLEMENTAL SUBMISSION TO
FINANCE AND EXPENDITURE COMMITTEE**

on the

**Climate Change (Emissions Trading and Renewable Preference)
Bill**

By

DEER INDUSTRY NEW ZEALAND

29 February 2008



29 February 2008

The Chairman
Finance and Expenditure Select Committee
Parliament Buildings
Wellington

Dear Mr Chauvel

CLIMATE CHANGE (EMISSIONS TRADING AND RENEWABLE PREFERENCE) BILL (THE BILL)

Deer Industry New Zealand (DINZ) is the levy funded industry-good body established under the Deer Industry New Zealand Regulations (2004). One of its key functions is to promote and assist the development of the deer industry in New Zealand. DINZ, in partnership with other pastoral-based industry organisations (Meat and Wool New Zealand and Meat Industry Association) is making a separate submission (The Submission) that represents a set of common views from these organisations on behalf of their various stakeholders and levy payers.

This letter complements The Submission by emphasising issues that are of specific concern to DINZ and the New Zealand deer industry.

Background concerns

On 30 March 2007 DINZ made a submission to the Ministry of Agriculture and Forestry discussion document "Sustainable Land Management and Climate Change – Options for A Plan of Action", the pre-cursor to announcement of the Emissions Trading Scheme and other government initiatives to tackle climate change. Some excerpts from that submission are provided below to highlight concerns with The Bill.

"While it is accepted that there will be obligations under the Kyoto Protocol rules, these do not fit well with New Zealand's agricultural economic base and its emissions profile. Thus, in implementing policies to address New Zealand's GHG emissions, the Government should focus on those measures that will provide the best emissions reduction outcome over the long-term."

DINZ has supported the *concept* of emissions trading but notes that the aim of a New Zealand Emissions Trading Scheme (NZETS) is to support and encourage global efforts to reduce global greenhouse gas (GHG) by complying with Kyoto protocol obligations.

DINZ re-iterates the comments in The Submission that New Zealand's GHG emissions are insignificant on a global scale and have negligible impact on the global prevalence of atmospheric GHGs, therefore contributing to GHG reduction will be by way of setting an example for other countries. The NZETS as one tool to achieve this will need to balance 'cost-of-carbon' pressures to promote behaviour change against maintaining economic viability. Based upon limited and preliminary figures to date, DINZ has serious concerns that this approach will be sustainable for farmed-deer enterprises in the long-term.

Page 2

PO Box 10-702, Level 13, PWC Tower, 113 The Terrace, Wellington, New Zealand
Telephone +64-4 473 4500, Fax +64 4 472 5549

www.deernz.org

www.nzvenison.com

www.velvet.org.nz

Deer Industry New Zealand is the operating name of the Game Industry Board.



Although outside the scope of the Bill, DINZ observes that the challenge of finding practical solutions to mitigate methane and nitrous oxide emissions is very large, and the probability of success in this area would be maximised by a whole of government-industry partnership focusing on this single issue as is currently occurring via the Pastoral Greenhouse Gas Research Consortium (co-funded and supported by the deer industry). This would continue to show real leadership of which the Government could use in international fora as well as making a real contribution to GHG mitigation.

"Further analysis would be useful to show the extent of costs to agriculture (macro scale) and individual businesses (micro scale). Availability of proven mitigation tools is a pre-condition to effective use of market pricing measures;

"DINZ welcomes further engagement with the Government but reserves any support for such a scheme until further analysis of the economic and practical viability is available."

Given that much of the detail regarding costs to businesses and economic impacts to the rural communities around these businesses are unknown and in-turn depend upon further development of operational aspects of The Bill (and determined by Order in Council) and the lack of proven mitigation tools for deer farming businesses (now and in the short- to medium-term), DINZ cannot support the NZETS in its current form and would require a genuine commitment from Government to ensure that agricultural businesses are not penalised for producing food to meet consumer demand.

One further consideration is that while the NZETS concept remains valid as a market-based tool, it in-turn depends on some basic requirements: costs can be passed on to the consumer and competing products are also exposed to similar costs. At this stage DINZ does not believe that either of these requirements will be met for venison (and indeed other pastoral livestock products).

Specific concerns relating to The Bill

Linear phase-out of "free" NZ emissions units

DINZ notes that, at 2013, NZ emissions units will be assigned by the Government to the agriculture sector at a defined level (90% of 2005) and linearly phased out so that by 2025 the agriculture sector will be fully exposed to the cost of carbon.

The Submission outlines concerns with a linear approach (see paragraphs 83-89) and the disconnect that this will have with "real world" developments with respect to development of mitigation technologies, consumer demands, market access, competitors' advantage/competitive disadvantage.

DINZ emphasises that the linear approach is arbitrary and more of an administrative convenience rather than a pragmatic approach to implementing on-farm behaviour change. As such DINZ strongly opposes this approach and equally strongly supports the use of reviews throughout the duration of the NZETS to guide the level of exposure that agriculture faces to carbon costs, based on considerations of market conditions such as those noted above.

Affordability

DINZ wishes to highlight The Submission's comments on the Explanatory Note accompanying The Bill and in particular the rather brief mention of the impact of the NZETS on payout to venison



farmers (see paragraphs 129, 130). Subsequent figures (with no workings provided) have indicated similar, if not worse impacts on profitability (i.e. substantial losses are incurred).

In the absence of other, more robust analysis DINZ has grave concerns regarding the affordability of the NZETS for deer farmers. At a time where the industry is attempting to re-build national herd size following several seasons of poor returns, these signals will not serve to encourage new entrants into the deer industry. The deer industry as a small component of the agricultural sector will be particularly vulnerable to both the cost of carbon and any cost associated with administering the NZETS.

The Submission presents a logical argument for costs of administration to be considered a public good which would greatly enhance the affordability of the NZETS (Recommendation #6, paragraphs 112-118). However, as noted above, if there is limited ability to pass costs on to the consumer and there is little that can be done to mitigate livestock GHG emissions, DINZ can only regard the NZETS as a tax on productivity and does not believe that such a tax will effectively promote behaviour change (other than to reduce existing investment and discourage new investment in the industry).

In conclusion DINZ fully accepts the need for all parts of society to reduce GHG emissions and recognises the New Zealand Government's desire to set an example to the international community. While the NZETS concept has the ability to play an important role in achieving both of these outcomes, the present framework and the lack of detail around operational application of the NZETS for the New Zealand Agriculture sector and particularly for pastoral industries are of serious concern to DINZ.

In the earlier submission on "Sustainable Land Management and Climate Change – Options for A Plan of Action" DINZ stressed the need for partnership between Government and industries as the way forward in achieving these outcomes. This view has not changed and the need is even more apparent in the lead-up to 2013 (or 2011). DINZ strongly urges for more analysis on impacts and realistic timeframes for consultation as an indication of good-faith partnership. The closing remark in the earlier submission is equally pertinent for the Finance and Expenditure Select Committee's considerations of The Bill:

"DINZ looks forward to a sustainable deer industry that successfully operates within the limits imposed by climate change and market requirements and is proactive in maintaining sustainable land management systems and practices."

On behalf of Deer Industry New Zealand.

Mark O'Connor
Chief Executive Officer