

**SUBMISSION**

On

**Action on Agricultural Emissions**

to

**Ministry for the Environment**

[agriculture.emissions@mfe.govt.nz](mailto:agriculture.emissions@mfe.govt.nz)

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## **About Fertiliser Association of New Zealand (FANZ)**

- 1 Managing nutrients in New Zealand's primary industry production systems serves the interests of all New Zealanders, both for economic benefit and environmental management.
- 2 The Fertiliser Association of New Zealand (FANZ) promotes and encourages responsible and scientifically-based nutrient management.
- 3 To promote good management practices, FANZ develops training programmes for rural professionals (with over 200 certified nutrient management advisers, and over 40 advisers specifically endorsed for greenhouse gases), funds research, participates in government and local body working groups, and works closely with other organisations in the agricultural sector.
- 4 Founded over 70 years ago, FANZ is an industry association funded by member companies to address issues of common public good. Members Ballance Agri-Nutrients Limited and Ravensdown Limited manufacture, distribute and market around 98% of all fertilisers sold in New Zealand.
- 5 The cooperative base of the FANZ members means the industry is not driven by product sales to its farmer shareholders, but by delivering best value to its farmer shareholders. The shareholders' best interests in nutrient management are aligned with effective and efficient use of nutrients.
- 6 Nitrogen fertiliser is a key component of agricultural productivity, and itself is a small part of the overall current New Zealand total greenhouse gas (GHG) emissions, at around 2-3% of total emissions in 2017 (5.8% of agricultural emissions). The industry has a pan-sector perspective in management of nutrient cycling across all farm types - dairy, beef & lamb, arable and horticultural farms. The industry is committed to using its systems and expertise to aid agriculture's transition to a lower GHG emissions future.

## **FANZ's philosophy and approach to managing emissions**

- 7 The Zero Carbon Amendment Bill provides the framework for emissions reductions. We have been clear about our support for the Bill and its role in delivering enduring, predictable and consistent policy to support business investment and farmer choice. However, what sits under the legislation will be critical to achieving New Zealand's goals for a low emissions

economy. FANZ considers the matters below which are critical to delivering a successful, productive and competitive low emissions agricultural sector for New Zealand.

- 8 Certainty for business investment: On-going certainty and consistency in regulation and policy is vital for continued business investment, innovation and capacity building in the primary industries. Cross-party agreement on these key policies will deepen the signal to the sector, increase certainty, and increase confidence in investing in emissions reductions.
- 9 Flexibility to respond to markets and conditions: FANZ supports systems that provide land managers with flexibility to manage their systems to achieve both environmental and production outcomes. This allows farmers choice about the most effective way of achieving outcomes for their particular property and circumstances. To ensure this flexibility requires policies that account for and recognise the full suite of emissions reductions opportunities that a farmer/grower has at their disposal.
- 10 Efficiencies in nutrient use: We recognise that New Zealand producers are among the most efficient in the world. We need to be careful that we do not impose restrictions on producers that will disadvantage them compared to their competitors, leading to “leakage” of emissions offshore. Therefore, mechanisms introduced to drive reductions in GHG emissions, must at the same time encourage increased efficiency and reward lower intensity emissions. New Zealand’s leadership position to the world is about showing how greenhouse gas emission reductions can be achieved while maintaining profitable farming.
- 11 Globally, good systems for management of livestock emissions will be very important, and this is where New Zealand can make its greatest contribution to reducing global emissions. If New Zealand attempts to simply transition entirely away from livestock, we will at best contribute to reducing our 0.17 % contribution to global emissions. In contrast, developing and demonstrating solutions – including policies – for efficient livestock production and contributing to food security for high quality protein with low emissions, could provide a pathway for significant reduction in global emissions if New Zealand solutions are adopted internationally.
- 12 The majority of New Zealand’s agricultural land comprises rolling to steep landforms which are not suited to intensive arable cropping or horticulture. New Zealand pastoral systems use these lands very efficiently to produce high quality protein rich food. Conversion to forestry on hill country landforms is highly beneficial in terms of carbon sequestration,

however, it does not contribute to Article 2 (1) (b) of the Paris Commitment in terms of providing for food production.

- 13 Drivers for change: For the most favourable outcome in environmental management FANZ supports 'effects' based measures at farm level. Effects in this context result from managing the losses from the farm system, in preference to prescriptive controls on inputs.

### **Transition to responsibility for GHGs**

- 14 There are a number of mechanisms available that could make agriculture's transition meaningful.
- 15 **Integrate management of greenhouse gases into the Farm Environment Plan** – Not all farms are the same and they do not all have the same opportunities for reductions of emissions. Farm Environment Plans (FEPs) provide a vehicle to enable integration of all drivers – climate change, water policy, biodiversity etc while providing for food and fibre production within environmental limits. FEPs can deliver a strategic five-year perspective on priorities for action tailored for the individual farm. The FEP can be supported by annual reporting mechanisms which demonstrate progress on farm.
- 16 **Farmer/Grower Choice:** FANZ proposes that farmers and growers have a choice on who reports on GHGs obligations on their behalf. FANZ considers it is important that the point of obligation remain with the farmer, to ensure behaviour change. While the liability associated with emissions best rests with the farmer, flexibility on who reports on the behalf of the farmer will reduce compliance costs. Reporting could range from self-reporting, processor reporting on behalf of their supplying farms, or farm advisers reporting on behalf of a farm. The key focus needs to be to ensure that whoever does the reporting has the skills and capability to ensure accurate reporting of on-farm emissions.
- 17 **Auditing recognises certification:** Professional training and quality assurance support a robust system for development of FEPs and reporting against them. Effectively, by using skilled and certified advisers, the compliance burden is reduced. Existing nutrient management certification, including greenhouse gas endorsement is available through industry schemes and is poised for further growth and development, if there are clear signals.

- 18 **Phase in reporting:** It will take time to build the systems, for all farms, even though many already have the necessary farm level mechanism in place now.
- 19 The introduction of farm level accounting requires human resources, capability and systems to support it. This can be achieved several different ways, for example:
- a) phased introduction of responsibility for emissions (e.g. by farm type, financial turnover or emissions type),
  - b)
    - i) use of simple models/ look up tables where detailed assessment is not warranted, and
    - ii) use of detailed sophisticated modelling where it is warranted. Sophisticated modelling may be warranted where it provides a clear advantage to the land manager, or where it is already required (e.g. for water quality regulation).
- 20 A phased reporting programme would allow systems to be developed and tested before full obligations are imposed.

### **Specific, uniquely placed expertise and products provided by the fertiliser industry**

- 21 The industry is well placed to support farmers in addressing nitrous oxide emissions targets. The fertiliser industry is almost uniquely placed in terms of the number of trained staff with nutrient (farm nutrient cycling) expertise and the number of staff nation-wide with long-term one-to-one business relationships across all agricultural sectors. The fertiliser industry is also unique in that currently available products provide verified mitigation options for nitrous oxide mitigations from fertiliser as well as from livestock urine patches (subject to trade acceptance). The industry has invested in tools for assessing and reporting nutrient cycling on farms, including GHG emissions at farm scale.

## Key Considerations for Action on Agricultural Emissions

- 22 FANZ supports enduring and predictable policy that enables agriculture to address greenhouse gas emissions.
- 23 Our view is that a farm level rather than processor point of obligation, including for fertiliser, will be more effective in reducing emissions.
- 24 A farm level point of obligation is the best way to incentivise choice in reducing agriculture's greenhouse gas footprint. It will give farmers flexibility about what mitigations will be most cost effective in their situation. It will more readily allow new mitigations and options to be adopted. Farm level accountability has lower administrative costs per unit of emission reduction.
- 25 If processor level accounting is introduced it is unlikely to influence farmers and grower's choices. It will result in a smaller reduction in emissions, and it will embed additional cost into New Zealand's agricultural production system without substantive benefit. Processor level accounting has a higher administrative cost per unit of emission reduction.
- 26 Farm scale accounting, including for fertiliser, will be more cost effective. It will build on the progress already been made by the sector with regard to water emissions. Some of the groundwork needed to achieve farm level accounting has been provided by water quality measures.
- 27 The transition to responsibility for emissions can be smoothed by:
- Integrating management of greenhouse gases into the Farm Environment Plan
  - Giving farmers and growers choice and flexibility for management and mitigation
  - Developing audited quality assurance schemes to verify emissions
  - Phasing in responsibility to enable system and capability development
  - Supporting farmer change through good extension and support services

- 28 When reviewing Option1 and Option 2 of the proposals for transition, Government needs to take the long-term view and needs to consider what is going to be the most cost-effective way of achieving emissions reduction in the long term.
- 29 It will need to recognise that the key challenge at the moment is how we start to bend the emissions curve. There is uncertainty about what the final target may be in 2050, but we need to shift the focus to how we create a system that will deliver cost-effective emission reduction in the future, and maintain our market advantage.
- 30 Support, goodwill and commitment from the rural community will be essential if seeking to achieve ambitious GHG targets. A formal sector agreement and collaborative approach to responding to climate change will help provide the strength of commitment to achieving environmental limits.
- 31 Productive agriculture will require continuous improvement in efficiencies of existing land uses, plus new disruptive technologies to achieve ambitious GHG targets. Government support for investment into research and capability to support efficiency gains and new technologies is a clear opportunity for step change in GHG emissions.
- 32 New technologies need a clear pathway to implementation. The work proposed by MPI on how new products will fit within the Agricultural Compounds and Veterinary Medicines (ACVM) regulations and CODEX is welcomed. This is critical to ensuring that any innovations intended to reduce emissions do not create problems for products in the international markets.
- 33 A cohesive government policy approach across climate and water policies is needed to ensure that signals reinforce each other. Regional council regulation in the productive agricultural areas already require farm-level accounting of nitrogen loss. Already 15,000 farms are required by councils to do some form of nutrient budget. Many of these are undertaken using Overseer. There are over 9,000 nutrient budgets for farms currently registered with OverseerFM. While farmers may not yet be aware, each of these budgets includes a greenhouse gas emissions profile.
- 34 Government support for championing New Zealand's efficiency and GHG solutions to a global audience could effect significant reductions in global GHG emissions. New Zealand greatest contribution to global emissions reduction may be by demonstrating systems for agricultural emissions reductions.

## Consultation questions

### 1. What is the best way to incentivise farmers to reduce on-farm emissions?

FANZ supports the Farmers Leaders proposal for a government-sector partnership on agricultural emissions reduction. Our view is that the Farmers Leaders commitment is based on developing a practical and cost-effective system for reducing farm level emissions by 2025. They have indicated a commitment to design a pricing mechanism where it is part of a broader framework to support change.

To reduce on farm emission, the point of obligation (cost) for those emissions must be on-farm, and the farmer must have alternatives that allow them to implement mitigations.

If the GHG cost is transparent and realised at farm level, then options to avoid or reduce that cost will be sought. If the cost of emissions are embedded in an essential product and there are no alternatives, then the pricing mechanism will not effect any change - it will serve only as revenue collection.

Reporting at processor level has been in place under the Climate Change Agriculture Sector regulations since 2010. The reporting is not transparent to the sector, and has not built awareness.

If the emissions price is at a processor level it will not incentivise GHG efficient production. It essentially becomes an additional fixed cost on production with little impact on emissions. If an emissions allocation at farm level is based on national average, as is proposed, it will not be equitable or appropriate, because there is no average farm.

Table 2, page 15 of Technical Appendix 2 identifies that there are many anticipated mitigation options that will only be provided for if the point of obligation is at farm level, and emissions are calculated (as described in the document) using the AIM method, or other complex farm - level method such as OverseerFM.

New Zealand's greatest opportunity to effect an impact on reducing global GHG emissions will be through incentivising and demonstrating production at low GHG emissions which can be adopted internationally and thereby support the Paris Commitment, for reducing GHG Emissions in a manner that does not threaten food production.



**2. Do the pros of pricing emissions at farm level outweigh the cons, compared with processor level, for (a) livestock and (b) fertiliser? Why or why not?**

Processor level obligations will not incentivise reduction and will be more costly per unit of mitigation.

Processor level pricing of emissions is the most expensive option for accounting for greenhouse gas emissions from agriculture when you consider it on an “effectiveness” basis. We recognise that farm level emissions accounting has higher total costs, but the administration cost per tonne of CO<sub>2</sub> mitigated are lower, as discussed below.

The discussion document estimates that introduction of a processor level point of obligation will result in a total annual reduction of 100,000 tonnes CO<sub>2</sub> in mitigation (page 25). The administrative costs introduced by processor level accounting are estimated at \$2.7 million per year (based on the BECA report to Biological Emissions Reference Group<sup>1</sup>). Thus, the administration cost per unit of reduction are \$27 per tonne mitigated.

The discussion document states that pricing agricultural emissions at the farm level could lead to an emission reduction of 120,000 tonnes CO<sub>2</sub> equivalent per year, but that this could be increased to 2,450,000 tonnes CO<sub>2</sub> equivalent depending on the method used for free allocation. The BECA report provides an estimate that the cost of an on-farm reporting system would be \$39 million. The administrative cost for on-farm reporting would thus be \$15 per tonne mitigated (assuming that the higher level of mitigation is achieved). The higher estimate of potential mitigation across all farms has been used as we feel the analysis has underestimated the mitigation potential. There are a number of potential management actions which may be adopted on-farm as a suite of measures to reduce overall emissions. Taking just one, for example, if all farmers and growers who currently used urea switched to using urea coated with urease inhibitor, there would be a reduction of more than 100,000 tonnes in emission in terms of CO<sub>2</sub> equivalent. (Comparable or greater than the total reductions estimated that a processor level point of obligation will achieve). This also accounts for the fact that by using urease to increase the nitrogen efficiency of the product, farmers and growers would have the option of a reduction in the amount of nitrogen they use, further reducing emissions. So, a single measure if acknowledged at farm scale, has the potential to make a significant contribution to the range of potential measures on farm. Being able to manage a suite of measures at farm level will be more cost “effective”.

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<sup>1</sup> Assessment of the administration costs and barriers of scenarios to mitigate biological emissions from agriculture, May 2018

**Farm level obligation:**

Making the GHG emissions of on-farm management visible to the farmer supports farmers to choose how they best mitigate and meet market requirements. It builds on progress already being made in terms of nitrogen management for water quality and will drive on farm innovation.

To effect a change in behaviour requires a clear and transparent understanding of emissions profiles of different farming activities and management options.

Regional council regulation in the most productive agricultural regions are already demanding some level of farm scale reporting on nutrient cycling and nutrient loss from farm system. Where this level of reporting is already in place, a farm level greenhouse gas report can be produced for limited additional cost and effort.

FANZ also believes that the mechanism and process for accounting for agricultural greenhouse gas emissions should *“start as it means to go on”*. To start accounting at processor level and then transition to farm level after 5 or 10 years will introduce confusion, added expense and little or no benefit compared to the phased introduction of farm level reporting from the outset. Starting at processor level sends the signal that price mechanism alone will address climate change.

If introduced at processor level, it will delay the expansion of capability needed in professional services and farm scale accounting support will be delayed or not developed until needed.

In contrast, a farm scale point of obligation will enable accommodation of new science and new technologies for reduction in emissions at a farm level. This will support and drive the adoption of new mitigations as they become available. It will drive the development of capability to deliver and support farm scale reporting for GHG efficiency in production.

Verification and accounting for farm level actions can be accommodated through the process of Farm Environment Plans and audited reporting systems. Much of the groundwork has already been undertaken to address water quality, and this presents an opportunity for a very integrated approach to environmental management.

In summary

Farm level accounting provides the best opportunity for enduring greenhouse gas reductions. A processor-based levy will result in an embedded cost for production, which will not drive behaviour change and the opportunity for cost effective change in farm scale GHG losses will not be realised.

Farm scale accounting will more readily allow new mitigations and options to be adopted. Much of the groundwork needed to achieve farm level accounting has been provided by water quality measures. A phased introduction will enable a smooth build-up of capability, working in partnership with Industry.

### **3. What are the key building blocks for a workable and effective scheme that prices emissions at farm level?**

A one-page schema for Agriculture's low emissions transition pathway is attached as Appendix 1.

In brief, key building blocks for farm scale reporting will require:

- Integrating management of greenhouse gases into the Farm Environment Plan
- Giving farmers and growers choice and flexibility for management and mitigation
- Developing audited quality assurance schemes to verify emissions
- Phasing in responsibility to enable system and capability development
- Supporting farmer change through good extension and support services

### **4. What should the Government be taking into consideration when choosing between Option 1: pricing emissions at the processor level through the NZ ETS and Option 2: a formal sector-government agreement?**

When reviewing Option 1 and Option 2 of the proposals for transition Government needs to take the long-term view and needs to consider what is going to be the most cost-effective and enduring way of achieving emissions reduction in the long term.

It will need to recognise that the key challenge at the moment is how we start to bend the emissions curve. There is uncertainty about what the final target may be in 2050, but we now need to shift the focus to how we create a system that will deliver cost-effective emission reduction in the future, and maintain our market advantage.

Support, goodwill and commitment from the rural community will be essential if seeking to rapidly implement behaviour change to achieve ambitious GHG targets. A formal sector agreement and

collaborative approach to climate change will help provide the strength of commitment to achieving environmental limits.

**5. As an interim measure, which would be best: Option 1: pricing emissions at the processor level through the NZ ETS with recycling of funds raised back to the sector to incentivise emissions reduction or Option 2: a formal sector-government agreement? Why?**

An interim measure should be a first step towards a consistent, phased introduction of the mechanism and systems used to achieve mitigations and GHG reductions over the long-term.

FANZ believes this will best achieved through farm scale reporting and farm level point of obligation. A phased introduction can be achieved through a formal sector-government agreement, with good sector support. The interim measures should be measures which are aligned and support the preferred long-term approach, and not require a significant shift in focus at a later date. *“Start as you mean to go on”*, with interim measures providing the first steps and strong signals for continued investment and capability in the approach. It should support business investment and development without the spectre a change part way through. Whichever steps are implemented it should be signalling and supporting farm scale accounting and not processor level accounting.

**6. What additional steps should we be taking to protect relevant iwi/Māori interests, in line with the Treaty of Waitangi?**

Iwi/Maori are increasingly the powerhouse of agricultural investment in New Zealand. Māori own a significant proportion of assets in the land based primary sectors: 40% of forestry, 30% in lamb production, 30% in sheep and beef production, 10% in dairy production and 10% in kiwifruit production. The long-term view that Te Ao Maori brings to business is consistent with the long-term position adopted through the Zero Carbon amendment Bill.

However, we also recognise that collectively owned land remains underdeveloped, and some assistance may be required through increased extension and professional services to support the use and development of land and resources with-in the scope of GHG targets. The FANZ document *“Agriculture’s low emissions transition pathway”*, (Appendix 1), includes suggestions for supporting Iwi/Maori interests.

In addition, the application of methods of free allocation need to consider the potential to adversely impact iwi/Māori interests on collectively owned land.

**7. What barriers or opportunities are there across the broader agriculture sector for reducing agricultural emissions? What could the Government investigate further?**

All reports and evaluations conducted to date identify that significant reductions in agricultural GHG emissions are going to rely on new technologies. Land use change will also be a component.

Investment into research and capability to support efficiency gains and new technologies is a clear opportunity for step change in GHG emissions.

New technologies need a clear pathway to implementation. We welcome the work proposed by MPI on how new products will fit within the Agricultural Compounds and Veterinary Medicines (ACVM) regulations and CODEX. This is critical to ensuring that any innovations intended to reduce emissions do not create problems for products in the international markets.

We need a cohesive government policy approach across climate and water policies to ensure that signals reinforce each other.

New Zealand's agricultural emissions represents less than 0.2% of global emissions, however through developing and demonstrating low intensity food production systems, New Zealand could effect much more than 0.2% reduction in global GHG emissions. Government support for championing New Zealand's efficiency and GHG solutions to a global audience could effect significant reductions in global GHG emissions.

**8. What impacts do you foresee as a result of the Government's proposals in the short and the long term?**

Care needs to be taken to ensure that New Zealand cost competitiveness is not eroded, or that carbon leakage occurs.

**9. Do you have any other comments on the Government's proposals for addressing agricultural emissions?**

Three key considerations do not appear to have been into account;

- a) Cost effectiveness is a key consideration. If the farm level approach has universal support from industry and the costs can be managed, then the effectiveness in achieving behaviour change and the desired reductions is more likely to be successful

- b) Farmers and growers need access to tools that support their decision making. To facilitate a more rapid introduction this could range from a look-up table or simple model to a more complex modelling report.
- c) The development of skills, capability and resources to provide farm scale reporting will not be developed, or will be developed more slowly, if reporting is introduced at processor level. Such a move will delay the development of capability to deliver most effective option of farm scale reductions in GHG. The alternative options to develop a phased introduction of farm scale reporting from the outset with clear signals to “start as you mean to go on” has not been presented the “*Action on Agriculture Emissions*” discussion document, however, an industry – government agreement will enable a good start in this direction.

**Additional questions on free allocation of emissions units:**

**A. Do you agree that the method for free allocation of emissions units at processor level should be output-based? Why or why not?**

The method for free allocation of emissions units should be consistent with the method for reporting obligations. The reporting and accounting for emissions should enable and support more efficient, low emissions intensity.

Most importantly, the free allocation of emissions units should be applied to protect the industry from being trade exposed and to prevent leakage of emissions to less efficient overseas producers.

The output- based option, as described, compares unique processor derived emissions to a national average. It would appear that to be successful, first, there must be a mechanism for allocating unique emission factors at processor level, and second, the processor must decide to pass on any credits/ liabilities on to suppliers.

However, the process is complex and, as described, appears to drive a ‘sinking-lid’ in free allocation based on a levy for being above the national average, or a rebate for being below. In this way the preferred mechanism appears to be based on rewarding reduced emissions intensity and supporting behaviour change, rather than protecting against international leakage.

The Technical Appendix 5 “Free allocation for agriculture” describes a number of options for allocating acceptable emissions levels to farm, such as ‘grand-parenting’, ‘proportional’, ‘output-based’, ‘land-based’ or a ‘hybrid of output and land-based’ allocations. The discussion document

expresses a preference for output-based allocation or a hybrid of output and land-based allocation, against which free allocation can be linked to NZ ETS.

However, the preferred mechanisms, 'Output based', and the hybrid 'Output and land-based' mechanisms assume that all farms should be compared to a mean emissions value, and farm cost impacts attributed accordingly. It is noted (pages 3-4) there are a very wide range of emissions profiles for farms, and very different farm systems.

In the first instance it is not appropriate that all farms should be compared to a national mean and in the second instance a mechanism for free allocation with variable levy/rebate costs based on the national mean emissions, is not linked to international competitiveness or leakage risk.

FANZ considers that instead, the mechanism for free allocation should be simple to understand and implement, and should be designed to protect the industry from being trade exposed. At face value the Proportional Allocation most readily applies.

**B. Do you agree that free allocation of emissions units should be provided at the same time emissions obligation are due? Why or why not?**

It is supported that free allocation (whether at processor or farm levels) should be deducted at the same time as the emissions obligations are due, and that the free allocation is subtracted off the total emissions obligations. The reasons provided in the discussion document are that this is to prevent large volumes of units entering and exiting the market during the interim pricing at processor-level stage, which could create volatility in the unit price. FANZ agrees with these reasons given in the discussion document for free allocation to be deducted at the same time as the emissions obligations are due.

The purpose of the mechanism to provide free allocation up front, is described on page 24 of Technical Appendix 5 as:

*“ The purpose of this option would be to give some farmers more capital resources and encouragement to move to low emissions land uses and takeup low emission technologies and practices. ”*

Hence this is less a mechanism designed to protect against trade exposure but a mechanism to encourage behaviour change with a financial reward through change in land use or other mechanism to reduce emissions.

The method for issuing and redeeming free allocation should primarily be linked to protecting New Zealand industry from being trade exposed rather than as a mechanism to drive behaviour change.

**C. Do you agree with the ICCC that allocation factors should be updated in line with business-as-usual improvements in emissions intensity? Why or why not?**

The issue of 95% free allocation should not simply be a transition phase linked to a farm/processor mechanism. The free allocation, regardless of mechanism, is linked to trade exposed industry to prevent leakage to less efficient off-shore providers, and maintain a strong economic base with which to address climate change emissions.

Free allocation should only be removed/reduced as mitigation options become available, social economic and cultural consequences can be managed, and risk of 'leakage' producing a worse global outcome is reduced. Business as usual improvements may not translate to reduce "leakage" risk.

The ICCC report states on page 97 that:

*"The emissions intensity of agricultural production in New Zealand has fallen at a rate of about 1% per year over the last 25 years and further reductions are expected in the near term. If the agricultural allocation factors do not take this into account, in a few years the amount of allocation provided to agriculture would be 100% of actual agricultural emissions. This would be over-allocation.*

*To avoid this situation, the Committee proposes that the livestock-related allocation factors for both processors and farmers be set to decline in line with anticipated business as usual improvements in emissions intensity."*

This perspective places the criteria for Free Allocation entirely on domestic performance, and not on risk of international leakage. If the additional costs of achieving accelerated and increased efficiency with very low emissions intensity leads to New Zealand farms being more trade exposed compared to international competitors which do not face a carbon price, then there may well be a strong argument for maintaining or even increasing free allocation to support production of food products at lower GHG emissions. This would be consistent with the Paris agreement, Article 2 (1) (b), and consistent with the primary principle of Free Allocation.

The business as usual improvements in emissions intensity should give rise to comparable reductions in free allocation, only where trade exposure and risk of leakage is not increased.



**D. Do you agree the process for making decisions on any phase down of free allocation of emissions units should be set in legislation and informed by the Climate Change Commission? Why or why not?**

Businesses require certainty and consistency in approach for investment in growth and development to proceed. Any phase down of free allocation should be signalled well in advance, be based on sound information and analysis, and be supported by the fact that leakage to higher intensity production systems will not occur.

Having a clearly defined and firm “criteria” or “process” which is set in legislation for deciding on the phasing down of free allocation, will help to added confidence, however, there remains a requirement for some flexibility to respond to changing circumstance. The process must also allow for flexibility to change the allocation phase down where that is warranted.

# Agriculture's low emissions transition pathway

## FERTILISER ASSOCIATION OF NZ

Achieving a low emissions transition pathway for New Zealand's agricultural sector will require:

1. Enduring, predictable and consistent policy to support business investment and behaviour change, avoiding shifting goalposts.
2. Farm-level obligation so farmers/growers are incentivised to take appropriate actions, and have flexibility to adapt their systems while meeting market demands.
3. Access to proven, verifiable mitigation products and technologies for farmers/growers.
4. Policies that provide for a productive, profitable and competitive agriculture sector and that add value in export markets.

The biggest impact we can have on global emissions is by showing it is possible to reduce agricultural emissions while maintaining production. If we get it right, others will follow. This is New Zealand's leadership opportunity and a key mechanism to effectively contribute to global reductions.

FARMER/GROWER INTEREST	FANZ PATHWAY PROPOSAL	GOVERNMENT CONCERN
<b>EFFICIENCIES</b>		
<b>REPORT ONCE</b> Farmers/growers do not want to spend extra time reporting the same information to different entities. This time is better spent doing what they do best: producing quality agricultural products.	 <b>INTEGRATE INTO FARM ENVIRONMENT PLANS (FEPs)</b> FEPs are a long-term strategic document (e.g. 5yrs) that allow farmers to prioritise actions and pace change. Water quality rules already require farm level accounting. Bring climate & water together and develop a centrally-funded, nationally agreed auditing system.	<b>COST OF FARM/ GROWER REPORTING</b> The costs of reporting, monitoring and complying at farm level could be huge.
<b>REPORTING METHOD</b>		
<b>APPROPRIATE REPORTING</b> It may not be appropriate for all farmers/growers to use a complex model to report on their emissions.	 <b>FARMER/GROWER CHOICE</b> Liabilities should be based on the annual report, which draws on the FEP. Let farmers/growers choose whether to: <ul style="list-style-type: none"> <li>- use a simple method or more complex model.</li> <li>- report themselves or have another entity do it on their behalf.</li> </ul>	<b>BURDEN OF ON-FARM REPORTING</b> Concern about the logistics of having 35,000 farmers/growers using a complex tool. 15,000 nutrient budgets are already required by existing or planned regional council policies.
<b>AUDITING AND COMPLIANCE</b>		
<b>AVOID TIME CONSUMING AUDIT &amp; COMPLIANCE</b> Avoid farmers/growers spending unnecessary time, energy and resources engaging in bureaucratic audit and compliance exercises.	 <b>AUDITING RECOGNISES CERTIFICATION</b> Certified advisers or institutions carry the risk for errors in annual reports. Their skills, plus this liability, should increase quality & accuracy of reports and lead to better compliance outcomes.	<b>COMPLIANCE FOR 35,000 FARMS</b> Concerns about the logistics of running auditing and compliance for 35,000 farms.
<b>CAPABILITY</b>		
<b>ACCESS TO RELIABLE ADVICE</b> Farmers/growers need to understand their emissions and be able to rely on the advice they are given. Practical, tailored advice specific to their circumstances is needed.	 <b>UPSKILL ADVISERS &amp; PHASE IN REPORTING</b> Set clear policy direction - professionals will upskill in response. Training and certification opportunities are needed to enable this. Phase in reporting requirements to avoid saturating capability.	<b>CAPACITY FOR ON FARM ADVICE</b> Need to build capacity and capability quickly to support up to 35,000 farmers. Concern about "cowboys" providing unreliable advice.
<b>AFFORDABILITY OF ADVICE</b>		
<b>YET ANOTHER COST</b> Farmers/growers need to be able to access good advice - cost could be a barrier. Some aren't used to accessing professional advice.	 <b>GOVT SUPPORTS 10 HOURS FREE</b> 10 hours free advice for all farmers to encourage them to access professional support. <20 hours for Mt/Māori farming organisations.	<b>COST A BARRIER FOR SOME</b> The first FEP will be expensive for farmers/growers.
<b>GOVERNMENT-FERTILISER CO-OPERATIVES COMMITMENT</b>		
 <p>The fertiliser Industry is committed to emissions reductions and helping farmers thrive in an emissions constrained world. To demonstrate this commitment we are proposing:</p> <ol style="list-style-type: none"> <li>1. Tailored reporting to shareholders on the emissions embodied in products purchased</li> <li>2. Investment in innovation that will improve the efficiency of nitrogen fertilisers</li> <li>3. Advice to farmers to enable them to transition to profitable farms and climate responsibility</li> </ol>		