

Meat Industry Association of New Zealand (Inc)

Submission to the Ministry of Economic
Development on

The New Zealand Energy Strategy,
'Transitional Measures' Discussion Paper

March 2007

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I. About the Meat Industry Association

1. The Meat Industry Association of New Zealand Incorporated ('MIA') is a voluntary trade association representing New Zealand meat processors, marketers and exporters. It is an Incorporated Society (owned by members) that represents companies supplying virtually all of New Zealand sheepmeat exports and all beef exports, producing 17 per cent of our nation's exports by value (30 percent of New Zealand's primary sector export revenue). The New Zealand meat industry earned \$5 billion in export revenue in the year ended May 2006 and \$1.22 billion from domestic meat sales in the year ended March 2006.
2. MIA member companies operate approximately 80 processing plants dispersed throughout the country. The plants slaughter and process approximately 24 million lambs, 4.4 million sheep and 2.4 million cattle and calves each year. Ninety percent of this production is processed into value-added products. Approximately 800,000 tonnes or 85% of the production is exported to overseas destinations. Our affiliate members add to the depth of expertise available from the membership, with representation throughout the meat supply chain, including road and rail transport, shipping lines, ports, packaging firms, specialist product exporters, research and technology.
3. The MIA advocates on behalf of its members and provides advice on economic, trade policy, market access, employment relations, business compliance costs and technical and regulatory issues facing the industry, with a particular focus on:
 - Food safety trends and developments in importing countries
 - Economic and trade aspects of market access to key overseas markets
 - Major public policy proposals that could impact on industry operations
4. The MIA is also the interface between the meat industry and government (i.e., it is the consultative body referred to in various New Zealand statutes, such as the Meat Board Act 2004, Meat Act 1981, Animal Products Act 1999).
5. The Association's mission is to:
 - Provide a forum for consideration of industry-wide commercial, human resource, marketing, and sanitary and zoosanitary issues; and
 - Provide the means of formulating a collective view on issues of industry wide interest, and of conveying that position to government, departments of state, trade bodies, and other appropriate external agencies and organisations.
6. The Association's goal is to improve profitability in the industry by helping its members achieve marketing and operational excellence.

Background to this Submission

7. This submission is made by the MIA to provide feedback to the Ministry of Economic Development and the Ministry for the Environment on the discussion paper, "Transitional Measures towards low emissions electricity and to facilitate a transition to greenhouse gas pricing in the future," part of the Draft Energy Strategy to 2050. It represents the views held by our members in response to consultation undertaken with them.

8. In developing the submission all MIA members and affiliate members were consulted and asked for input, although individual members may also make their own submissions specific to the views of their operations.

II. Executive Summary

9. The MIA supports the government's intention to move toward an emissions pricing system. To protect New Zealand's economic growth, emissions pricing should be based on intensity, that is, the amount of greenhouse gas emitted per unit produced.
10. Any pricing regime introduced should be internationally tradable. This would put New Zealand in a favourable position, given the already high proportion of renewable energy used, and would ensure that businesses' competitiveness would not be affected by compliance costs not experienced overseas.
11. Government funding of measures that will encourage increased low-emission energy use should be considered, as this will decrease New Zealand's liability under the Kyoto Protocol.

III. Submission

Options

Emissions trading

12. The discussion paper presents four emissions trading options – 'cap and trade'; 'baseline and credit'; trading of cross-sectoral offsets; and a proposal from Trustpower Limited. Methods of allocation available are gratis (free) allocation, based on historic and projected emissions; auctioning of emission allowances, or setting a requirement to purchase project or offset-based credits.

Cap and Trade

13. A cap and trade emissions trading scheme sets a fixed ceiling (cap) for allowable emissions over a nominated period of time for each entity. If the entity's emissions are less than their capped allowance, then their emission credits can be traded to entities which exceed their allowance. Essential elements of a cap and trade scheme are:
 - Emissions are capped at some level in each period
 - Permits to emit greenhouse gases are issued for each period
 - There is a penalty for non-compliance

Key design issues include:

- Point of coverage
- Threshold for entry
- Use of offsets
- Methods of allocation of allowances

Baseline and credit

14. The key difference between the baseline and credit and cap and trade schemes is that baseline and credit is based on emissions intensity, that is, the ratio of emissions to production. Entities begin with a baseline level of total emissions per unit of activity. If the emissions exceed the baseline level, then the entity must buy additional emissions allowances, and if the emissions fall below the baseline level, then the entity has tradable emissions credits.

Trading of cross-sectoral offsets

15. This option would require the electricity and industrial heat and power sectors to fund activities which would reduce or sequester emissions in other sectors, such as agriculture or forestry.

Trustpower's proposal

16. Trustpower's proposal is a combination of emissions trading and a renewable energy requirement. Investments in new renewable generation from 2008-2017 (transition period) would be allocated permits each year for each tonne of emission reductions from new generation, based on a set electricity emissions factor. Each year, existing fossil fuel generation would be debited for an amount of permits based on their proportion of emissions from generation, adding up to the amount of renewable permits issued that year. Fossil fuel generators would be required to buy and retire permits each year to match their debt, thus creating a domestic market. To create an international linkage, permits would be either Kyoto units or interchangeable with Kyoto units. There would also be a financial non-compliance penalty.

Questions for discussion

- **Which of the four emissions trading options discussed would be the most suitable transitional measure for the New Zealand stationary energy sector?**
- **Do you support gratis allocation, auctioning or hybrid allocation schemes, and why?**

17. The MIA supports a baseline and credit emission trading scheme, as this provides flexibility as well as incentives to reduce the amount of emissions per unit of production. A cap and trade scheme would be likely to provide a perverse incentive to reduce production as a means to profit from reduced emissions, rather than encourage increased productivity.
18. The MIA supports gratis allocation on the basis of historic and projected emissions because it allows for:
 - Existing businesses to continue operating while planning for the transition into a controlled emissions environment.
 - The establishment of a baseline of emissions which can be adjusted sectorally in line with national emissions targets.
 - Enterprises to create value by over performing in emissions reduction, which would allow for either sale or cancellation of emissions units permanently, thereby contributing to the government's overall objectives.

Narrow based CO₂ charge

Should a CO₂ charge on emissions for electricity and industrial heat be a preferred option as a transitional measure in the stationary energy sector?

19. The MIA does not support a CO₂ charge on emissions. While a CO₂ charge would guarantee revenue, it does not increase certainty of a positive outcome, that is, emission reductions. In addition, because a CO₂ charge has no scope for international linkages, it risks the competitiveness of New Zealand business, especially those businesses that export, but also any New Zealand business which has to compete with overseas companies (e.g., those that export to New Zealand).

Renewable obligation

20. This option would shift the focus from explicit emission reductions to a focus on the proportion of renewable energy used, the rationale being that renewable energy has a lower emissions profile.

Should a renewable obligation be preferred option as a transitional measure?

21. The MIA supports an obligation on the proportion of renewable energy used. Renewable energy plays an important role in New Zealand's energy supply profile, and has lower operational costs, which are likely to reduce the cost of energy in the long-term.

Incentives / subsidies

Should capacity incentive measures be a preferred option as transitional measures?

22. The MIA supports capacity and generation subsidies and incentives, as it would increase the supply of competitive low emissions energy, and ease barriers currently restricting increases in renewable capacity and generation. The resulting increase in the proportion of renewable energy could also reduce New Zealand's liabilities under the Kyoto Protocol.

Project based measures

- Are projects a climate change policy measure worth considering for the energy sector?
- If a project programme was to be used for energy, what part of the sector should it cover and who should provide the incentive?
- Should the incentive be paid upfront (and with claw-back provisions for non-delivery) or subsequent to delivery of abatement?

23. The MIA supports the further consideration of project based measures as a way to reduce emissions in the energy sector. Assuming that the schemes are successful, government expenditure would be offset by a reduction in the country's Kyoto liabilities. Any incentive should be funded through general taxation, because any liability under Kyoto will be met this way. Incentives should be paid upfront, with claw-back provisions for non-delivery, to ensure that costly or complex projects with long-term benefits are able to proceed.

Direct regulatory options

24. The MIA prefers price based mechanisms to achieve agreed emissions targets over directive regulations.

Voluntary measures

25. The discussion paper canvasses a range of processes which could be used in the development and of voluntary measures. These include target setting by negotiation between the government and the participating company; energy audits and a subsequent agreement on a new target; or a best practice agreement. Voluntary agreement schemes could also feature:
- Agreed targets and public reporting of performance against targets
 - Mandatory consequences for non-performance against targets, with limited stringency
 - Assurances that participation would not cause a disadvantage for any price-based measure introduced later (i.e., emissions allocations would be based on performance prior to the voluntary measure)
 - Mandatory monitoring, reporting and verification of emissions for generators participating in the scheme and for those who are not participating.

- **What process should be used to develop voluntary agreements for generators?**
- **Can voluntary agreements be used as an effective tool to make the transition to long-term price-based measures?**

26. Voluntary schemes should be negotiated between the participating company and the Crown, to allow for individual circumstances, as well as acknowledging the 'good will' of participating in a non-mandatory scheme. Voluntary agreements could be used by companies as a useful planning tool in preparation for the transition to regulation or price based measures. It is important that participation in a voluntary scheme does not disadvantage participants in the allocation of allowable emissions for a regulated emissions trading scheme.

IV. Summary

What key objectives should steer the choice of transitional measures in the stationary energy supply sector?

27. Given the title of the discussion paper (options to move towards low emissions electricity and stationary energy supply and to facilitate a transition to greenhouse gas pricing in the future), the MIA submits that the key objective should be to achieve low emissions energy supply at the least cost.

Who should bear the costs of the measures – emitters, consumers or the government?

28. The MIA submits that costs of the majority of measures should be met through general taxation, because any liability under Kyoto will be met this way. Some measures, such as emissions trading, will incur a cost for both the public and private sector, in that a central agency will have to set up the infrastructure for the measure to operate, and the private sector will have to incur the costs of operating under this measure.

Certainty of price or certainty of outcome?

29. The MIA considers that the two objectives should work together, that is, outcomes are important, but not 'at any cost'.

V. Conclusion

30. The MIA supports baseline and credit emissions trading as a means to place a price on greenhouse gas emissions. Cap and trade schemes are not supported by the MIA because energy intensity is not taken into account, thus omitting an incentive to raise productivity relative to emissions.
31. Other options discussed in this paper, such as renewable obligations, incentives, subsidies, projects and voluntary measures are worth further consideration as they could prove useful in encouraging the uptake of low emissions energy technology.
32. A narrow based CO₂ charge is not supported by the MIA. The outcomes from such a policy are not clear, and with no scope for international linkage there is a significant competitive risk to New Zealand businesses competing internationally.

VI. Contact Details

33. For any queries relating to this submission, please contact Siobhan Ryan on 04 495 8382 or email siobhan.ryan@mia.co.nz, Meat Industry Association of New Zealand (Inc)

VII. Appendix: List of MIA Members – Year Commencing 1 July 2006

| Members |
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| Advance Marketing Ltd |
| AFFCO New Zealand Ltd |
| Alliance Group Ltd |
| ANZCO Foods Ltd |
| ANZCO Green Island Ltd (ANZCO group) |
| ANZPAC Foods Ltd |
| APJ Meats Ltd |
| Auckland Meat Processors Ltd |
| Ballande New Zealand Ltd |
| Bernard Matthews New Zealand Ltd |
| Blue Sky Meats (NZ) Ltd |
| <i>Brookland (NZ) Ltd (in receivership)</i> |
| Canterbury Meat Packers Ltd (ANZCO group) |
| Columbia Exports Ltd |
| Crown Marketing Ltd (ANZCO group) |
| Crusader Meats New Zealand Ltd |
| Dairy Meats NZ Ltd (AFFCO group) |
| Davmet New Zealand Ltd |
| Fern Ridge Ltd |
| Frasertown Meat Company Ltd |
| Garra International Ltd |
| Greenlea Premier Meats Ltd |
| Harrier Exports Ltd |
| Horizon Meats New Zealand Ltd (wholly owned subsidiary of Blue Sky Meats (NZ) Ltd) |
| Hygrade Casings Company (wholly owned subsidiary of New Zealand By-Products) |
| Lamb Packers Feilding Ltd (wholly owned subsidiary of Bernard Matthews NZ Ltd) |
| Land Meat (NZ) Ltd (AFFCO group) |
| Lanexco Ltd |
| Lowe Corporation Ltd |
| Mathias International (Mathias Meats NZ Ltd) |
| New Zealand By-Products |
| Pilot (NZ) Ltd |
| PPCS Ltd |
| Progressive Gisborne Ltd (wholly owned subsidiary of Bernard Matthews NZ Ltd) |
| Progressive Meats Ltd |
| Riverlands Ltd (ANZCO group) |
| South Pacific Meats Ltd |
| South Pacific Meats - Malvern (AFFCO group) |
| Tara Exports Ltd |
| Taylor Preston Ltd |
| Te Kuiti Meat Processors Ltd |
| Towers Thompson (New Zealand) Ltd |
| Universal Beef Packers Ltd (UBP) |
| Wallace Corporation Ltd |

| Affiliate Members |
|---|
| AgResearch-MIRINZ Centre |
| Aon New Zealand Limited |
| Axis Intermodal (Ports of Auckland Ltd) |
| Carter Holt Harvey, Packaging |
| CentrePort Wellington |
| Energy for Industry (ex Meridian Solutions) |
| Hamburg-Sud New Zealand Ltd |
| Hapag Lloyd (New Zealand) Ltd |
| Maersk New Zealand Ltd |
| Millers Mechanical NZ Ltd |
| Oceanic Navigation Ltd |
| Port of Napier |
| Port Otago Ltd |
| Port Taranaki Ltd (previously Westgate Transport Ltd) |
| ProAnd Ltd (Meatek Ltd) |
| Rissington Breedline Ltd |
| Sealed Air (New Zealand), Cryovac Division |
| Thompson Clarke Shipping Pty Ltd (ANZ Marketing Representative for the Port of Los Angeles) |
| Vero Marine Insurance |