Meat Industry Association of New Zealand (Inc)

Submission to the Ministry for the Environment on

Measures to Reduce Greenhouse Gas Emissions in New Zealand Post-2012

30 March 2007

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I: Introduction

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 4.2 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 Association 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 and the 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. A list of Association members is attached as Appendix 1.

Background to this Submission

7. This submission is made by the MIA to provide feedback to the Ministry for the Environment on Measures to Reduce Greenhouse Gas Emissions in New Zealand Post-2012. It represents the views held by our members in response to consultation undertaken with them.

8. It does not preclude MIA members making submissions in their own right.

II: Executive Summary

9. MIA agrees that international efforts to reduce greenhouse gas emission in the future will continue. It will be an issue for both governments and consumers.

10. MIA submits that no one emissions measure implemented in isolation is likely to meet either the government's objectives for emissions reduction, or the government's international obligations.

11. MIA does not favour regulation based measures such as promulgated through the RMA as such regulations tend to be narrowly focussed on single issue outcomes (environmental impact) and tend to ignore the overall economic implications. The Business Cost Compliance Statement (BCCS) has been identified in the Quality of Regulation Review currently being undertaken by the Ministry of Economic Development, as being an area which is inadequately developed and used.

12. MIA also submits that a package of measures, including broad based pricing measures, emissions reduction agreements and emissions trading where businesses and sectors can adopt specific emissions reduction strategies is likely to provide the best results.

13. MIA submits that all revenues collected as part of any broad based pricing measures should be reinvested in emissions reductions projects.

14. With any emissions reduction measure proposed, due consideration should be given to the impact it may have on New Zealand's international competitiveness.

III: Submission

Do you expect international efforts to reduce greenhouse gas emissions to continue? If so, in what form?

15. MIA expects international efforts to reduce greenhouse gas emissions to continue beyond the Kyoto Protocol first commitment period which ends in 2012. Annex I parties to the Kyoto Protocol have committed themselves to reducing greenhouse gas emissions in the first commitment period 2008 to 2012 by around 5% compared to 1990 levels

16. Continuation of international efforts to reduce greenhouse gas emissions is likely to involve a continuation of the Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC), as this is recognised as being only the first step in combating human-induced climate change.

17. This could take place in a range of forms, however MIA favours a regime which would satisfy environmental criteria and provide synergy with sustainable development and technological innovation. It would also fill a number of economic criteria, be cost effective, open and provide some certainty on cost and economic predictability.

18. MIA contends however that any scheme negotiated for 2012 and beyond must take into account New Zealand's emissions profile, specifically that 49% of New Zealand's emissions are generated by livestock, an industry which underpins our nation's economic wealth.

19. MIA favours a multistage emission reduction agreement where there is a requirement for binding absolute targets but there are a number of additional complementing approaches that allow for greater flexibility.

20. Such an approach could allow for sectoral targets thereby establishing emission targets that apply to one sector only, such as agriculture, instead of to the whole economy.

21. Any proposal for a future climate regime should therefore be flexible and collectively offer "something for everyone" while fulfilling a number of environmental criteria, including the stabilization of greenhouse gas emissions, synergy with sustainable development, and incentives for innovation and early action. Common but differentiated responsibilities should be reflected and cover a broad range of countries, from highly developed to developing countries.

Do you believe a price based measure such as emissions trading, which gives emitters the responsibility for at least some of their emissions could enable business to find the lowest cost way to reduce emissions?

22. MIA strongly supports price based mechanisms such as emissions trading, as such mechanisms provide flexibility and allow businesses to research and implement lowest cost options to mitigate emissions, by comparing various options against a market based alternative such as the price of emissions units. This principle further allows for the reduction of emissions below agreed targets enabling excess emission units to be sold, thereby providing a return on the capital investment into the project.

23. MIA submits price based mechanisms should be included in any negotiated international or domestic agreements.

Would you prefer directive regulations to a price based measure?

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

What, if any, preconditions would need to be met internationally and/or domestically before a broad based price measure such as a greenhouse gas charge or emissions trading was introduced in New Zealand?

25. The following preconditions would be required to met in order to introduce into New Zealand price based measures such as emissions trading:

- An international trading regime trading in agreed emissions units would need to be established.
- Establishment of agreed emissions levels for countries/businesses wishing to participate in priced based mechanisms.
- Any sectoral emissions limits should also be agreed in advance.
- Any price based mechanism not involving an international market price would need to establish a transparent pricing methodology to remain credible.
- There should only be one class of emission unit internationally with various types of emissions having an agreed conversion rate to the tradeable unit. The overall objective is to reduce greenhouse gas emissions rather than create a vehicle through which trading can take place in a speculative manner.
- Major emitters including the US, Australia, China etc, currently outside the Kyoto Protocol should be included within the agreement.

Under what conditions should the government support or limit the use of domestic and international flexibility mechanisms by firms or sectors with emission reduction targets or obligations?

26. MIA submits that New Zealand should seek to limit our national emissions to those levels which are agreed within international agreements. To exceed these negotiated levels is likely to result in payments being made to acquire emissions units at a cost either to those businesses needing to purchase emissions units, or the tax payer, with funds that would be better used investing in projects to reduce emissions.

27. Trading of emission allowances internationally up to this level should be supported by the government. This will enable emissions units to be acquired at an internationally competitive price.

28. A combination of these two options would encourage active projects for businesses to reduce emissions to specific levels. This would also require the determination of emission targets for subsets of major emitters

In the longer term, should the same price of emissions apply across all sectors of the economy? If not, how could the stringency of emission targets be determined for different sectors?

29. MIA submits that in both the short and long terms, the price of emissions should be the same across all sectors. There should only be one class of emission unit internationally. Differentiation among the sectors should be managed through the allocation of numbers of emission units based on an existing emission measure (volume or intensity), which can be adjusted over time, in line with sectoral or national emissions targets. This will enable emission units to be traded while providing a mechanism (allocation of units) to encourage the reduction in absolute units produced.

What measures should the government consider for managing the international competitive impacts of its climate change policies?

30. Measures the government can consider in managing international competitive impacts of its climate change policies can be implemented through an allocation mechanism of emission units. Those companies/sectors that would be placed in a competitive at risk position, such as within the agricultural sector, could be issued an appropriate number of emissions units which would not place them at a disadvantage compared to international competitors, but over time the number of units issued could be adjusted to encourage implementation of an emission reduction plan. The control can therefore be exercised through volume, rather than price, which would allow linkage to the international emissions trading scheme.

31. This may place a higher burden of emission reduction onto other sectors of the economy; however this underscores the importance of international agreements also being based on the ability of various sectors to reduce greenhouse emissions. It is for example more difficult and time consuming to reduce livestock emissions than it is to adapt equipment to enable the utilisation of renewable energy, such as in transport or electricity generation.

How might the government set a threshold for acceptable levels of competitive at risk impacts for firms subject to international risk.

32. MIA submits such thresholds should only be set in the context of the international agreements. Thresholds should be set at levels that reflect the cost impact of policies set by governments of competing economies, on similar industries to approximately maintain the existing relativities. If for example greenhouse gas pricing was extended into the transport sector, adjustment may be made via the use of biofuels at appropriate proportions so as not to unnecessarily harm New Zealand's competitive position.

33. The discussion paper provides a range of options for moderating the impact of emissions pricing on land management activities[1].

34. MIA generally agrees the options of costing on marginal emissions is preferable, as this allows land managers to plan for optimum economic outcomes as compared to existing uses, by either increasing production from existing land uses or changing the land use. For example increased agricultural production may provide a superior economic outcome per hectare over the life of the alternative option of planting forest, after taking into account of the cost of emissions. Such decisions should not be based on climate change considerations in isolation but on the overall economic return.

35. MIA submits there should be no threshold to exempt smaller producers from bearing an emissions charge. All producers should share in the emissions policies or the burden will fall on a restricted section of the community.

36. MIA agrees financial incentives for marginal emission reductions achieved through verified projects will encourage increased positive climate change activity, for example afforestation of non productive land situated within existing agricultural units.

What conditions would justify removal of any measures to deal with competitiveness issues.

37. MIA submits the conditions which would justify removal of measures to deal with competitive at risk issues would include circumstances where the conditions applying were equitable internationally, for example included in the international post 2012 agreement, or where they burden was met through general taxation justified as being in the national interest.

How should the government design and enforce a threshold determining which firms or sites should be included in the scheme? For example, should a threshold be defined on an intensity or absolute basis?

38. MIA generally does not favour setting thresholds which differentiate among members of a specific sector. Such differentiation leads to behavioural changes designed to avoid incurring any additional obligations which when taken to the extreme will frustrate the original objectives of any greenhouse gas reduction objectives. Any obligations applied to a sector should be shared by all members of the sector to obtain maximum benefit.

[1] Discussion paper on measures to Reduce Greenhouse Gas Emissions in New Zealand Post 2012; pp 23

39. Where thresholds are required, for example, as already exist in the waste sector under the 2005 National Environmental Standard, then such thresholds should be established on an absolute basis. It is the absolute volume of emissions which are creating the adverse environmental impact.

40. Thresholds should be designed to be easily understood, administratively simple, and preferably involve the use of existing data.

How could the government design a threshold to minimise competitive and equity problems.

41. MIA contends the application of a threshold in almost every situation will create competitive and equity problems. Where a compliance cost is applied to one part of a sector and not another competitive and equity issues will result. It is for this reason MIA submits all participants in a sector should be subjected to equitable treatment and operate under known transparent and equal conditions.

Should revenues from climate change policy measures be returned to the economy through either general tax relief or funding for targeted activities? If you believe revenues should be returned to the economy through targeted activities, which activities should be targeted.

42. MIA submits that where revenue is collected from climate change policy measures, it should be applied to activities designed to reduce the cost of our national obligations in respect of climate change, either by applying it to payment regimes under international agreements, or using it to fund targeted activities likely to provide the best payback through permanent reduction in climate change obligations for the investment made.

What assistance would large direct emitters need to prepare for mandatory monitoring, measurement and reporting?

43. Any emitters required to monitor, measure and report on emissions need to be provided with the definition of the specific data which needs to be measured and monitored, together with the methodology by which this data is collected, assessed and presented.

44. Such requirements should also be consistent with international reporting obligations to avoid collection of multiple data sets, which would also allow climate change performance to be compared internationally.

Which sectors could and should be included in a New Zealand emissions trading scheme? Could this change over time?

45. MIA agrees emissions trading schemes are suited to sectors in which emissions can be estimated and reported accurately at low cost, such as the stationary energy and industrial processes sector. Over time, the sectors involved should be reviewed as other new sectors meet the criteria outlined above.

What design conditions would be necessary for emissions trading to function in the New Zealand context?

46. MIA favours a *"baseline and credit"* scheme where individual emitters are assigned an emissions baseline which represents a schedule of allowable emissions over time.

47. MIA's preference is that these allowable emissions are defined on an intensity basis, that is the emitter's baseline will be expressed in terms of tonnes of production. The emissions profile of the meat processing sector will vary with the volume of emissions per tonne of production. The design of the baseline and credit scheme, if based on emission intensity, allows emitters to increase their total emissions commensurate with increased production, provided their emissions rate per unit production does not exceed their baseline level. This is important when production levels vary from year to year based on, for example, lambing percentage and climatic conditions.

48. MIA's preferred design conditions include:

- Participants in the emissions trading scheme being issued a base volume of emissions appropriate for their business, determined partly by historical emissions, and projections for the next say 5 years. The allowances should be provided to participants in the particular industry up to a benchmarked level of emissions performance. Baseline allowances should be adjustable over time to meet agreed national emissions targets.
- MIA does not favour the auction system of emissions allocation. It is likely to lead to initial speculation within the market resulting in pricing distortions which are not linked to climate change values.
- Tradeable emissions units should be in a form which allows trading cross sectorally. Where there are differing emissions units issued an official conversion factor should be applied. For example emissions may be traded in tonnes equivalent of CO_2, requiring other emissions such as nitrous oxide to have an official conversion rate.
- Emissions should be able to be traded either for annual use, (i.e. leased) or traded permanently.
- A mechanism, such a reserve entitlement, should be available to allow for new entrants.

Which allocation methods would you support: gratis allocation, auctioning or hybrid allocation schemes? Why?

49. MIA supports gratis allocation for a baseline and credit trading scheme, as it allows for:

- Existing businesses to continue operating while planning for the transition into a controlled emissions environment.
- Establishing a baseline of emissions which can be adjusted sectorally in line with national emissions targets.
- Enterprises can create value by over performing in emissions reduction, which would allow for either sale or cancellation of emissions units permanently, thereby contributing to the governments overall objectives.

Would a broad greenhouse gas charge be an effective policy option for reducing emissions in New Zealand post 2012

50. MIA submits greenhouse gas charges in themselves are of limited use in influencing behavioural changes, for example in domestic electricity consumption or transport fuel use. Implementation of the greenhouse gas charge may have an initial impact on behaviour; however that is unlikely to be sustained. The greatest benefit however may come from the use the revenue from the charge is put to. For example, if it is applied to retro fitting of energy efficient street lighting, insulation in poorly insulated homes, and assistance for industry to improve the energy efficiency of their operations, the results of the charge will be more tangible and longer lasting. Any "carbon tax" therefore must be accompanied by a definitive plan for the revenue collected. The revenue should not be dissipated into administration of the fund.

How should the rate of any broad based greenhouse gas charge be set? Should it vary by sector, and if so, on what basis (the relative ease on mitigating emissions, the availability of alternative technology or the effect on emitters decisions)?

51. The over riding criteria should be that the carbon charge is simple to administrate and collect, and should be transparent. The use to which the ensuing revenues are put should equally be transparent and reported on.

52. MIA submits any carbon charge is likely to be more effective if applied on a sectoral basis. A probable result of such a charge will be the triggering of competitive at risk issues, for example, for the animal exports export sector. Such issues can therefore more readily also be considered on a sectoral basis which allows for policies to be developed for specific sectors.

Is it desirable to apply RMA controls on greenhouse emissions because of their impact on global climate change?

53. MIA submits it is not appropriate to apply RMA controls on greenhouse gas emissions. Under the RMA there are significant variations is environmental standards applied regionally, the RMA process is typically very long and costly, and open to disruption by vested interest groups.

What conditions would be required for emission reduction agreements to be used as an element of post 2012 climate change policy?

54. MIA submits that emissions reduction agreements should have clear targets for quantifiable emissions reduction targets, defined timeframes for achieving the reductions with a requirement to either take corrective actions if targets are not met, or alternatively purchase emissions units to the equivalent level of target shortfall.

55. MIA does not favour the use of less direct targets in emission reduction agreements as such agreements would not necessarily reduce emissions. Best intentions may not provide adequate results.

56. Participants in emission reduction agreements should formally report their progress against those agreements annually.

57. Where organisations exceed their targets, incentives such as the sale of the equivalent emission units by which their targets are exceeded, would add impetus to the programme of reducing emissions.

58. Emission reduction agreements between the crown and individual companies are likely to be more simply established and managed than sectoral agreements, and the benefits and liabilities more simply allocated.

What methods could be used to ensure that emission reduction agreements were sufficiently ambitious to meet government goals, and the commitments would be met over time?

59. Emission reduction targets agreed with businesses or sectors within an emissions reduction agreement would need to be linked to the government's international emission reduction obligations. Such agreements would likely be tailored to the emitter, and would be voluntary, and confer benefits to each party. The agreements may involve more than emissions targets, for example they may involve funding assistance for capital expenditure to accelerate emissions reduction projects, fast tracking of consent applications and the ability to sell emissions credits in the event of over achieving the agreed targets. The agreements should be based on an agreed business plan to ensure they are realistic and achievable.

What process could be used to develop emission reduction agreements for major emitters?

60. MIA submits that all emission reduction agreements should be based on agreed targets following an energy audit, and an agreement to implement cost effective emission reduction measures such as energy efficiency (for example, heat reclaim) or an agreed mechanism such as transition to new energy sources to meet an agreed realistic best practice standards.

What national and/or international circumstances would favour emissions trading rather than greenhouse gas charges applied broadly or more selectively across multiple sectors of the New Zealand economy post 2012?

61. Circumstances favouring emissions trading over a general carbon charge include those where there is wide variation between the ability of sectors or businesses to meet overall targets For example, emissions reduction per dollar invested will vary significantly among businesses/sectors. Emissions trading will allow businesses/sectors who can exceed targets to sell emissions units to those where it is more difficult to meet targets which will contribute to New Zealand meeting our international obligations. This will also be true on an international level.

62. A broadly applied carbon charge is less likely to result in permanent emissions reductions through behavioural change unless it is implemented at a significant and meaningful level, in which case it is likely to have competitive at risk implications.

Would a price measure be sufficient to achieve the following types of climate change-related objectives: accelerated uptake of highly efficient technologies, development and commercialisation of new technologies, fuel switching to low emissions or renewable energy sources, and reduced energy demand?

63. Price measures (carbon charge) would only be successful if they were significant enough to provide a better return on the required investment which would elevate them to a level ahead of other investment options. Again this is likely to have competitive at risk implications, and would likely other productivity, performance and product development options. Such a policy would be disadvantageous for exporters in particular as internal New Zealand policies would impact on international competitiveness, particularly if competing countries adopted different emissions mitigation principles. Where benefits accrued to business which increased competitiveness, for example through the reduction of costs, and such benefits were to be permanent, then these could be implemented without competitive at risk issues. An example could be in switching coal boilers to renewable energy (biodiesel) where excise taxes are removed from biodiesel pricing which would provide an economic return on the investment to convert boilers to the renewable fuel.

Under what circumstance should a regulatory approach be used in place of price-based measures such as emissions trading, a greenhouse gas charge or financial incentives.

64. MIA does not favour a regulatory approach such as is contemplated under the RMA or Electricity Act. Instigating regulations based on specific narrow outcomes has the risk of ignoring wider economic implications and is unlikely to provide the best economic outcome for New Zealand.

What are your views on the indicative proposal for discussion?

65. MIA submits it is unlikely that only one measure, such as a broad price based measure will deliver the government's objectives or emissions reductions which will meet New Zealand's international obligations. A broad price based measure will need to be supplemented with other initiatives such as emissions reduction agreements which provide incentives for over-achieving emission reduction targets, and emissions trading.

66. MIA also submits that price based mechanisms which generate revenues should incorporate a requirement those revenues are invested back in emissions reduction projects which provide the best emissions reduction results for the investment.

67. MIA submits it is appropriate to outline a set of principles for when measures would be applied and how stringently, but not to specify actual measures until the international situation is clearer.

68. MIA also submits the pace and stringency of New Zealand's response to climate change should be aligned with our national interest and in step with what major emitters, including our major trading partners, are doing.

IV: Contact Details:

69. To discuss this submission further, please contact

Siobhan Ryan
Meat Industry Association
P O Box 345
Wellington
DDI: 04 495 8382
E-mail: Siobhan.ryan@mia.co.nz

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

Members
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
Brookland (NZ) Ltd (in receivership)
Canterbury Meat Packers Ltd (ANZCO group)
CMP Rakaia
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
Glovers Foods 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
South Pacific Meats Malvern. (AFFCO group)
Mathias International (Mathias Meats NZ Ltd)
New Zealand By-Products
Pilot (NZ) Ltd
Primary Producers Co-operative Society Ltd (PPCS)

Progressive Gisborne Ltd (wholly owned subsidiary of Bernard Matthews NZ Ltd)
Progressive Meats Ltd
Riverlands Ltd (ANZCO group)
South Pacific Meats Ltd
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