

Westpac New Zealand Limited

Submission to the Ministry for the
Environment on
Pricing Agricultural Emissions

18 November 2022



1. INTRODUCTION

- 1.1 This submission to the Ministry for the Environment (**MFE**) is made on behalf of Westpac New Zealand Limited (WNZL) and Westpac Banking Corporation (together **Westpac**) in respect of *Pricing Agricultural Emissions (Consultation Document)*. Thank you for the opportunity to provide feedback on the proposals.
- 1.2 Westpac's contact for this submission is:
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2. KEY SUBMISSIONS

- 2.1 Westpac's view is that it is important the agricultural sector contributes to New Zealand's emissions reduction efforts, alongside other sectors of the economy. Otherwise, other sectors, or taxpayers, will be left to make up that shortfall and New Zealand could potentially face new trade barriers in the future. Westpac therefore supports applying an emissions pricing scheme (**Scheme**) to the agricultural sector to help reduce New Zealand's greenhouse gas emissions. Transition must carefully manage the impacts on the community, the likelihood of emissions leakage and the impact on food security.
- 2.2 Westpac supports a split gas levy at farm level approach to pricing agricultural emissions (that should include sequestration); and an agricultural levy scheme that excludes agriculture from the Emissions Trading Scheme (**ETS**). Westpac agrees that long-lived gases such as carbon dioxide and nitrous oxide pricing should remain linked to ETS pricing, with methane priced separately at a much lower level, but sufficient to meet New Zealand's 2030 targeted reductions for agriculture.
- 2.3 Westpac considers the Government's present proposal could have large, potentially adverse, social and economic impacts on rural communities, businesses, Māori and the wider economy that need to be addressed. In Westpac's view, the immediate inclusion of a wider range of on-farm sequestration options would reduce these adverse impacts. This would make the proposal more equitable and result in a wider range of co-benefits such as greater biodiversity and higher water quality, while still assisting New Zealand to reach its emissions targets.
- 2.4 Westpac considers that the levy price setting process would benefit from industry and Māori involvement as suggested by He Waka Eke Noa (**HWEN**), and that the levy system must include additional support for those most impacted under the current proposal, such as sheep and beef farmers and Māori. Distributions must also include investments into training and lifting skills in reducing emissions. The inclusion of industry representatives and Māori in the levy setting and distribution process will lead to more equitable outcomes and a fairer regime.

- 2.5 Westpac has commissioned research from Lincoln University, which will be released shortly, which shows it is possible to reduce emissions with existing technology and mitigation options, if best farming practice is more widely embedded. The Government should investigate opportunities to support the sector to embed best practice with urgency.
- 2.6 It is critical to create an effective and equitable scheme from the outset. Within this context, the Scheme should be set up with urgency so that it is ready to be implemented on 1 January 2025 as backstop options that could become available under legislation would have even more severe impacts.

3. **RESPONSE TO CONSULTATION QUESTIONS**

Question 1: Do you think modifications are required to the proposed farm-level levy system to ensure it delivers sufficient reductions in gross emissions from the agriculture sector? Please explain.

- 3.1 Westpac supports the key features of the proposal but considers that the following changes would improve the overall effectiveness, fairness and durability of the Scheme:
- an increase in the allowable sequestration options in line with the HWEN recommendations;
 - changes to ensure that all levy funding is distributed via incentives every year. If this is not possible then the levy should be reduced so it does not generate a surplus;
 - strong industry involvement in levy setting and allocation of levy funding;
 - reinvestment of some levy funding into training and skills and knowledge transfer for farmers to support better on-farm management around emissions reductions;
 - further Government work to consider the economy-wide impacts, including on food prices;
 - additional support for the sheep and beef sector and for Māori to assist transition;
 - governance and compliance arrangements should be streamlined and simple where possible; and
 - collectives are an effective way to reduce the administrative cost burden on all farmers and growers and we believe the government should proceed with this component of HWEN's proposal with urgency.

Question 2: Are tradeable methane quotas an option the Government should consider further in the future? Why?

- 3.2 Westpac agrees that methane quotas should not be considered further at this stage.

Question 3: What option do you prefer for pricing agricultural emissions by 2025 and why?

- 3.3 Westpac supports a split gas levy at farm level to price agricultural emissions. This gives individual farmers the ability to make changes to their farming systems to reduce emissions or offset emission via sequestration and receive the direct benefits of this work.

Question 4: Do you support the proposed approach for reporting of emissions? Why and what improvements should be considered?

3.4 Westpac has no comments on this proposal.

Question 5: Do you support the proposed approach to setting levy prices? Why and what improvements should be considered?

3.5 Ultimately the Government is responsible for meeting the national emissions targets and therefore should be setting emissions prices. However, there could be more involvement from the agricultural sector and Māori to provide more balance on wider impacts on the sector, taking into consideration social, community and economic factors.

Question 6: Do you support the proposed approach to revenue recycling? Why and what improvements should be considered?

3.6 Westpac supports the establishment of an advisory body (or bodies) to advise Ministers on the revenue recycling strategy. As set out above, Westpac suggests all levy funding is distributed every year.

Question 7: Do you support the proposed approach for incentive payments to encourage additional emissions reductions? Why and what improvements should be considered?

3.7 Westpac supports the approach to incentive payments, providing fertiliser is being priced at farm level and any revenue from this being redistributed to farmers as part of the levy.

Question 8: Do you support the proposed approach for recognising carbon sequestration from riparian plantings and management of indigenous vegetation, both in the short and long term? Why and what improvements should be considered?

3.8 Westpac supports a wider range of sequestration options in line with the HWEN recommendations. In Westpac's view, the Government's proposed more limited approach effects the balance of the Scheme and risks exacerbating the economic impact, particularly for sheep, beef and Māori, which then flows through to the Government's projections of the negative social impacts and negative community impacts.

3.9 The proposal's restriction of sequestration options removes a key tool that farmers have for influencing their farm's emissions profile. Westpac believes that some technology already exists (such as satellite data and similar) to measure this vegetation area and type.

Question 9: Do you support the introduction of an interim processor-level levy in 2025 if the farm-based system is not ready? If not, what alternative would you propose to ensure agriculture emissions pricing starts in 2025?

3.10 Westpac does not support the proposal to introduce an interim processor level levy in 2025. It would be simpler and more cost efficient to develop and implement an enduring farm level system immediately in time for 2025.

Question 10: Do you think the proposed system for pricing agricultural emissions is equitable, both within the agriculture sector and across other sectors and across New Zealand generally? Why and what changes to the system would be required to make it equitable?

3.11 The current proposals will have a significant impact on sheep and beef farmers, and by extension Māori who farm up to 25% of NZ's sheep and beef sector, with much of it on marginal land. Government modelling suggests that by 2030, under a medium price scenario, sheep and beef revenue would drop

by around 20%. While there are some existing emissions mitigations for these farms, they would not be enough to prevent many sheep and beef farms becoming unviable. Most of these farms are not suitable for dairy or cropping, so would be converted to pine or other exotic forest. While this would help New Zealand meet its emissions reduction targets, it would result in reduced biodiversity, increased fire and erosion risk, reduced food production and result in some emissions leakage to higher emitting agricultural sectors in other countries.

- 3.12 The current proposals would also cause major disruption to some rural communities, with potentially large reductions in farming jobs and flow on effects to other rural businesses, schools and towns. The future of many of these communities could be in doubt without the development of alternative industries and jobs.
- 3.13 While likely reductions in dairy revenue are smaller, there would potentially still be a significant annual decrease in farm incomes and in export receipts of between \$1.4b and \$2.9b when combined with sheep and beef impacts. While some of this may be replaced by other economic activity, this reduction would have large flow on effects for the wider economy.
- 3.14 Westpac supports an increase in the allowable sequestration options for farmers, in order to minimise the cost and impact of the levy scheme while still achieving reductions in emissions. Although this would mean an increase in administration costs and require urgent work to finalise measurement rules and methodologies, Westpac considers that there would be significant wider benefits and that the Government should prioritise this work.

Question 11: In principle, do you think the agriculture sector should pay for any shortfall in its emissions reductions? If so, do you think using levy revenue would be an appropriate mechanism for this?

- 3.15 No. Westpac supports only sufficient revenue being generated for the proposed investment back into the agriculture sector to achieve targeted emissions reductions. The proposed reduction in sequestration options results in additional or surplus revenue being generated in the system which is not desirable.

Question 12: What impacts or implications do you foresee as a result of each of the Government's proposals in the short and long term?

- 3.16 New Zealand's targeted 2030 agriculture emissions reductions are achievable, but it will take changes in the way we manage stock and land. This will require training and education to better embed existing best management practices into farming and growing. This should be a focus for farmers, farm industry groups, support organisations and the Government. Westpac considers that some of the levy should be put into this area. This proposal is important as it not only encourages emissions reduction, but it generates money (through the levy) for farmers to invest in reducing emissions.

Question 13: What steps should the Crown be taking to protect relevant iwi Māori interests, in line with Te Tiriti o Waitangi? How should the Crown support Māori landowners, farmers and growers in a pricing system?

- 3.17 Westpac believes the Government must work closely with Māori farming and Iwi representatives and ensure their needs are encompassed by a comprehensive scheme that includes suitable options for financial support from levy revenue.

Question 14: Do you support the proposed approach for verification, compliance and enforcement? Why and what improvements should be considered?

3.18 Westpac has no comments on this proposal.

Question 15: Do you have any priority issues that you would like to share on the Government's proposals for addressing agricultural emissions?

3.19 As noted above, Westpac considers that a much wider range of sequestration options should be available to farmers immediately from the time the levy scheme is implemented. There are several proprietary systems to enable measurement and classification of vegetation types using satellite technology. Examples include Sentinel-2, Space™ (LIC) and other offshore sources. The Government should investigate the appropriateness of these and other tools with some urgency, in order to agree and implement a nationally accepted approach for vegetation coverage and type measurement.

3.20 Widening eligible sequestration options would have the additional effect of reducing the social impact of the proposals, which we believe is another priority issue.



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