

Changes to the Emissions Trading Scheme – What are the impacts to farming

In 2009 the Government with the support of the Maori Party passed the Climate Change Response (Moderated Emissions Trading) Amendment Bill. This Bill has a number of changes over the Emissions Trading Scheme which will impact on agriculture and forestry.

What changes have been made to the ETS legislation?

- The stationary energy, industrial processes (SEIP) and liquid fossil fuels (LFF) sectors will enter the NZ ETS on 1 July 2010 (six months earlier). Monitoring and reporting requirements for these sectors will still commence on 1 January 2010.
- A transition phase will operate until December 2012. The transition phase will be implemented through:
 - A progressive obligation requiring SEIP and LFF participants to surrender only one unit for every two tonnes of CO₂-e emitted.
 - A \$25 fixed price option whereby SEIP, LFF and forestry participants can satisfy surrender obligations by paying \$25 per unit.
- The export of New Zealand units (NZUs) will not be permitted during the transition phase. However, the prohibition on exports will not apply to forestry-related units. There will be no restrictions on banking of units during the transition phase.
- Free allocation to emissions-intensive, trade-exposed (EITE) industry will be provided on an intensity basis. The number of units allocated to emissions-intensive, trade-exposed industry will be reduced by 50 per cent during the transition phase when the progressive obligation is in place.
- The level of assistance will initially phase out at a rate of 1.3 per cent per annum beginning in 2013. The phase-out of allocation will also be considered through a five-yearly review of free allocation. The first review will be conducted in 2011. Any significant changes to the provision of free allocation will require a five-year notice period.
- The entry of agriculture into the NZ ETS will be delayed until 1 January 2015 (from 2013). Mandatory monitoring and reporting requirements for agriculture will still commence on 1 January 2012.
- Free allocation to the agricultural sector will be provided on an intensity basis on a similar basis to industry and will phase out at 1.3 per cent annum starting from 2016.
- An initial processor-level point of obligation will apply with flexibility to move to a farm-level point of obligation in the future.
- Processing of applications for allocation to industry and agriculture will be removed from ministerial control. In the longer term, the Government's intention is to transfer administrative functions associated with the NZ ETS to an Environmental Protection Authority.

The Impact of the changes

How will the changes impact on households?

Electricity would have increased in price by 10 per cent (2c/kWh) under the original legislation, but the changes halve that to 5 per cent (1c/kWh) during the transition phase.

Petrol and diesel would have increased in price by 7c/L but the changes halve that to 3.5c/L during the transition phase.

The costs for the average household are expected to reduce from \$330 per year to \$165 per year during the transition phase.

The savings from the changes may be greater than this if the price of carbon exceeds \$25 due to the fixed-price option for emission units.

How will the changes impact on forestry?

Post-1989 forests are eligible to earn carbon credits from 1 January 2008, but there is currently no domestic market as no emitting sector requiring units will enter the scheme until 1 July 2010. Finalising sector obligations will create a market and income stream and generate interest in further forest plantings. Foresters will have options to sell units internationally or bank them so will not be overly disadvantaged by the fixed-price option on emission units.

Pre-1990 forests (approximately 1.2 million hectares) incur deforestation liabilities for harvesting and not replanting. These are unaffected by the changes except in having access to the \$25 fixed-price option. Allocations for these forest owners will proceed in 2010 and units will be bankable and able to be sold internationally.

No change has been made to the provisions of the Act for offsetting in Commitment Period 1 of the Kyoto Protocol due to the financial risks to the Government and the economy. If international agreements change the rules in Commitment Period 2, that would be reflected in the New Zealand legislation.

Minor changes in the Act have been made for tree weeds and some technical aspects of emissions reporting.

How will the changes impact on agriculture?

The sector entry date has been pushed back by two years and the allocation of emission units will be done on an intensity rather than an absolute basis, both of which will reduce the impacts of the ETS on the agriculture sector.

Agriculture will face the impact of increased prices for fuel, industrial processes, electricity and energy from 1 July 2010, but these will be reduced with the changes. The cost of emissions for farmers will depend on a range of factors including the size of the farm, the farm type and the intensity of operations.

As in the original legislation, participants may choose to voluntarily report their emissions from 1 January 2011, and must report their emissions from 1 January 2012.

How much will the NZ ETS cost the average farmer?

The cost of emissions for farmers will depend on a range of factors including the size of the farm, the farm type, and the intensity of operations. Initial analysis suggests that in 2015, at a carbon price of \$25/tonne CO₂-e, farmers will face the following costs on average:

- around 2.5 cents per kilogram of milk solids
- around 6 cents per kg of sheep meat
- around 3 cents per kg of beef
- around 6 cents per kilogram of venison.

Nitrogen fertilisers are also likely to increase in cost by about \$14 per tonne of nitrogen.

The costs above are based on sector output and emissions projected to the year 2015. The analysis assumes a 2015 base year for the allocation baseline (ie, it is 90 per cent of projected 2015 emissions based on projected output in 2015).

Note: allocative baselines and the base year on which they are set have not yet been determined. These will be specified in regulations and therefore subject to a separate process. Also, the costs cover methane and nitrous oxide emissions only. They do not include pass-through costs from energy and fossil fuel use, or direct on-farm energy and fossil fuel use.