

*Submission*

By

Business|NZ

to the

**Ministry of Agriculture and Forestry**

On the discussion document:

***Sustainable Land Management and  
Climate Change: Options for a Plan of  
Action***

**March 30, 2007**

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**‘SUSTAINABLE LAND MANAGEMENT AND CLIMATE CHANGE: OPTIONS  
FOR A PLAN OF ACTION’  
SUBMISSION BY BUSINESS NEW ZEALAND<sup>1</sup>  
MARCH 30, 2007**

**1 INTRODUCTION**

- 1.1 Business New Zealand welcomes the opportunity to make a submission on the discussion paper, *‘Sustainable Land Management and Climate Change: Options for a Plan of Action’* (referred to as “the paper”).

**2 COMMENT**

- 2.1 Clearly agriculture and forestry are both significant sectors when it comes to New Zealand’s climate change policy, with agriculture accounting for nearly half our country emissions and, under Kyoto rules, forestry being a source of sinks (assuming there’s a planting agreement in place to ensure continuity of sink capacity). This paper accepts the way Kyoto deals with forest sinks and deforestation.
- 2.2 Business NZ does not accept the Kyoto position and believes the government needs to argue strongly in international forums to ensure this approach is amended to align with the approach taken for other carbon sources or fuels.
- 2.3 Clearly there is a significant body of opinion in government circles that New Zealand needs to introduce a price for carbon in order to drive the required behaviour. Business NZ believes New Zealand should not introduce a price on carbon, either through a carbon market mechanism or carbon charges, unless our major trading competitors, including all major developing countries, take similar steps.
- 2.4 The Kyoto Protocol in its current form applies to only 30 percent of global emissions and as it stands, will have little environmental benefit. In fact, if the signatories did nothing they would come very close to achieving the target of an average 5% reduction on 1990 emission levels due to the collapse of the Russian and Eastern Block economies..
- 2.5 If government does decide to put a price on carbon (because this is the way the rest of the world is going), Business NZ believes we should choose the most economically efficient option, which is an economy-wide emissions trading scheme.
- 2.6 A sector by sector approach prior to 2012, whereby electricity generators or industry face a price of carbon before other sectors, is a narrow approach and will be detrimental to our economy. To keep the costs as

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<sup>1</sup> Background information on Business New Zealand is attached as Appendix 1.

low as possible and to ensure the policy is non-distortionary, the costs need to be spread as broadly as possible thus ensuring that the lowest abatement option is identified.

- 2.7 Recent economic analysis by the Greenhouse Policy Coalition and the Law and Economic Consulting Group shows that the costs of narrow price-based measures, such as a narrow based tax or emissions trading for the electricity sector, result in a significantly higher price per tonne of CO<sub>2</sub> avoided than the current international price. In other words it would be more economical to buy credits than attempt to drive a reduction in emissions by introducing a price on carbon.
- 2.8 The only way to put a price on carbon and avoid distortionary impacts is to put a price on carbon across the whole economy, including agriculture, transport and forestry.
- 2.9 Business New Zealand does not believe this could be achieved in the short term, but is something we should work towards post 2012, as long as our trading competitors are moving in the same direction. To set up an economy-wide carbon trading scheme is not something that can happen quickly as much detail would need to be worked through. The Business NZ sponsored project undertaken by the New Zealand Institute for Economic Research and Frazer Lindstrom outlines a framework from which government could begin to develop such a scheme with the support of major New Zealand businesses.
- 2.10 Business NZ does not accept that agriculture has limited abatement opportunities and should therefore be excluded or shielded from price-based measures. Large industry also has limited abatement opportunities, due to the fact that energy intensive industry is already highly incentivised to be very energy efficient.
- 2.11 Industry can not make major emission reductions without the advent of new low carbon technology that is competitively priced. If thermal electricity generators and industry can be required to offset emissions, the agricultural sector can too. The question will always be -- at what cost to the economy?
- 2.12 Kyoto Greenhouse Gas accounting procedures simplify the carbon balance around forest operations. Under Kyoto mechanisms, carbon fixed into wood products – and therefore effectively locked into long term storage – has no status.
- 2.13 So at present all carbon stored in the forest is considered to be released back into the atmosphere as soon as the forest is harvested. This is contrary to the way coal or oil is dealt with. Overall this is an overly simplistic method which does not take account of plantation forests, and does not allow the full value of forests operating as carbon sinks to be accounted for. For this reason, Business NZ believes it is a priority to

lobby internationally for more realistic accounting procedures that reflect the true value of forests as carbon sinks.

- 2.4 In the interim, the forestry sector should not be disadvantaged by having a deforestation liability as long as they continue an agreed planting programme to ensure that the sink has constant value even when trees are felled. Currently the liability imposed on the forest owners is sending a perverse signal to foresters to cut down their trees, which is happening now at an alarming rate and at significant cost to the taxpayer.
- 2.15 Business NZ believes that forest owners should be allocated credits for their sinks as long as they are not traded on the international market. Currently the forest credits only have value as a country off-set to emissions under Kyoto. As long as the credits remain in New Zealand they are available for government to use as off-sets in the same way, they have a liability for all emissions. The introduction of an emissions trading regime at some time post 2012 would allow thermal generators, the agricultural sector and others to meet their internal commitments through the purchase of forest sink off-sets.
- 2.16 In going down this road however, the government should undertake a robust cost benefit analysis for the whole of the New Zealand economy. Given we produce only 0.4% of global emissions and anything we do will be merely symbolic in terms of global emission reductions, the question must be asked: What is the cost to the economy as a whole for putting a price on carbon if we are unable to access international carbon credits?
- 2.17 Competitiveness at risk is an issue for all exporters. If we are making the cost of farming more expensive by pricing greenhouse gas emissions from agriculture, and developing countries are solely focused on growing their agricultural output in the meantime, then we risk damaging a very important sector of our economy.
- 2.18 Business NZ believes if the government enters negotiations for future Kyoto Protocol style commitments – with broader participation from all countries being a key requirement – we should try to get better recognition of the issues that impact our economy.
- 2.19 Business NZ supports economically responsible policies which encourage the growth of the forestry sector, therefore increasing the area of New Zealand's forest estate and as a consequence, the capacity of our carbon sinks.
- 2.20 A part of this is to not disadvantage the wood processing sector, which should be encouraged as an essential sector supporting vibrant forest growing operations. As indicated previously if you export a tonne of coal or a barrel of oil, the country that you export to inherits the liability. This should also apply to logs or processed timber since the carbon will only be released when the wood finally rots or is burnt.

- 2.21 As a country that exports energy efficient goods, with the world's third highest amount of renewables in electricity generation, we should be trying for a more realistic outcome for the forestry and agricultural sectors in future agreements.
- 2.22 Contrary to government rhetoric at the time, the rules of the Kyoto Protocol were not at all favourable to New Zealand's situation as an efficient producer of primary produce. Consequently we are facing some unpalatable policy choices that are to our national disadvantage.