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Assessing the economic and political environment in New Zealand

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Things Get Real on Climate Change from Today

Today's publication of the Interim Climate Change Committee's report is a watershed moment for the govt and represents a potentially historic shift towards positive action on climate change.

Agricultural processors, industry good groups and agri-business lobbies were remarkable in their united stance on the compromise hammered out to get this far, with a month to go for any further changes, particularly to the timing of the first emissions impost on farmers.

Under the govt's preferred scheme, that starts in 2021 with an emissions charge levied on agricultural processors as a proxy for eventual farm-by-farm compliance. The industry-led proposal sees no charges until 2025, when farmers would face the farmgate levy-rebate scheme that has been devised to make farmers pay something for their emissions while not subjecting methane to full rigors of the ETS.

Farms will start being able to report their emissions in 2023 and will have to be doing so by 2024 . A final decision on whether the levy-rebate scheme can be achieved will be made in 2022, assuming no political or technical hiccups.

There are good scientific reasons for this approach, but political dangers because it is so easy to make the long timeframe and 95% free allocation for agricultural greenhouse gases sound like so much less of a challenge than it is to NZ pastoral agriculture and its associated industries and communities. Greenpeace and Forest & Bird took that easy route today.

That said, the farmgate levy is estimated to be the equivalent of just 1 cent per kilo of milksolids for a dairy farmer, or just under $2000 on average per year, with perhaps another $500 a year in compliance costs.

Under both proposed plans, the next five years would be a period of intense preparation for the agricultural sector, which would need to train and create a workforce capable of both developing and auditing the individual Farm Environment Plans that will be central to measuring farm emissions reduction.

However, the industry wants to spend only $25m a year on emissions reduction initiatives whereas the govt proposal would expect to raise $47m+ p.a. to recycle back into technology and on-farm training.

While five years may seem an age to wait for climate change activists seeking urgency, the process will take at least that long and it must start now if it's not to take longer: that is why the farming leadership coalition is so important, both its existence and its continuation.

The alternative is another chapter in the long history of occasional spasms of farmer revolt against major reform, which would feed the urban-rural divide. If it occurs naturally, National will happily exploit it in election year and so would NZ First.

But neither party would want to be blamed for having stirred that pot if there was potential for consensus on a way forward among the most powerful economic actors in the agricultural sector on the existential challenge of the age. Still, that won't stop plenty of country people seeing the proposals as another attack on their way of life and contribution to NZ's wealth.

The outcome today is a both a tribute to the consensus-building skills of the Greens' technocratic co-leader James Shaw while also creating a special headaches for a party split between high green principle and the need for climate change action to occur in industries too important to simply close them down.

The ICCC's rejection of a cherished centrepiece of the Greens' 2017 confidence and supply agreement - 100% renewable electricity by 2035 - is a further, though minor, blow. It has been politely abandoned in favour of 'accelerating electrification' of industrial heat - especially low and medium heat processes - and the transport fleet. The 100% renewable goal was always a better slogan than a policy and it had to change.

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While the ICCC shoots for the right target, the backdown won't save Shaw from supporters who saw the 100% target as easy and relatively costless.

Is this the new fart tax?

So far no.

There is still potential for rural anger to boil over on this issue, but the measured public response from National's climate change spokesman Todd Muller suggests the Opposition is pulling its punches for now. Earlier in the week, Muller had gone after Green minister Julie-Anne Genter for likening climate challenge to the moral obligation to fight World War 2 while his leader Simon Bridges continues to criticise the EV car levy-rebate scheme announced last week.

The Zero Carbon Act angle

Behind the scenes, there are real tensions among the farming leadership bodies that coalesced for the Primary Sector Climate Change Commitment, announced at the same time as the ICCC report today.

The subject of a massive internal communication and lobbying effort, the initiative's success may yet depend on whether the ag lobby is successful in overturning the govt's target band for methane reductions of between 24% and 47% by 2050.

No one in the sector believes the high end is achievable although a 10% reduction is thought possible.

That issue will play out in the select committee hearings process that will start shortly, today being the last day for submissions on the Climate Change Response (Zero Carbon) Amendment Bill.

There will be legitimate concerns, too, about where the carbon price might be by 2025.

Despite 95% free allocation, all estimates of the levy's cost are based on the current $25 per tonne cap, which everyone knows is far too low to change behaviour sufficiently to have any impact on climate change.

While the one-month consultation is supposed to allow exploration of the alternative farmer assistance scheme, it is clear the govt prefers the ICCC's recommendation of a new levy.

To try and soften the blow, the govt has agreed it will investigate how to include carbon offsets for farmers who do small-scale plantings, e.g., for riparian boundaries, but it is a gesture rather than a game-changer in this political equation.

Key govt decisions

From 2025:

- livestock emissions priced at the farm level;
- fertiliser emissions priced at the processor level;
- legislate in the interim to implement a price on livestock emissions at farm level where: farmers pay for their emissions and can receive credit for reductions by 2025; all farmers must report their emissions by 2024; farmers can voluntarily report their emissions from 2023; govt reports in 2022 on further details of farm-level pricing and regulatory changes needed for implementatation or;
- if the report shows farm-level pricing by 2025 is unfeasible, emissions would be priced at processor level from 2025.
- Implementation achieved either by:
    - pricing livestock and fertiliser emissions at processor level in the ETS, with 95% free allocation; an action plan that sets out steps for implementing farm-level pricing and recycling funds raised back to the sector to incentivise emissions reduction and support implementation of the action plan (approximately $47m annually);
    - or by a formal sector-govt agreement including: a programme of action to support reductions in farm emissions and progress for implementing farm-level pricing; industry resourcing and funding to a level necessary to implement a programme of action (including the reprioritisation of existing levy body funds of $25m p.a. over the five-year period);
- investigate other opportunities and barriers for on-farm greenhouse gas mitigation: options to recognise and reward carbon removals from on-farm vegetation; barriers to reducing emissions created by non-climate regulation and options to remove them; how to facilitate opportunities to create new markets for low-emissions products.

On electrification of transport, the ICCC recommends:

- targeting emissions reduction from transport of at least 6 Mt CO2e in the year 2035 relative to current levels and, without delay, introduce policies to achieve this target;
- deter any new fossil fuel-based industrial heat processes, and
- proactively enable low-emissions mobility for low-income and rural households.