If there’s something guaranteed to spark debate in farming circles, it is the three words we collectively know as the Emissions Trading Scheme. While the ETS has been coloured green and attempts made to align it with the nuclear ships issue, the fact is best farming practice is defined by efficient resource use. Enthusiasm from some quarters overlooks that many farmers are keen environmentalists. It is the mantra of many to leave the farm in better shape for the next generation than when they found it. Farmers plant trees for shelter, soil erosion, amenity and production. Farmers know the value of trees and by working on our emissions profile as farmers, it could unlock the door to new technologies and a second green revolution. I say this as a biotechnologist and as a farmer.

The fact is the ETS seems to be in a state of flux. Something best emphasised in responses to an excellent analysis by the Herald’s Brian Fallow. One assumed ‘denialist’ wrote, “good to see this fatuous nonsense in all its gloriously half-witted detail. As I said at the outset of Kyoto, just wait a bit and it will all collapse under the weight of its own amazing stupidity...” A ‘warmist’ strangely concurs, “I cannot see such a complex scheme working. NZ should play along with a low key version, but nothing ambitious until the major players are on board. Having said that climate change is real, it’s happening, and we are causing it....”

It is remarkable that Kyoto and the ETS could spawn agreement from polar opposites of the debate; this pun notwithstanding. What exists before farm foresters is seemingly a mishmash of confusion overlaying guesses, given we are now only seeing how the Government intends to respond to the Caygill report. Significantly, the Ministry for the Environment is just starting a series of regional ETS consultations so clarity may be on the way. What we do know is that Kyoto’s first commitment period comes to a halt at the end of this year. Meanwhile, as a country, we have to set a “carbon budget” to 2020. Will we sign up to Kyoto’s second commitment period or revert back to United Nation’s looser Framework Convention on Climate Change?

Given members of the G10, like Canada, Japan and Russia have all stepped back from Kyoto, its credibility is really at stake. The United States of course never made it to Kyoto’s start line. Minister for Climate Change, Tim Groser, says that we have to have an ETS or we won’t be able to sell our products in overseas markets. He is mistaken. Canada, when faced with a multi-billion dollar bill for its coal fired power stations, withdrew from the Kyoto Protocol last year. There has been no impact on its exports and no calls here to boycott Maple Syrup. We are also yet to see Greenpeace activists chaining themselves to Toyota dealerships in protest of Japan’s decision not to sign up to a second commitment period. Yes we do need to be seen ‘doing our bit’, but Minister Groser confuses market entry with consumer discretion. Market entry relates to the rules importing countries put on goods coming in. Under World Trade Organisation rules, a country cannot put in place standards on imported goods, it hasn’t put on its own products. Since no other country is imposing carbon penalties on their own agricultural goods, they cannot, under WTO rules, unilaterally impose them on New Zealand for having an ETS which doesn’t include agriculture.

While our politicians embrace Kyoto and the ETS with passion, carbon prices on the European ETS, the world’s largest, have slumped to $9.97 a tonne. That hasn’t stopped an American academic studying in Wellington suggesting New Zealand could become a major player in the global carbon market, ‘so long as agriculture is included’. The reality is that forestry owners well know our ETS is predicated on a carbon price of $25 a tonne, so it doesn’t augur well for the future. The Financial Times reports that European prices have dropped 60 percent in the past 12 months and while easy to blame Greece, the debt crisis affected the industrialised north of Europe much less than the south. It seems the European ETS is caught in a vice of its own making; a mild winter and increased renewable generation have at least temporarily offset an emissions spike expected from Germany’s nuclear power station decommissioning. The problem is that Kyoto has become bogged down in costly and
bureaucratic accounting rules; ‘a jobs scheme’ was how one former Federated Farmers president described it. While pilloried at the time, Federated Farmers skepticism is increasingly mainstream as evidenced by a changed tone online. Kyoto’s rules that drive our ETS are unfathomable at the farm gate and anyone who has tried to work their way through a claim for pre-1990 exemptions, knows full well what I mean.

One positive development of late is the belated move to allow land owners to swap land for pre-1990 plantation forests. Offsetting reflects the reality that not all forests were planted on less productive pastoral land. Clearly this is not a unique New Zealand experience because offsetting emerged from last year’s Durban climate change conference. The Caygill review also foreshadowed the possible scrapping of second tranche compensation due to forestry owners by way of pre-1990 credits. Designed to partially compensate owners for deforestation liabilities, the Herald’s Brian Fallow has speculated auster economic times and an impending ‘zero budget’, may have Treasury keen to move in that direction. Something tells me forest owners may be alarmed and the latest consultation document released in April will provide cold comfort. That said, the Government may try softening the blow by scrapping only the second tranche for only those landowners who take up offsetting. Such treatment also hints at the mounting number of questions about the future direction of the ETS.

As the Government is seemingly only starting on a reshaped ETS, farmers were encouraged to see Government pragmatically put agriculture’s enrollment on hold until mitigation technologies are available and other countries make progress. Such preconditions do not in our view go far enough. Federated Farmers considers it a necessity that our competitors also bring agricultural biological emissions into their respective systems before we do likewise. Otherwise, all that will happen is carbon leakage to far less efficient carbon production systems. If we price ourselves off the market we will make no difference to the world price of the commodities we produce. We will not have changed demand either. Our overpriced production would then be taken over by other high carbon footprint countries which will have the effect of increasing the overall world CO₂ production. Hardly the result the ETS or Kyoto intends. It’s also an indictment on a political zealouslyness that the ETS’ failings and that of Kyoto itself, are glossed over by mythologise ‘clean green brand NZ’. Sir Paul Callaghan once said New Zealand needed to brand away from ‘100% Pure’ to ‘100% Smart’. We agree. New Zealand’s reputation is based upon safe, reliable and high quality food, fibre and cellulose, not slogans.

The afforestation reforestation debit credit (ARDC) rule is one such example. At Durban, last year, this rule simply vanished without much comment save for the Forestry Owners Association. Should Government choose to incorporate this rule change in the next revision of the ETS, forestry owners will find themselves in a far worse position than they were in over the preceding five years. Where once owners could comfortably register forests in the knowledge their liability would only be as great as the volume of units claimed, they now risk being held liable for the entire carbon stock of their forests. One only needs to look at pre-1990 forests to see the toxic effect this rule change will have on land-use.

So that’s the negative. The positive arising from Durban centred on significant revisions to accounting rules around the treatment of harvested wood products. Bizarrely, Kyoto previously treated wood as if it was 100 percent fuel in that once harvested, all that sequestered carbon would be released at once. Wood products thankfully now have “half-lives”: paper with two years, wood panels with 25 years and sawn wood, 35 years. The European Union noted that accounting for harvested wood products was an important evolution and they’re right.

What New Zealand needs is an enabling framework because carbon can be stored for a very long time in harvested wood products. A wooden house can last for hundreds of years arguably much longer than a tree can live. As the Christchurch earthquake showed, wooden structures can be more resilient to natural disasters and unlike concrete foundations, more easily repaired. Then there are furniture and paper products. Not everything is equal given books can last for decades and newsprint just a matter of days. This change in accounting rules may help increase the use of wooden products over greenhouse gas intensive concrete, steel and glass. If we bring things back to essentials then it supports wood as a sustainable, renewable and flexible product. The wood sector globally has pointed to the positive contribution wood products can make to climate change mitigation. If we want to develop value-adding industries in New Zealand, then the change promises to remove a major Kyoto-accounting impediment. Under current rules, processing logs here are penalised in a way not faced by developing Asian economies. Allowance should be made for New Zealand-specific data to be used rather than default half-lives, so long as it’s transparent and verifiable. Half-lives can be arbitrary and we still face more costs non-Kyoto signatories don’t. It is not all sweetness and light.

While paper products and processed timber now have a half-life, wood waste comes under the ‘instantaneous oxidation method’. Here waste wood
is treated as releasing its full equivalent of carbon into the atmosphere and is intended to correct a perverse incentive to dispose of wood in landfill. It may also make processors minimise waste by converting it into products with longer half-lives. Scion for one is demonstrating this with bioplastics and biofuels. LanzaTech is a New Zealand grown company using biotechnology to process waste into fuel. While known locally for its work with NZ Steel, it is using joint ventures to expand overseas. In January, LanzaTech purchased a foreclosed bioethanol plant in the United States for only US$5.1 million. While built to process wood chips into ethanol LanzaTech plans to use it to produce biochemical instead. One wonders if New Zealand is now an expensive place to commercialise such technologies.

The proposed point of obligation for agricultural biological emissions gives foresters a good idea as to the ETS’ fundamental flaw – something important for business planning where the ETS is assumed. Right now, the ETS is designed to place the point of obligation for agricultural GHGs at the processor. This imposition provides no incentive for individual farmers to reduce their GHG emissions because their efforts are lost in the wider industry. For example, a ewe with twins will have a lower GHG profile per lamb than two ewes with a single lamb each. Under the current system the more productive ewe would be charged double; there is no incentive to be more productive. Moving the point of obligation inside the farm creates multiple incentives but perhaps it is too high level for politicians to grasp. Federated Farmers surprisingly proposed this in submissions on the ETS but the primary objection seems to come down to convenience. A “levy” at the works is much easier to administer than tens of thousands of individual farms. Convenience speaks volumes about how confused the ETS has become. If it is meant to be about changing behaviours and incentivising development of vaccines against methanogenic bacteria for example, then putting the point of obligation inside the farmgate is the logical and right thing to do. Not doing that lays the ETS open to attack from all quarters that is about ‘trades’ and not about its supposed raison d’être: the climate. This is not a sustainable course of affairs.

So where to now? Compatibility with the Australian ETS is on the cards after 2015 but there are significant differences, such as Australia’s planned treatment of soil carbon. This has not stopped Australia from talking to the European Union on closer alignment with its ETS. That may all be academic because politically, an Abbott Government in Australia, if there is one, is likely to scrap or substantially soften high profile policies identifiable with Labour; the Mining Tax and Australian ETS being two examples. It has to be remembered the

ETS was Mr Abbott’s path to leadership and Federal elections are due there by next November. Assuming the coalition was victorious and the Australian ETS all but scrapped, it is probable ours would face urgent questions come the 2014 review. That said, the coalition has committed to do something about emissions and what that something is, only time will tell. On this side of the Tasman the 2014 review falls in a general election year and Labour here is still wedded to a much harder line on agriculture. How hard depends on where Australia and the price of carbon go. In the meantime, the Ministry for the Environment is starting regional consultation meetings on the ETS. It is safe to assume there will be a host of regulatory changes on the way. Once thing is for certain, our ETS will continue to change for the better or for the worse.

For further information:
Dr William Rolleston, Federated Farmers Vice President, 027 246 0634, 03 687 4050