

Commodities Weekly

For the week ending Friday 12th July

Government and farmers reach emissions consensus

Agreement reached on farm-level emissions pricing implementation by 2025

The [Government announced on 16 July](#) that it had **reached a consensus with farming leaders to implement farm-level pricing of climate change emissions by 2025**. Agriculture Minister, Damien O'Connor said, "We are now agreed on the outcome; Government and farmers want emissions to be calculated at the farm level where farmers have the most control over how they can manage their own emissions on their property."

However, details of the transition process for farm-level emission pricing is yet to be agreed. To this end, the Government launched a consultation document, informed by the [work of the Interim Climate Change Committee \(ICCC\)](#), on how to bring agriculture into the emissions trading scheme.

The ICCC recommends initially pricing emissions through a processor levy, with the funds recycled to help build the skills and technologies farmers will need to measure and manage their on-farm emissions. In contrast, farming leaders are offering to get the agricultural sector into an emissions pricing system by 2025, funded through the sector's levy organisations, like Fonterra, Synlait, and NZ Beef and Lamb.

Implications – our early take

Achieving the net zero carbon target by 2050 will come with costs and a subsequent lift in commodity prices. Initially, the costs for farmers (i.e. from 2025) associated with emissions pricing are manageable and small. The Government has estimated the average dairy farm – with a 95 per cent discount on emissions, at the current NZ carbon price of \$25/tonne – would incur costs of \$0.01/kg of milk solids. Meanwhile, average meat production costs are estimated to rise by between \$0.01/kg for beef and \$0.04/kg for venison.

However, **the costs are likely to rise materially in the long term as the carbon price rises and costs of emissions mitigation rise too.** The Productivity Commission, for example, suggested in its 2018 report that the carbon price would need to increase to \$200 to \$250/tonne by 2050, if NZ were to reach the net carbon zero target.

Moreover, **land use is already changing**, driven by incentives included in the [Billion Trees](#) programme. Indeed, as farmland switches to forestry away from livestock farming, **the production and supply of NZ meat and dairy is likely to, at best, increase slowly or, at worst, fall.**

With NZ a major exporter of dairy and lamb, **prices for these commodities are likely to rise over both short and long-term horizons.** The impact on beef prices will more heavily depend on whether competing producers incorporate emissions-based pricing, given NZ accounts for a smaller share of global beef export trade. The impact on forestry prices is ambiguous as this will depend on both log prices and carbon prices over time.

All up, while **the benefits of leading on climate change policy are substantial, the costs are also real and significant.**

Ultimately, leading in one policy area may constrain NZ's ability to lead in another. That is, NZ may be able to achieve its net carbon zero target by 2050, but this may come at the expense of doing more to meet rapidly growing global food demand.

Week ending 12 July

The ASB Commodity Price Index was mixed last week. In USD terms, the Index rose 0.4%. Due to an increase in the NZD/USD, the Index slipped 0.5% in NZD terms.

Sheep/beef prices led the Index higher in USD terms. Beef prices (up 2.2%) continued their recent run, rising for the ninth consecutive week. Forestry and fruit prices both rose 1.0%, but we caution that forestry prices will fall heavily once up-to-date data becomes available from next week (AgriHQ log prices are updated monthly). Dairy prices fell last week, but the 2.7% overall increase in prices at this week's dairy auction, points to stronger dairy prices in our commodity price index, at least in the near-term.

Meanwhile, **the NZD rose against all major currencies last week.** This week, the NZD/USD has continued to strengthen. **As at the time of writing, the NZD was trading at US\$0.6780.**

ASB New Zealand Commodity Price Indices As at Friday 12th July 2019

	Index*	Week%	Year%**
Total NZD	105.8	-0.5%	1.5%
Total SDR	100.7	0.3%	1.3%
Total USD	100.4	0.4%	-0.7%
Dairy USD	97.3	-0.7%	0.8%
Sheep/beef USD	104.1	1.8%	-2.1%
Forestry USD	99.7	1.0%	-2.3%
Fruit USD	103.5	1.0%	0.3%
NZD/USD	0.6692	1.0%	-2.2%

* For all indices 2017 average = 100

** Percentage change since same week last year

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