



**Dairy for life**

**Fonterra Co-operative Group Limited**

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## **Fonterra Co-operative Group Ltd Submission on Climate Change (Stationary Energy and Industrial Processes) Regulations 2008**

**15 December 2008**

### **Fonterra Co-operative Group Ltd**

Fonterra Co-operative Group Limited ("Fonterra") is a leading multinational dairy company, co-operatively owned by 11,332 New Zealand supplier shareholders. In conjunction with its supplier shareholders, Fonterra is a major contributor to the New Zealand economy. Fonterra is responsible for 92% of New Zealand's dairy exports, which last year accounted for 25% of New Zealand's total merchandised trade returns. Downstream activities such as transport, rural financing and retail mean that dairy production plays an even greater part in the national economy.

Over the last 15 years growth from the agricultural industries has more than doubled that of other manufacturing industries. Dairy in turn has been a key driver of growth within the pastoral sector. Fonterra employs approximately 11,000 people in New Zealand across a wide spectrum of specialist skills and industries.

Fonterra has made major investments in greenhouse gas emissions reductions through technology and systems management. Fonterra's leading efforts have been recognised over a number of years through repeated success at the EECA Energywise Awards.

### **Submission:**

#### **1 GENERAL SUBMISSION**

1.1 Fonterra submits that it is appropriate to put development of these regulations into abeyance until the current parliamentary review of the Climate Change (Emissions Trading) Amendment Act is completed. Beyond this Fonterra believes that there is significant value in enabling a full set of regulations to be considered and submitted on as a coherent package.

#### **2 CLAUSE 7, 9, & 46 - COAL STOCKPILE ADJUSTMENT FOR 2010 OPENING STOCK**

- 2.1 Fonterra submits that the current formulae for the exclusion from emissions obligation of 1 January 2010 stockpiles from the stockpile adjustments for importing/mining and opting-in for coal will risk perverse outcomes. For example, an Opt-in purchaser of coal (Clause 46) who has dual fuel and who holds at 1 Jan 2010 but does not use a parcel of coal for 2-3 years, will gain a cash-flow benefit from the credit due in 2010.

	Purchased	Used/Sold	Opening Stock	Closing Stock	Obligation Fuel (= minus B in formulae)
Pre 2010	50,000				
2010	0	0	50,000 but set to zero	50,000	- 50,000
2011	0	0	50,000	50,000	0
2102	0	50,000	50,000	0	50,000

- 2.2 We consider that there should be a provision for credits resulting from the stock pile adjustments to be carried forward rather than paid out in the year they occur.

### 3 **CLAUSE 7, 10, 13, 16, 46 – STOCKPILE ADJUSTMENT WHEN NONE MADE IN CURRENT YEAR BUT ONE WAS MADE IN THE PREVIOUS YEAR**

- 3.1 Fonterra submits that the formula set out in clause 7(1)B(b) will result in firms being deemed to have a negative obligation even though there has been a net removal of coal from stock pile.

- 3.2 Using Clause 7 concerning importing coal as the example, a party declaring no stockpile at year-end but having declared one the previous year would apply clause 7(1)B(b) to calculate the stockpile adjustment B. If the starting stockpile was 500 tonnes, Clause 7(1)B(b) states  $B = S_{\text{closing}}$  from the previous year = 500 tonnes. The emission obligation is then = Imports x CV – B \* CV. This is a negative obligation even though there has been a net removal of coal from the stockpile.

- 3.3 Fonterra suggests this perverse outcome could be avoided by simply applying subclause (2) with  $S_{\text{closing}}$  (in current year) = 0.

### 4 **CLAUSE 13(1)**

- 4.1 Fonterra considers that there is an error in the drafting of Clause 13 (1) (a). The current drafting cross references subclause (2) in relation to “storage adjustments for the class of imported natural gas for the year”. We submit that subclause (b) deals with a difference matter and as such the cross reference is incorrect.

- 4.2 For avoidance of doubt, we consider that Clause 13(1) should also be amended to make clear that in this formula the metric for ‘B’ is GJ, not  $m^3$  which is the metric for the other parameters in this formula.

### 5 **CLAUSE 49(1): PURCHASING NATURAL GAS**

- 5.1 Fonterra considers that this clause should be qualified as applying only to purchases and direct supply from a specific field. It should be clear that this clause does not apply to undifferentiated, specification gas purchased from the main pipeline.

## **6 CLAUSE 49(2): DEFINITION OF J FOR THE STORAGE ADJUSTMENT**

- 6.1 Fonterra submits that clause 49(2)(b) should be removed. We consider that because “J” is the net flow into storage, rather than quantity in storage, item (b) is not needed.

## **7 SCHEDULE 1: FEES & CHARGES**

- 7.1 Fonterra notes that no fees are shown in the draft regulation, but instead there is a reference to these being pending. Our position is that any fees charged should be minimal, to cover costs only. We request that any amendment or addition to these regulations to add detail in relation to fees be open for submission prior to being formalised in final Regulations.

## **8 SCHEDULE 2: EMISSION FACTORS**

- 8.1 Fonterra requests the insertion of a statement at the start of this section, which makes it clear that these emissions factors are for use in determining obligations at various points in the supply chain, and may differ from “emission factors” used in calculating transitional allocations.

## **9 SCHEDULE 2: TABLE 5A: TABLE 3 FUGITIVE COAL SEAM GAS & UNPROCESSED GAS FACTORS**

- 9.1 Fonterra submits that it does not accept the emissions factors as contained in Tables 3 & 5A. We note that these are preliminary figures and in the case of unprocessed gas based on a percentage over the processed gas figure due to lack of actual data.
- 9.2 Fonterra requests that MfE seek expert advice from industry and re-issue the recommended emission factors for submission.

## **10 UNIQUE EMISSIONS FACTORS:**

- 10.1 Fonterra notes that the draft regulations do not address unique emissions factors, but the covering Bulletin does. More specifically, we do not consider the statement in the covering Bulletin that “*This means setting the factor above the level of average emissions for the activity, expecting that participants whose emissions are lower than the default will apply for unique emission factors....*” is appropriate.
- 10.2 Fonterra is concerned that the effect of this statement:
- (a) Could have the effect of penalising innocent parties because another party might apply for a lower emissions factor; and
  - (b) Infers that large players below the default may freely apply for a unique emissions factor.
- 10.3 Fonterra considers it appropriate for criteria to be developed for the application of unique emissions factors. For example, ‘*a unique emissions factor can only be applied if it lies 2.5% outside the default factor*’. We also consider that application of unique emissions factors must be triggered if an activity is a specified percentage higher than the default. We consider that a 2.5% variation is an appropriate threshold.

10.4 Fonterra requests that the criteria for application of unique factors be developed and put out for consultation prior to their inclusion in regulation.

If there are any queries relating to this submission, please contact Doug Watson on 0274 972 751 (phone) or email [doug.watson@fonterra.com](mailto:doug.watson@fonterra.com).

Yours sincerely

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