



Media release

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Ballance challenges aspects of the Emissions Trading Scheme (ETS)

Fertiliser specialist Ballance Agri-Nutrients says the Government's proposed emissions trading scheme exposes New Zealand industry to unfair international competition by moving too far, too fast, and could shorten the operating life of its Kapuni urea plant in Taranaki.

Its analysis shows that the Climate Change (Emissions Trading and Renewable Preference) Bill being considered by the Finance and Expenditure Select Committee will damage New Zealand economically.

'Ballance is supportive of the introduction of the price of carbon into the New Zealand economy in general, and of emissions trading in particular,' Ballance Chairman David Graham told the Select Committee yesterday.

'However, the design of the ETS, as drafted, inadequately addresses concerns that Ballance and other firms have identified that will lead to economic harm to New Zealand.'

Ballance owns and operates New Zealand's only ammonia-urea plant, located at Kapuni in Taranaki. It can supply only half the nation's urea demand for the nitrogen-rich fertiliser granules, with the shortfall being imported from countries that do not have similar ETS regulations.

'Ballance is therefore in direct competition against countries with less stringent international climate change obligations. Ballance and New Zealand businesses will be exposed to the full cost of carbon at high allowance prices all too quickly.'

'In fact, these firms are essentially being encouraged to shut down and leave New Zealand. That won't reduce global greenhouse gas emissions, and may come at a significant social cost to the New Zealand economy.'

Ballance made two key points to the select committee. It maintained that carbon costs attributable to fertiliser use should lie with the users, not the manufacturer/importer. It was also concerned that carbon costs at its Kapuni plant could become financially unsustainable, thereby threatening 140 jobs.

In recommending that the Point of Obligation for synthetic nitrogen fertilisers be moved downstream from the importer/manufacturer onto the end user, Ballance argued that this would more likely encourage behavioural changes in the end use of fertiliser by acting as an incentive to farmers to optimise their usage. To this end, Ballance would endeavour to help farmers measure their carbon footprint linked to fertiliser use on farm.

If the ETS costs were borne by the importer/manufacturer, as stipulated in the ETS legislation, the extra costs would be passed down equally to all end users, regardless of any on-farm efficiencies they might have initiated, Mr Graham said, therefore not rewarding those who have made an effort to reduce their carbon footprint.

He said too much reliance was being placed in the ETS on the benefits of nitrification inhibitors, which were not yet recognised under the Kyoto Protocol. It would be preferable to defer the entry of such fertilisers into the scheme until international recognition of the available technology to reduce emissions was certain.

However, once the mitigation potential of nitrification inhibitors was recognised, the inclusion of this in tools such as Overseer could enable farmers to manage their emission profiles. There were other mitigation options farmers could employ, including creating forest areas, feed pads, wetlands, and manipulating the diet of their stock.

Ballance argued that it was important to ensure all ETS policy outcomes were complementary to other policy initiatives such as the Clean Streams Accord and the Sustainable Water Programme of Action.

Ballance's other main financial exposure to the scheme is through any ETS-related increase in the price of energy at its Kapuni plant, and emissions charges related to fuel use at the plant.

Half the gas used at its Kapuni plant is used for fuel; the rest is chemically reacted to form the urea product. Under the present ETS, Ballance would have to pay upfront for the carbon in all the gas, not just the amount consumed as fuel.

This would increase its cashflow demands by several million dollars a year, with any rebate on the non-fuel component not being paid back until the end of each year.

Add in the carbon costs for its fuel-based emissions, and Ballance is concerned that this significant overall expense could shorten the operating life of its Kapuni plant.

Mr Graham said it could become cost effective then for Ballance to simply utilise its existing urea import contracts with non-ETS countries.

Ballance said the bill, as drafted, was unlikely to reduce New Zealand's emissions demonstrably, and that it had been rushed through without adequate stakeholder engagement.

'It's critical that a New Zealand ETS allows our efficient industries to remain internationally competitive.'

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