

Carbon Balance – Dairy Farm

Introduction

This info sheet describes a balance of carbon liabilities and credits for a farm. Using a case study, the potential impacts of Emissions Trading Scheme are discussed, along with the possible use of forestry to offset on-farm emissions.

Case study – Dairy Farm

This case study describes a dairy farm producing 210,000 kg milk solids from 535 cows on 178 ha in the South Waikato. Included in the operation is a 40 ha dairy run-off, 140 yearling heifers and 120 rising two year old heifers. Around 5,000 stock units are farmed in total.

Total annual greenhouse gas emissions

Annual greenhouse gas emissions from the case study farm are described in the table below. A New Zealand Unit (NZU), the standard measure used for carbon accounting, is equivalent to 1 tonne of carbon dioxide (CO₂). Note that livestock are the source of 86% of emissions from the case study farm (1,661 of the total 1,929 units). The Carbon Farming Group calculator was used to prepare this table.

GREENHOUSE GAS SOURCE (ANNUAL EMISSIONS)			TONNES CO ₂ NZU
Petrol	1,500	litres	4
Diesel	11,000	litres	29
Electricity	62,240	kWh	14
Nitrogen	39	tonne	221
Cows	535		1321
Heifers	260		340
			1,929

Impact of ETS on farm

In 2009 the NZ government revised the ETS legislation (see fact sheet 4 for detail). As a result Agriculture will be included in the Emissions Trading Scheme from 2015. Initially there will be a 90% free allocation of credits which means that farmers will be liable for 10% of their livestock emissions (energy and fertiliser will be paid separately). This amounts to 166 NZUs in 2015 for this farm. At present the milk processor will pay this on behalf of the farmer, at \$25/NZU this will amount to a levy of about 2.5c/kg milk solids. The free allocation will reduce by 1.3% per year on year from 2016 onwards. This is shown on the graph over the page.

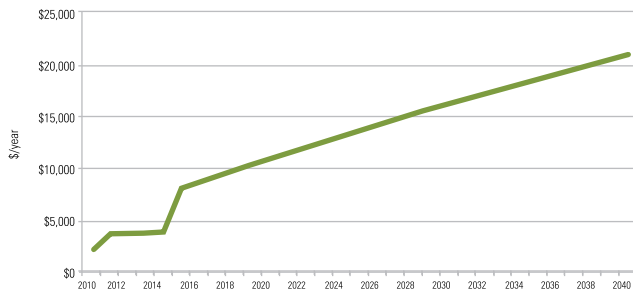
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Total annual cost of ETS from 2010 to 2040 @ \$25/NZU



Carbon price effects

At the moment carbon liabilities will be dealt with at the processor level. Changes in the carbon price will have a direct impact on final costs of any scheme. The market price for carbon is very uncertain and will continuously vary like other commodity prices. However, post-1989 forests provide credits at the farm and national levels. Access to these credits reduces exposure to future increases in carbon price, significantly reducing business risk. This will add carbon to the range of products considered by forest managers (see info sheet 12 for detail).

Potential forestry credits

There is little that can be done immediately to reduce livestock emissions without reducing stock numbers so we have assumed emissions remain constant in the short term, and therefore carbon credits are required to offset emissions. Carbon accumulated by trees can be claimed as carbon credits in the case of forests planted after 1989 on land not previously forested (see info sheet 7 for details).

The rate of carbon accumulation or “sequestration” varies with species, climate, age and management regime. For the case study, we have conservatively estimated that by the year 2040, 400 tons of carbon will be accumulated and stored in a hectare of radiata pine forest. This forest is assumed to be planted and harvested on a continual basis (see mixed age forest, info sheet 12). Total emissions liabilities for the farm from 2015 until 2040 will be 15,514 NZUs. Forty hectares of new forestry would be required to offset this amount. The table below shows the total cost of emissions liabilities to the farm, the effect of carbon price and the impact forestry could have on addressing those costs.

Carbon (NZU) price	Total Cost to 2040 No Forestry	Total cost to 2040 With 40 ha Forestry
\$25	\$387,850	Cost of forest
\$50	\$775,700	Cost of forest

At \$25/NZU the total cost to the farm for emission liabilities to 2040 will be \$387,850 or about \$13,000 per year, double this if the price rises to \$50/NZU. However if 40 ha of new forest is established then the cost of liabilities under the ETS will not exceed the costs of establishment and maintenance which will be considerably less (approximately \$92,000). The addition of forestry as an offset against emissions could play an important role in reducing the cost of the ETS to the farm by insulating the business from the risk of future increases in the price of carbon.

But I don't have land for trees?

For farms without suitable land, new forests could be established on less productive land purchased in partnership with other livestock owners. This could be done using the Afforestation Grant Scheme (see info sheets 3 and 4) or a joint venture partnerships using a forestry right¹. Professional forestry and legal advice should be sought before carrying out such activities.

Summary

The bulk of agricultural emissions are difficult to mitigate. Forestry, either on or off the farm, offers an opportunity to reduce emission liabilities (and costs) over the medium term (30 to 50 years) while new GHG mitigation technologies are developed and implemented. Consideration should be given to planting new forests now as several government schemes encourage the development of forestry to reduce the potential impact of future obligations (see info sheet 4).

¹ Planting in Partnership and Developing an Export Industry (1959 to 1984) <http://www.maf.govt.nz/forestry/publications/impact-of-incentives-on-plantation-forest-resources/plantation-forest-resources-06.htm>

Further Reading

Carbon Farming Information Report

www.carbonfarming.org.nz

<http://www.maf.govt.nz/climatechange>

Information prepared by P.A.Handford and Associates Ltd in conjunction with the Carbon Farming Group

Go to www.carbonfarming.org.nz for other info sheets on: ➤ Greenhouse Gases and Farming Livestock ➤ International Agreements ➤

Soil Carbon ➤ Carbon Trading ➤ NZ Government Initiatives ➤ Carbon Trading ➤ Voluntary Carbon Market ➤ Managing Emissions from Livestock

➤ Practical Case Studies ➤ Carbon Forest Management ➤ Risks and Liabilities