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Freshwater Submissions
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PROPOSED CHANGES TO FRESHWATER REGULATIONS

Submission from Rabobank New Zealand October 2019

Introduction

Rabobank is New Zealand's only specialist food and agribusiness bank. We are part of an international cooperative group based in the Netherlands, with around 350 staff working from 32 offices around New Zealand. Bringing together our deep connections to the New Zealand rural sector, our specialist research expertise and our extensive international reach, we work closely with our clients under the global mission of Growing a Better World Together.

In New Zealand and around the world, Rabobank works closely with clients and other stakeholders to improve their overall environmental sustainability and to meet evolving requirements and standards. In this respect, the bank is involved in a range of initiatives to help clients and the wider rural sector (see Appendix 1).

With our cooperative roots and longstanding connections to food and agri businesses, Rabobank takes a long-term view of supporting clients and rural exporters, whom we regard as critical to New Zealand's wider economic success.

It is within this context that we welcome the opportunity to make a submission on the Government's proposed freshwater reforms.

Impact of proposed freshwater reforms

The Government's proposed reforms of freshwater planning laws will have significant implications for New Zealand's food and agribusiness sectors, with a likely impact on production costs, operational complexity and future land-use development opportunities.

The proposals most relevant to farmers and growers include the introduction of more stringent nutrient bottom line requirements, new national practice standards and interim controls on land use intensification.

The Government's own impact assessment concludes that the average catchment will require a 27 per cent reduction in nutrient loss, with some catchments needing to reduce nutrient loss by up to 80 per cent.

Our assessment, based on direct feedback from our clients and wider industry conversations, is that the overall impact of the proposed freshwater reforms on the New Zealand farming community will be significant. These impacts will vary considerably from farm to farm, depending on location and farming system. For some, meeting these new requirements will represent a major challenge and come at a considerable cost.

The proposals are both complex and demanding, and the consultation timeframe is extremely tight during a busy time in the farming calendar. In addition, these proposals must be seen alongside the cumulative impact of other regulatory proposals currently affecting the food and agribusiness sector, which are summarised later in this submission.

The overall impact of these series of reforms represents a substantial challenge for farmers and growers. The proposals also appear to underplay the significant progress many farmers and growers have already made in improving freshwater management on their properties and in stepping up their environmental sustainability practices.

From Rabobank's perspective, we remain committed wholeheartedly to supporting our food and agribusiness clients, along with their communities, through these and other challenges. In doing so, we recognise the importance of this sector to New Zealand's wider economic success and future prosperity.

New Zealand's contribution to global food security

Rabobank New Zealand believes a thriving food and agribusiness sector is vital for both New Zealand's national economic progress and the continued wellbeing of our rural communities. The reputation of New Zealand farmers and food producers as among the most successful, competitive and efficient in the world should be both welcomed and celebrated.

Therefore, we encourage the Government to ensure implementation of the proposed freshwater reforms does not lead to a substantial land use shift away from farming and horticulture, and towards non-food producing forms of land use such as forestry.

Specifically, given that New Zealand is a large net exporter of food and agricultural products, Rabobank urges policy makers to recognise and protect the role New Zealand plays in contributing to global food security and sustainability. It would make no sense, for example, for a supply gap created by a reduction in New Zealand food production to be filled by products from countries with less environmental integrity.

We agree with the Government's commitment to address the degradation of New Zealand's waterways. However, we believe the extremely challenging water standards being proposed, alongside the likely costs and the recommended timeframes for meeting them, would be unnecessarily harsh in their application.

In particular, we are concerned about the very real impact these proposals will have on the rural sector, which is already facing pressures from regulatory change. Perversely, in some respects the proposals could unintentionally penalise those farmers who have already made substantial improvements to their freshwater management practices and outcomes.

In their preamble to the *Action for Healthy Waterways* discussion document supporting these proposals, the relevant Ministers confirm they want to ensure the pace of change is manageable and that appropriate transitional support is in place in coming years. Further, they commit to the new requirements being practical and enduring – and in their words “*science-based, predictable, understood by the public, and underpinned by effective regulation and enforcement.*”

Rabobank agrees with these statements. However, as the proposals stand currently, we are not at all confident these outcomes will be achieved, for the reasons outlined in this submission.

Key issues for the food and agribusiness sectors

We understand many sector groups and subject matter experts are providing submissions and feedback on the more technical aspects of the freshwater proposals.

Rather than covering that same ground, we have summarised below four key issues we believe need to be taken into account from a food and agribusiness perspective in order to meet the Ministers’ objectives of setting a manageable pace of change and achieving enduring environmental improvements.

Uncertainty and low rural confidence

Despite healthy commodity prices, a competitive exchange rate and generally encouraging growing conditions, rural sector confidence is at a low ebb. The feedback we are receiving from the grass roots level is that this is due to a number of converging factors, but particularly uncertainty and anxiety generated by several material regulatory and policy initiatives either underway or planned.

This was confirmed by Rabobank’s Rural Confidence Survey of around 450 farmers in the September quarter. It showed rural confidence falling sharply to its lowest level since March 2016, with farmers across all sectors increasingly pessimistic about prospects for the agricultural economy in the year ahead.

The overall net rural confidence reading fell to -33 per cent in the latest survey, down from -2 per cent last quarter. Concern over government policy was identified by farmers as the key factor in their negative outlook.

It is worth noting that this latest survey was completed just before the Government issued its freshwater proposals on September 5. Given farmers’ subsequent reaction, especially around expected compliance costs and the profound impact on their businesses, a further erosion of confidence would not be surprising in the December quarter.

A high degree of uncertainty about the future is contributing to this view. In turn, falling rural confidence is translating into slowing investment, as reflected in our latest Rural Confidence Survey showing investment intentions for the dairy sector at -8 per cent, the lowest level since June 2016.

We are also seeing increased stresses and strains at both personal and community levels, and extra demands and pressures on volunteer groups such as the Rural Support Trusts.

Transitional support and provisions

While the freshwater proposals include a commitment to work with the primary sector through the transition towards more sustainable land and water use, we believe farmers would welcome more clarity about exactly what that would look like.

Rabobank considers high quality farm environment plans to be valuable tools that can help improve both the environmental and economic performance of farming businesses.

Given the significant implications for many farmers and growers, and the on-farm changes required, we recommend the Government explore funding (or contributing to) individual farm environment plans out to 2025.

We acknowledge the Government has announced its \$229 million Sustainable Land Use Package to help farmers adjust to new water quality requirements, but we would like to see eligibility defined to include farm environmental plans. This would provide meaningful assistance to farmers planning for change to meet the new requirements.

Other aspects of the transitional arrangements we believe require clarification are the proposed interim restrictions on land use changes from 2020 until regional councils update their plans. It is concerning that land-use intensification would be permitted only where evidence is provided that it would not impact on water quality. This evidence would be extremely difficult to provide.

Furthermore, it appears these interim restrictions would apply to all catchments, regardless of whether they meet the new proposed bottom lines. This proposal to effectively “grandfather” land use intensification will prevent farmers with low-emitting systems from making any changes that would add even a small amount to their emissions.

This is one example of how the proposals, as they stand, would restrict future flexibility of farming systems and penalise farmers who have already implemented robust freshwater plans on their properties.

Busy pipeline of regulatory change

As stated previously, the cumulative impact of the proposed freshwater reforms on food and agri producers should be considered alongside other proposals affecting the sector, including:

- The Climate Change Response (Zero Carbon) Amendment Bill, which sets challenging methane reduction targets requiring substantial change to future farming practices.
- The Government’s proposal to put a price on primary sector emissions from 2025, whether through the Emissions Trading Scheme or a new alternative mechanism which has yet to be agreed.
- The proposed introduction of a draft National Policy Statement for Indigenous Biodiversity, potentially restricting farmers’ ability to convert native vegetation into productive pasture.
- The Government’s One Billion Trees Programme providing financial incentives for landowners to plant trees.
- A favourable pathway for consent through the Overseas Investment Office for foreign investors applying to buy or lease land for forestry purposes.
- The comprehensive review of the Dairy Industry Restructuring Act and its impact on the dairy industry.

The cumulative impact of these proposals, in association with the freshwater reforms, will significantly influence New Zealand’s future land use and farming systems and contribute further to the rural sector uncertainty we have highlighted. Therefore, we submit that the freshwater proposals cannot be seen in isolation.

Future global market benefits

The discussion document lists one of the benefits of the proposed freshwater reforms as the creation of new business opportunities derived from improving New Zealand's environmental credentials overseas.

As a developed country with high environmental controls, New Zealand's water quality rates relatively highly by global standards.

For global consumers prepared to pay a premium for quality imported products carrying environmental and social attributes, top of mind issues are carbon footprint, biodiversity, low chemical footprint and the absence of social harm through child labour etc.

By contrast, the prospects of improved market benefits stemming from proposed freshwater reforms alone are relatively low, according to food producers with which we engage.

Therefore, Rabobank believes New Zealand must ensure it is ahead of its competitors in terms of water quality in key markets such as beef, sheep meat, horticulture, viticulture and dairy. However, we submit that the proposed reforms should not be applied excessively on producers and the Government cannot assume that, in themselves, they will generate significant future benefits in overseas markets.

Conclusion

Rabobank supports the Government's goal of improving the quality of New Zealand's freshwater and reducing pollution entering waterways from cities and farms. Equally, we support Ministers' stated goals of ensuring the pace of change is manageable and that appropriate transitional support is in place.

However, for the reasons we have outlined, we are not confident that the proposed freshwater reforms, in their current form, will achieve those stated goals in a fair and balanced way.

Over the decades, New Zealand food and agribusinesses have proven themselves to be resilient, innovative and adaptable. They are among the most successful and efficient food producers in the world, they are fast adaptors of new technology and they operate without subsidies a long distance from their main markets.

At the same time, our farmers and growers have made significant strides forward in improving the management of freshwater on their properties – and this is often played down or overlooked in some quarters.

We therefore urge policymakers to take account of the issues we have highlighted in this submission before embedding a new freshwater framework.

Appendix 1:

Rabobank and environmental sustainability

As one of the world's largest food and agribusiness banks, Rabobank is acutely aware of the potential impacts of environmental pressures on our business and on the clients and communities we serve.

Supporting sustainable food production is a key element of our global mission of Growing a Better World Together. In New Zealand, the viability and vitality of New Zealand's farming communities depend on their preparedness to manage periods of climatic variability, as well as the growing need to manage their impact on the environment.

Globally, Rabobank can play a facilitating role by providing banking solutions to clients, which make their businesses more sustainable commercially and environmentally.

Around the world, Rabobank works closely with its clients and other stakeholders to improve their environmental sustainability. In this respect, the bank is involved in a range of initiatives to help clients and the food and agribusiness sector as a whole.

Rabobank Client Photo

Rabobank's Client Photo is a new tool being developed to build a non-financial picture of our food and agribusiness clients' businesses. It includes a survey of more than 50 questions on clients' agronomic, environmental, social, and workplace performance. The Client Photo will provide both the bank and clients with a more complete picture of each farming business, so we can better help them meet emerging regulatory requirements and the demands of modern markets.

RaboResearch reports

Our RaboResearch team has produced several research reports examining aspects of sustainable farming in New Zealand. Recent reports have looked at key considerations for New Zealand landowners considering forestry opportunities and the role that environmental attributes play in influencing the competitiveness of New Zealand's agricultural exporters.

Partnership with New Zealand Farm Environment Trust

Rabobank is a long-term strategic partner of the New Zealand Farm Environment Trust, which administers the Ballance Farm Environment Awards. We work closely with the Trust to share information among farmers and to showcase on-farm best practice. Our staff play a significant role on the judging panels of each of the 11 BFEA regional award programmes, as well as on the National Awards judging committee.

Rabobank Client Councils

Rabobank New Zealand supports five regional Client Councils, made up of clients who meet regularly to discuss challenges facing the agricultural sector and to develop initiatives that contribute to a sustainable food and agribusiness industry. Along with long-term industry capacity, the urban-rural divide and rural health, environmental sustainability is one of the key industry challenges identified by the New Zealand councils.

Support for NZ Landcare Trust Catchment Projects

Rabobank is a strong believer in the role community catchment groups can play in identifying and addressing water quality issues associated with specific catchment areas. Since 2014, we have partnered with NZ Landcare Trust to support two water catchment projects – the Opihi Water Project in South Canterbury and the Pathway to the Pomahaka in West Otago.

Our support has included financial assistance, supplying expert speakers, running environmental workshops and funding two short films promoting the positive work of the Pomahaka Catchment Group in encouraging the establishment of similar groups across New Zealand.