Essential Freshwater Submission

To: Ministry for the Environment

From: FarmRight Limited, & on behalf of the New Zealand Superannuation Fund, the Canadian Public Sector Pension Investment Board, and entities listed below

Date: Personal details removed

Background – Who are we?

FarmRight Limited (FR) provides a full range of specialist investment and management services to approximately 60 farms across New Zealand. This clientele base includes investors in portfolios of farms, such as the New Zealand Superannuation Fund and the Canadian Public Sector Pension Investment Board, as well as traditional equity partnerships. The overall portfolio is comprised of a variety of operations including dairy, beef and horticulture. This submission has been made on behalf of FarmRight’s portfolio of managed farms, which is comprised of the following:

1. Arataki Dairies Limited - Aria 1
2. Arataki Dairies Limited - Aria 2
3. Arataki Dairies Limited - Aria 3
4. Arataki Dairies Limited - Tapuwae
5. Hinewai Dairies Limited - Hinewai
6. Hinewai Dairies Limited - Tangitu
7. Appleton Dairy Farm Limited
8. Cumberland Dairy Farm Limited
9. Emerald Dairy Farm Limited
10. Hammond Dairy Farm Limited
11. Ramsay Dairy Farm Limited - Ardlui
12. Ramsay Dairy Farm Limited - Hudson
13. Balfour Dairies Limited
14. Blue Mountain Dairies Limited
15. Mt Bee Dairies Limited
16. Pahau Dairy Limited
17. Pahia Dairies Limited
18. Riversdale Dairies Limited
19. Te Wae Wae Dairies Limited
20. Ten K Dairies Limited
21. Waiawa Dairy Farm Limited
22. Five Rivers Dairies Limited
23. North South Farms Limited – Dairy
24. North South Farms Limited – Irthing Downs
25. Owaka Dairies Limited
Within these farms there are approximately 360 employees, supporting a significant number of families and contributing to the economic growth of their communities.

FR places a strong emphasis on ensuring that its managed farms are operating in a sustainable and environmentally friendly manner. To achieve this, FR has implemented a range of policies which establish good management practices that farms are expected to follow. In order to gain assurance that its managed farms are operating in accordance with these expectations, FR operates an Internal Farm Audit Programme which covers every farm in the overarching portfolio. This demonstrates FR’s commitment to ensuring that its operations are conducted in an environmentally sustainable manner.
Initial view of the proposals

Healthy waterways are important to all New Zealanders, including farmers. We too want to have healthy waterways, successful businesses and thriving rural communities. Farmers share the same aspirations to protect and enjoy our streams, rivers, lakes and wetlands. However, FR has some concerns with certain aspects of the Draft National Policy Statement for Freshwater Management (NPS-FM), the Proposed National Environmental Standards for Freshwater (NES), and the Draft Stock Exclusion 360 Regulations. First, the proposals are very much designed as a ‘one-size-fits-all blanket approach’ which fail to take into account the different risk profiles of catchments, and neglects to consider the environmental work which has already been undertaken. Second, the onerous financial implications of these proposals will have a significant detrimental impact upon New Zealand’s rural communities, such as loss of jobs and negative mental health effects. At a time in which the Government is attempting to stimulate economic growth in the regions through the Provincial Growth Fund, these proposals run counter to these objectives, and instead are likely to result in the economic and social decline of these regions.

What are we and the industry doing to mitigate the environmental impacts of farming operations?

As noted above, the farming community are committed to ensuring New Zealand’s waterways are protected. As such, many actions have already been undertaken within our farms and across the industry to mitigate the environmental impacts of farming operations, and it is important to recognise the enormous amount of work which has been completed. This includes the following:

- The implementation of the Sustainable Dairying: Water Accord: This is a set of national good management practice benchmarks aimed at lifting environmental performance on dairy farms. This has achieved the following key outcomes:
  - 100% of stock crossing points have bridges or culverts to exclude dairy cows;
  - 98% of waterways greater than 1 m wide have dairy cattle excluded;
  - 100% of farms have been assessed for effluent management practices;
  - 100% of dairy farm conversions complied with environmental standards in the 2017/18 season

The implementation of these actions was a voluntary initiative undertaken by the industry at great cost, and is a testament to the commitment of the industry to achieve improved water quality and ecosystem health outcomes.

- A considerable number of FR managed farms, as well as farms in the wider sector, have Farm Environmental Plans currently in place, or are in the process of developing these. The sector has already committed to all dairy farmers having Farm Environmental Plans in place by 2025. These Plans entail considerable time and cost to implement but are a valuable tool for ensuring that good management practices are adhered to.

- FR operates a robust Internal Farm Audit Programme, whereby all of our managed farms undergo audits in order to gain assurance that they are adhering to all applicable consent regulations and legislative requirements, as well as conducting operations in line with good environmental management practice.
FarmRight’s positions on selected proposals

- **Nitrogen and Phosphorus Bottom Lines**
  At a high level we understand the importance of protecting ecosystem health; however, we do not support the proposed dissolved inorganic nitrogen (DIN) and dissolved reactive phosphorus (DRP) bottom lines, as we believe that the scientific justification behind these proposed limits is not sufficiently robust at this point in time. It is estimated that in order to meet the proposed bottom line target of 1ppm DIN, some catchments would be required to reduce nitrogen losses by up to 80%. The change in farming systems and reduced productivity required in order to achieve such significant reductions will have a severely negative impact upon the viability of many farming operations, which will undoubtedly result in the widespread loss of jobs and damage to the growth of rural communities. This is particularly concerning in light of the fact that there is currently no robust evidence to support the notion that a bottom line target of 1ppm DIN will actually achieve significantly healthier waterways. Of further concern is the lack of economic analysis that has been made available, in regard to the financial impact of implementing a bottom line target of 1ppm DIN. The lack of economic analysis provided by the Government makes it difficult for farmers to calculate the potential impact of these proposals on their farms and communities. It is recommended that the implementation of these proposals is put on hold until such time that the necessary economic analysis has been completed and disseminated appropriately. It is also recommended that the proposed bottom line target of 1ppm DIN is reviewed, as it appears that this target is an unrealistic target.

In order to illustrate the impact that would arise from a significant reduction of nitrogen losses, we have conducted an analysis on one of our managed farms. For the purposes of the analysis, it has been assumed that the farm will be required to reduce nitrogen outputs by 50% in order to meet the proposed DIN bottom line. The analysis indicates that approximately 100ha (33%) of the farm would need to be retired, with cow numbers reducing from 950 to 500. The financial impact of this over a five year period is an EBIT reduction of approximately $1m, which highlights that the financial viability of this operation would be significantly put at risk. This would inevitably lead to the loss of jobs, with the analysis indicating that 2.5 labour units would need to be removed from the farm. The severity of the negative impact that the widespread loss of jobs would cause in rural communities must be considered when setting a DIN bottom line.
• **Stock Exclusion**

In principle we support the requirement for stock exclusion from waterways, as this is one of the most effective means of preventing contaminants directly entering waterways. We support the proposed ‘average’ width setback approach, as this enables farmers to target at risk areas. As previously mentioned, the introduction of the Sustainable Dairying: Water Accord has already resulted in a considerable amount of work being completed to fence off waterways. This work has been completed at a significant cost to landowners for the betterment of waterways health. As such, in order to recognise this work, we do not support the requirements to move existing fences to meet the proposed 5 metre average setback, as this would penalise those who have taken proactive steps protecting waterways. There is also minimal progress to be achieved by re-fencing the same length of stream. Furthermore, the proposed 5 metre average set-back requirement will result in a significant loss of productive land, which will inevitably have a negative impact upon the viability of farming operations. It is also unclear from the proposals whether there is any robust scientific backing behind the proposed 5 metre average.

In order to illustrate the significant financial impact that would arise from moving existing fences, we have conducted an analysis on two of our managed farms. This analysis calculates the cost of re-fencing applicable waterways on each farm, taking into account costs associated with labour, fence wire, fence posts, and strainer posts. This analysis indicates that the cost of fencing both sides of captured waterways would be approximately $190k and $248k respectively. Furthermore, we conducted an analysis on three farms on the financial impact of the lost productive land that would occur as a result of requiring a 5 metre average setback. These farms used for the analysis currently have an existing average setback of 1 metre. The analysis indicates that the loss of productive land arising from extending the average setback distance by 4 metres would amount to approximately 5.6ha, 7.3ha and 2ha respectively. Based on a $6.50 pay-out, it is estimated that the annual loss of income amounts to an average of approximately $28k. An extrapolation of this across FR’s portfolio indicates that the total annual loss of income would amount to approximately $1.5m. The impact of this would be significant and would inevitably negatively affect the viability of farm operations, which is likely to result in the loss of jobs.

From a capital value perspective, it is estimated that the total value lost as a result of extending setbacks would amount to approximately $6.9m of productive land across FR’s portfolio of farms. This is particularly significant in light of the fact that it is very uncertain as to whether there would be any benefit gained from this.

Some viable alternatives to give effect to the underlying intention of the stock exclusion proposal are as follows:

- Allow current fencing to remain in place where it is already excluding stock from entering waterways. However, if it is deemed imperative that existing fencing be moved, this should be allowed to be postponed until such time that the fencing is due for maintenance.

- The proposed 5 metre average setback requirement should be reviewed, as it likely that a shorter setback distance would achieve the same waterway health outcomes with far less of a detrimental impact upon the viability of farming operations. One way to potentially manage this is through a risk-based approach as part of Farm Environmental Plans, as this would enable fencing requirements to be tailored to meet the needs of particular farms.

- Temporary and tactical fencing should be allowed to be an option instead of requiring a permanent average setback at all times.
- Waterways less than 1 metre wide, wetlands, and other critical source areas which are fenced as part of Farm Environmental Plans should count towards the average set-back distance of a farm.

- **Farm Environmental Plans**
  In principle we support the proposal to make Farm Environmental Plans a mandatory requirement. These Plans are an effective means of tailoring action to manage environmental risks on-farm and improving water quality outcomes in a timely manner. It is important to recognise that a large number of farms already have Plans in place, and therefore it is imperative that we leverage off the work that has already been in this regard, with only slight modifications required to incorporate the proposed freshwater module into existing Plans. In the Canterbury context, for example, there are several templates for developing Farm Environmental Plans which have been approved by Environment Canterbury as meeting the requirements of the Land & Water Regional Plan. It would be unfortunate if the proposed Plans would require changes to already approved templates. Our further comments are outlined below:

  - The requirement for these Plans to undergo an audit every 2 years in accordance with clause 41(4) of the NES appears quite onerous. Whilst this requirement is partially offset by clause 41(5), which allows this timeframe to be moved to every 3 years at the auditor’s discretion, it is recommended that the standard timeframe for an audit to be completed be extended to every 3 years, with the discretionary timeframe being extended to every 5 years. This also ties into the important consideration of whether there will be sufficient capacity of auditors to manage the workload of completing audits. Extending these timeframes would potentially alleviate this pressure.

  - The requirement to implement a Plan within 2 years of the NES becoming operative, in accordance with clause 37 of the NES, places considerable pressure on farmers. This tight timeframe reduces the ability of farmers to react to the implications of the proposals, and to establish the most appropriate courses of action before completing the freshwater module of the Plan. It is recommended that this timeframe is extended from 2 years to 3 years. This also ties into the important consideration of whether there will be sufficient capacity of certified farm planners to manage the workload of completing Plans. Extending these timeframes would potentially alleviate this pressure.

- **Intensive Winter Grazing**
  FR fully supports the animal welfare benefits obtained from effective winter grazing management. With this in mind, we make the following observations:

  - We do not agree with the pugging threshold forming part of the criteria for winter grazing to be a permitted activity, in accordance with clause 30(1)g) of the NES. Due to the inability to control natural weather events, it is very difficult for farmers to ensure that pugging will not occur over and above a specified threshold. The manner in which the clause is currently written would result in a farm becoming immediately non-compliant if pugging were to occur above the specified threshold due to an unforeseen event, such as unseasonal rainfall or flooding. Instead, it is recommended that pugging mitigation is addressed through risk management practices as part of the audited Farm Environmental Plans.

  - Clause 30(1)b) of the NES sets out a restriction on the number of hectares in which the grazing can take place on a property in order to be classified as permitted activity. If it is determined that a threshold is a necessary condition of the permitted activity criteria, we recommend that these thresholds be set at the greater of 50 ha
or 10% of the property. We also recommend that there is flexibility provided in the application of these thresholds. For example, where there are a group of farms in a catchment, such as a group of FR’s portfolio of farms in any given catchment, the allowable hectarage could be aggregated across the portfolio. Under this approach, the total footprint being used for winter grazing remains the same, however, there is the flexibility for some farms to utilise more land which is offset by other farms utilising less, dependent on the particular circumstances at the time.

- We support Option 2: Industry-set standards, in which winter grazing is a permitted activity subject to adherence with risk management practices which are part of the audited Farm Environmental Plans. This removes risks associated with the implementation of a blanket approach, and allows farms to tailor risk management practices to suit the particular grazing locations, terrain and slopes.

**Concluding thoughts**

As stated at the beginning of this submission, FR supports the intent and outcomes that the proposals are aiming to achieve, and are committed to ensuring New Zealand’s waterways are protected. However, as we have outlined throughout this document, we have some concerns with the manner in which some of these outcomes are proposed to be achieved. It is also noted that the consultation timeframe provided is extremely tight for a proposal of such significance and considerable scope. Furthermore, the lack of economic and scientific analysis provided by the Government makes it difficult for farmers to calculate the potential impact of these proposals on their farms and communities. It would be greatly appreciated if the implementation of these proposals is put on hold until such time that the necessary economic analysis has been completed and disseminated appropriately. It is only then that the true impact of these proposals will be truly understood. It is also imperative that work is undertaken to ensure that any proposals implemented will be practical for farmers to apply in practice, and that the compliance/monitoring requirements will not be too onerous.