

31 October 2019

Ministry for the Environment
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New Zealand
By email: consultation.freshwater@mfe.govt.nz

Submission on Action for Healthy Waterways – ANZ Bank New Zealand Limited

Thank you for the opportunity to provide feedback to the Ministry for the Environment's ("MfE") *Action for Healthy Waterways* discussion document ("consultation document").

ANZ acknowledges MfE's work bringing this consultation document to the public, and appreciates its willingness to engage with the general public to obtain a diversity of views.

Key messages

ANZ would like to specifically draw your attention to our key messages about the consultation document set out below:

Key Messages

- The Action for Healthy Waterways presents a significant economic opportunity for New Zealand. A sustainable primary sector is vital to New Zealand's economic well-being. As well as leading to cleaner waterways, improving sustainability standards to internationally recognised levels is imperative to meeting the demand of global consumers thus securing the long term future of many of our export categories and tourism.
- For these reasons ANZ supports the broad intentions of the proposed National Policy Statement for Freshwater Management, National Environmental Standards for Freshwater, Sources of Drinking Water, and Wastewater, and regulations under Section 360 of the Resource Management Act and their ambition to both quickly stop water quality in New Zealand getting worse, and set Aotearoa on a path to healthier freshwater in a generation.
- In order to realise the opportunity, there are a number of elements we think need to be addressed. These include elements such as globally-recognised standards, capability and resource, certainty of investment and support for those most affected by the policy changes.
- We believe that further analysis on the economic and social impacts and costs is needed before the policy proposals are implemented to ensure the intent of the policy proposals is realised. ANZ is happy to contribute to this analysis.

ANZ wishes to comment on the following aspects of the consultation document:

1. The Action for Healthy Waterways opportunity
2. How New Zealand can realise the opportunity

We have also included a diagram to illustrate the opportunity in the Appendix.

The Action for Healthy Waterways opportunity

1. Potential to lead the world in sustainable food production

Implementing a sustainable healthy waterways framework creates the opportunity for New Zealanders to participate in growing sustainable food supply chains and lead the world on sustainable food production.

Improved standards are imperative to secure the long term future of many of our export categories including both the primary sectors and export earnings. New policy provides an opportunity for our food producers to benchmark their environmental performance and demonstrate progress against robust standards. This allows these attributes to be used to market our food products to the growing population of environmentally conscious consumers.

2. Attracting tourism

In a related area, tourism is a major growing export earner for New Zealand due to earnings from international tourists attracted to New Zealand's outdoor story. Earnings from international tourists in 2018 was \$16.18 billion, slightly more than the export earnings from the dairy sector. Export earnings from these two industries have grown at a similar pace since the turn of the century. There is opportunity for an improved international image to increase tourism earnings and tourism opportunities such as sustainable food tours and water activities.

3. Attracting investment

Where there is innovation and world class standards in place, New Zealand businesses will have the opportunity to attract foreign investment promoting further innovation and positive economic outcomes for New Zealand as a whole.

4. Leading innovation

With public and private support and investment, New Zealand and New Zealand businesses have the opportunity to lead innovation in environmental practices, sustainability infrastructures (both on farm and within food supply chains) and in goods and services.

5. Attracting talent

Where New Zealand is a world leader in innovative sustainable food chains and environmental frameworks it has the potential to attract global talent and retain its own talent in these areas. Premium human resource in these areas can promote exponential growth in innovation and productivity.

How New Zealand can realise the opportunity

1. Internationally recognised standards

Adopting Environmental, Social and Governance (ESG) principles shows the world how committed to sustainability New Zealand and New Zealand businesses are. Practical frameworks that align with global standards are needed to ensure New Zealand's standards are internationally recognised. This will accelerate the investment of capital into projects conducive to the policy intent. However, care is needed to ensure that the standards set are appropriate and realistic so that these measures contribute positively to New Zealand's international image.

2. Considered standards that allow for innovation

A 'one-size fits all' approach to standards may not achieve the outcomes intended by the policy proposals. While ANZ will defer to the results of robust scientific analysis the

settings applied to a given operation, land or waterways need to be realistic and tailored if we are to achieve a profitable and sustainable transition. For example:

- a catchment by catchment solution may be needed to optimise the outcomes because of the different features of each catchment, and
- different settings for different waterways may be appropriate given the different function that they serve. For example the proximity of farm fencing to waterways may depend on soil characteristics of a particular farm such that the proposed average width of 5m may be too much or well short of the width required.

An outcomes-based policy is desirable as this allows for innovation in how those results are achieved. This approach would align with OECD recommendations to implement policies that minimise the costs of water management and promote innovation. ANZ urges caution against overly prescriptive regulations that dictate how improvements to water quality should be achieved. For example, in some locations it may be impractical to fully fence waterways but other solutions could be developed which would achieve the same outcome. Some of these solutions will not be known today and therefore it is important the regulations are not too prescriptive and stifle future innovative solutions.

3. Economic and social modelling

It is possible that the proposed policy changes will alter the face of the New Zealand economy, particularly the type or quantity of goods produced for local and international consumption and ancillary services. We recommend appropriate modelling of the economic and social impacts to ensure that New Zealand has the right people (education) and capability (resources, infrastructure and innovation) to reap the benefit of the opportunity. Care is needed to ready New Zealanders for this system change.

The ability to produce and deliver quality food to our own people and the rest of the world in a sustainable way is a crucial point of difference available to New Zealand. The global demand for animal protein in Western diets is peaking and there is increased demand for plant protein. However this trend may be unsustainable as animal protein is needed to ensure sufficient food availability in the long term. We must ensure that policy changes promote New Zealand's ability to produce meat, dairy, fruit and vegetables successfully.

ANZ is willing to contribute to economic modelling for the policy proposals. We also recommend harnessing public and private partnerships, like The Aotearoa Circle for example, to help understand the impacts and embed desired policy outcomes in a sustainable, innovative and beneficial way for all of New Zealand.

4. Supporting the rural economy through change

A sustainable primary sector is vital to New Zealand's economic well-being, but achieving this goes beyond investing in the environment. It involves a significant system change at many levels of the economy, including the finance sector.

The policy proposals, together with other sustainability initiatives have the potential to change the face of the rural economy in New Zealand and the impact of this needs careful consideration. As such it is important to recognise New Zealand's traditional reliance on this sector to deliver economic outcomes while balancing this with our sustainability aspirations.

The agricultural sectors directly impacted by the proposed policy changes, being dairy, meat, arable and horticultural, account for approximately 8 percent¹ of New Zealand's GDP. This figure understates the full importance of these sectors to New Zealand's

¹ Based on 2017 StatsNZ data this includes, dairy farming and processing, sheep, beef, deer, poultry and grain farming and meat processing, horticulture, and other support services directly attributed to agriculture.

economy as services directly and indirectly related to these industries aren't included in these figures.

Exports of products from the pastoral and horticultural sectors accounted for 53 percent goods exported from New Zealand's in 2018.

Restricting changes of land use may result in rural commercial activity being frozen at a particular point in time when the relevant operation was less efficient leaving it without the capacity to develop efficiencies. This has the potential to affect the owners of land that has been less intensively farmed and may adversely impact their ability to generate wealth for the betterment of future generations.

Rural communities will need increased support from their advisory networks, which may need time to develop the expertise to properly advise on the implementation and the impact on their present and future business. Overall, New Zealand must ensure that its rural communities are well supported to adapt to and thrive within the policy proposals.

5. Certainty to promote investment & innovation

Certainty about the impacts of compliance on a rural operation is needed to finance future needs for an agricultural operation. Funding for farming operations - whether it be the initial purchase of the property or additional development - is typically funded via a long-term loan. Certainty over the ability of a property to comply with future regulations will enable owners to borrow against the farm asset. Longer term consents will enable lending certainty and mitigate adverse impacts on land values and operator cashflows. Certainty of funding will also make it easier for farm and orchard owners to invest in solutions to improve environmental outcomes. For example, certain settings for a particular agricultural operation over the lifespan of a farming asset makes investments in water protection viable.

We understand that there needs to be a shift within the finance sector in how it helps the primary sector, and all businesses, develop and embed environmental, social and governance ESG principles. The finance sector has a critical role to play in helping farmers and councils fund their transitions. At farm level this may mean more special purpose products like the ANZ Environment Loan, which help farmers invest in technology and enhancements to make their businesses more sustainable. At the level of large entities, this means businesses and financiers working together to match initiatives with funding aligned to ESC outcomes. This requires innovative thinking, such ANZ's recent loan to a milk processor being the first time a New Zealand company has agreed with its bankers to link its sustainability agenda to its cost of funds. We support rapid development in this area with Green Bond Principles, Climate Bond Principles and other widely adopted sustainability metrics providing the framework for change.

We think it is beneficial to explore incentives for operators and land-owners both to implement measures and invest in innovation aligned with the policy intent. For example, could tax relief be given for investment in waterway protection? There are also opportunities to provide incentives to farmers who are preserving and growing the value of their land through investment in natural capital. We are seeing more examples where farmers are changing the way they farm to create much more environmentally, financially and socially sustainable business. Incentivising this behaviour will help achieve the policy intent.

6. Resources and capability for Councils and central government

The policy changes will benefit from investment across the public sphere. Councils will need sufficient resources to deal with the implementation, high level of inquiries, monitoring, consent processing and analysis of their own compliance. Regulators will need additional resources to monitor and enforce the policy proposals.

At this time we are concerned that councils are not sufficiently resourced to implement these changes, which threatens the success of the intention for the policy. Local government taxes have increased by 250 percent (in nominal terms) since 1991 the year the Resource Management Act was first introduced. The amount regional councils (including unitary authorities) have spent on employee costs associated with environmental protection has increased by 170 percent from 2003 to 2018, to \$106.3 million. Despite this investment in staff, there are often delays and a lack of available support for those submitting consents.

Increasing councils' resources will overcome these challenges and ensure the wellbeing of those involved and make the sale and purchase of land easier. We note that Budget 2019 allocated funds to increase the range of information, tools and advice available to farmers and growers. This was welcomed. More support, especially for councils, may be needed.

7. Certainty of costs and funding

ANZ supports further analysis to understand the true costs before the proposals are implemented. ANZ also supports deeper analysis on how those costs will be funded.

As noted in this submission, councils are not presently funded to execute on the proposals and face significant infrastructure costs for a growing population. If this cost is passed on to members of the urban and rural population, analysis is needed to understand the consequences of diverting investment to implementation. This analysis is crucial to achieve substantive engagement by all sectors of the community and economy to this kaupapa.

As water-systems require upgrading, councils will need the means to pay for what is likely to be a significant cost. Councils may look to increase rates unless a more targeted levy is charged to high commercial waste-water infrastructure users. It is not clear from the consultation document what these costs will be, nor the impact on urban populations.

Depending on the speed of the proposed reforms, the cost of locally produced food could rise. Longer implementation periods will reduce the likelihood of price increases as growers have more time to find innovative solutions to keep food growing costs in check. However, price rises may eventuate as either the quantity of produce decreases due to non-viable operations closing, or producers look to recover the additional costs they incur as a result of implementing the policy proposals.

The degree to which food prices increase will vary from industry to industry due to differences in food price elasticity. Where goods can easily be substituted, by similar products or replaced by the same product produced in a market with lower costs (possibly due to less stringent environmental rules) then prices are unlikely to increase. But for fresh goods, such as lettuces and broccoli, which can't be easily substituted by imported products, then prices may rise depending on the transition timeframes. Higher costs of food will have a disproportionate impact on low income families who spend a higher proportion of their income on food.

8. Timing of change

The timeframe for change should be carefully considered and the most affected parties consulted to ensure successful implementation. A measured implementation will minimise adverse impacts on profitability, investment and the well-being of those affected.

While it is desirable that the regulatory changes are finalised as soon as possible to provide certainty, extending the period of time for implementation of some of the regulatory changes would help to mitigate adverse impacts.

This is particularly relevant when large financial investment is required to deliver the improved environmental outcomes intended. Consistent investment to improve environmental standards is determined by cash availability. Extending the implementation

timeline will help support long term sustainability through investment over a longer period of time, particularly for impacted sectors facing large debt obligations.

A longer lead-time also allows processors and exporters to refocus on obtaining higher returns which may offset all or some of the export earnings lost from reduced production.

9. Ensuring wellbeing and equality

Wider community engagement, education and support will help ease the pressures those most affected by the policy proposals may experience. Targeted support for those communities most affected could be helped by partnerships between industry and governmental organisations.

If settings result in higher food prices this will have the greatest impact on low to middle income families. Those consumers are likely to look for cheaper alternatives which may increase demand for imported food or mean that poorer nutritional options are chosen. This will be minimised if New Zealand food producers have time to adjust through a longer implementation period for the proposed policy changes.

The cost of complying with these new rules will generally be more expensive for smaller businesses than larger businesses due to economies of scale. This point is supported by a study which measured the cost of environmental compliance for Waikato dairy farmers². This study showed that environmental compliance was a significant cost to every farm business through capital infrastructure establishment costs, ongoing financial costs or opportunity cost to run an environmentally compliant farm system. However, there was evidence that economies of scale resulted in the costs being spread over a larger base. Thus costs for larger operations were less than for smaller farms which measured on a per kg MS basis, a per cow basis, and a per hectare basis. The proposed policy changes are therefore likely to have a larger impact on small scale farmers.

10. Taking into account the whole regulatory landscape

The proposed policy changes do not exist in a vacuum. Other regulatory reforms currently under consideration such as the Climate Change Response (Zero Carbon) Amendment Bill and potential Resource Management Act reforms will have an impact on the economy, particularly primary industries. Like the proposed water reforms, these reforms will require more and different expertise in the farm advisory sector for instance. Understanding the impact of the proposed policy changes within this landscape will help ensure these changes support the intent of the policy proposals.

11. Penalties for non-compliance

Clarity on the penalties for non-compliance with the policy proposals is needed including how those penalties will be implemented and by which governmental organisation/s. This is needed to educate and also to understand the impact of the proposals further.

Conclusion

As we have set out in this submission, as well as meeting the intent to healthier freshwater in a generation new National Policy Standards will give food producers improved standards to benchmark their performance against and create opportunity within the New Zealand economy to meet global demand for sustainable food supply chains.

However, further analysis is needed on the proposed standards as well as economic and social modelling to ensure the *Action for Healthy Waterways* opportunity is realised.

² MacDonald, T.O.R., Rowarth, J.S. & Scrimgeour, F.G., (2015) Measuring the cost of environmental compliance for Waikato dairy farmers – a survey approach, *Journal of New Zealand Grasslands* 77.

ANZ supports the transition to healthier freshwater and the opportunity for improved outcomes for its customers, their community and New Zealand as a whole.

About ANZ

ANZ is the largest financial institution in New Zealand. The ANZ group comprises brands such as ANZ, UDC Finance, ANZ Investments and Bonus Bonds. ANZ offers a full range of financial products and services including a significant range of financial advisory services, personal banking, institutional banking and wealth management services.

Contact for submission

Once again, we thank MfE for the opportunity to comment on this proposal. For any questions or further engagement about this submission, please contact andrew.gaukrodger@anz.com.

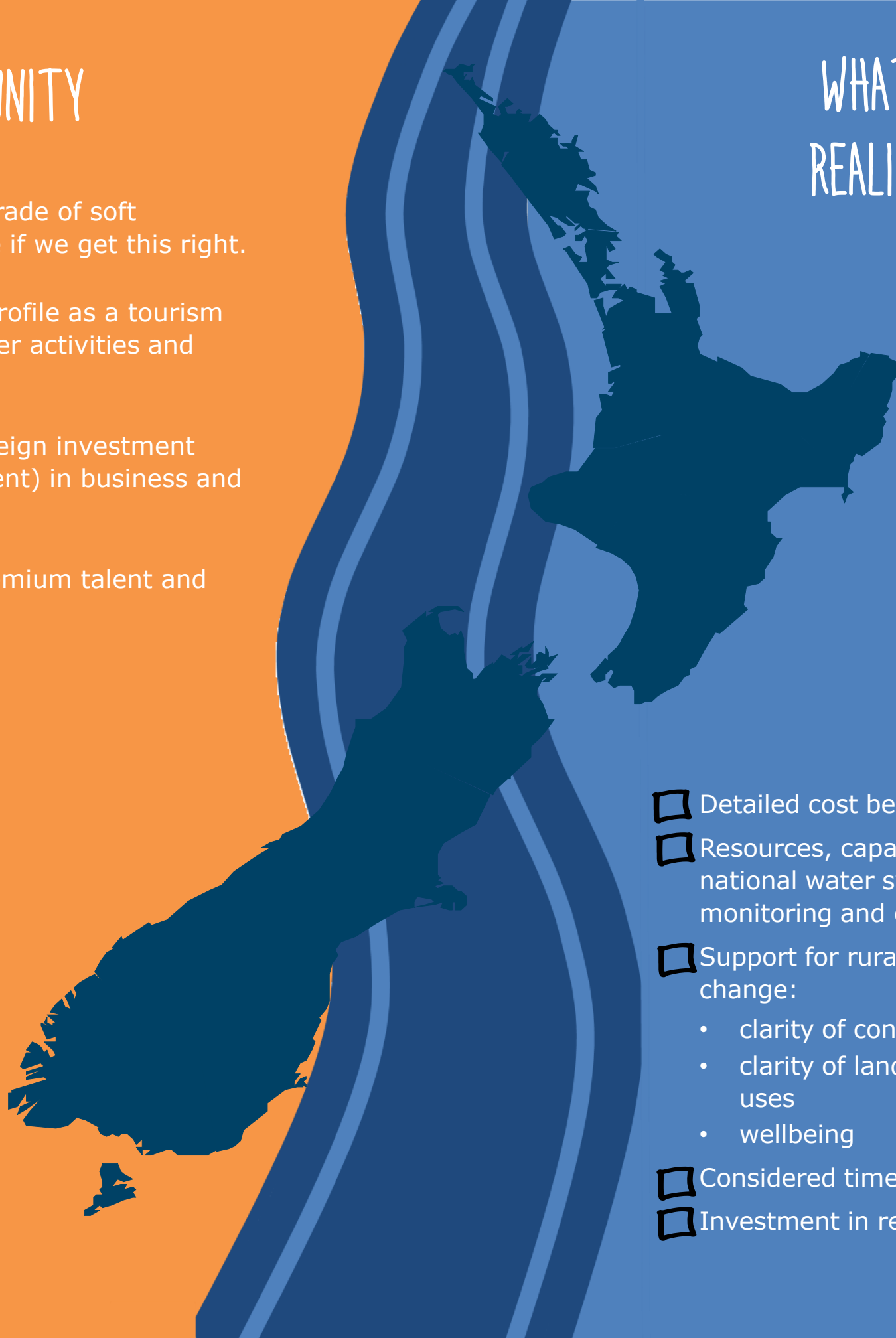
Yours sincerely



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THE OPPORTUNITY

- ↘ Export returns from the trade of soft commodities can increase if we get this right.
- ↘ Improve New Zealand's profile as a tourism destination – healthy water activities and sustainable food tours
- ↘ Opportunity to attract foreign investment (including green investment) in business and innovation
- ↘ Opportunity to attract premium talent and resources



WHAT WE NEED TO DO TO REALISE THE OPPORTUNITY

- Internationally recognised and transparent standards for consumers
- Devise well considered standards that promote productivity, long-term investment in innovation and maximise asset values
- Robust economic and social modelling to identify the impacts of the policy proposals and maximise the opportunity

- Detailed cost benefit analysis
- Resources, capability and support for upgrade of national water system, council implementation, monitoring and enforcement
- Support for rural communities facing significant change:
 - clarity of consent requirements and process
 - clarity of land use and transition to alternative uses
 - wellbeing
- Considered time frame for implementation
- Investment in research and technology