

Minutes for Lake Rotorua Catchment Stakeholder Advisory Group, 28 April 2015

Rotorua Lakes Council – Committee Rooms

1061 Haupapa Street, Rotorua, 10:00 am start

Chair: Tanira Kingi

Members Present:

- Collective: Tony Cairns, Joanna Carr, Neil Heather, Stuart Morrison and Giselle Schweizer
- LWQS: John Green and Warren Webber
- RDC: Cr Karen Hunt
- TALT: Roku Mihinui
- Te Arawa Landowners: Clinton Hemana
- BOPRC: Cr Neil Oppatt
- Deer: Sharon Love
- Small Blocks: Don Hammond and Graham West

Others Present:

Alison Bentley (small blocks); Patricia Hosking (farmer); Gwyn Morgan (Federated Farmers); Te Taru White (Programme Director Incentives Board); Lee Matheson (Perrin Ag); Cr Arapeta Tahana; Alvaro Romera (Dairy NZ); BOPRC Staff: Sandra Barns, Stephen Lamb; Graeme Doole (Univ. of Waikato); Christina Walker (Fulbright Scholar Researcher); Simon Park (StAG Secretariat); Gloria Zamora.

Action Summary:

1. Sandra Barns: liaise with project team to see if the model and/or report can: (i) validate the 100 tN fund target within the \$40m budget; (ii) quantify total impacts on profit if there is no trading; (iii) assess capital impacts on landowners; (iv) provide a scenario option for carbon trading, and; (v) clearly state the purpose of the model.
2. Sandra Barns: Look at options for forestry income to be annualized.
3. Te Taru White: Advise on the Incentives Board's minimum requirements (if any) when buying nitrogen.
4. Stephen Lamb: Advise on (i) who in Council will determine "substantial change" in relation to derived benchmarks; (ii) provide a schedule of Science Review dates; (iii) whether a "permitted activity" farm can have excess animals outside of the high leaching periods of the year, and (iv) the status of the Farm Nutrient Plans Vs Nitrogen Management Plans.
5. StAG: Send comments on NDAs for non-benchmarked properties and ToR for the Science Review to Stephen Lamb.
6. Stephen Lamb: Provide StAG with a draft consent document.
7. Andy Bruere: Advise Waikato University lake science report release date [see [here](#)].

8. Graham West: Email Simon Park confirming he is replacing Angela Sharples as StAG small block holder member.
9. Stephen Lamb: Initiate review of StAG taking into account Chairman Kingi and Cr Hunt's recommendations.
10. Andy Bruere: Provide an update on the re-running of ROTAN.

Item 1: Welcome, Karakia, Introductions and Apologies

Chairman Tanira Kingi welcomed StAG members and attendees to the meeting.

Apologies for absence: Ben O'Brien, Lisa Power, Oliver Parsons, Warwick Murray, Angela Sharples, Wendy Roe and Don Atkinson

Apologies for lateness: Lee Matheson and Clinton Hemana

Apologies for leaving early: Neil Heather

Motion: Apologies approved. Hunt/Schweizer CARRIED

Item 2: Minutes of previous meeting (17 March 2015) including Actions

Deferred to next meeting: Clarify OSET policy on septic tanks and interaction with draft nitrogen rules, including the status of "house blocks" within Rule 11 benchmarks: Alastair MacCormick working on it.

Motion: 17 March 2015 Minutes approved. Webber/Hunt CARRIED

Item 3: General business items to add

- a) Collective: Farmers need an updated schedule for Farm Nutrient Plans as the original deadline was December 2015.
- b) Page 26 of the Draft Economic Modelling report says "recommendation from StAG" - where did this come from? To be covered in Graeme Doole's presentation.
- c) StAG would like to see David Hamilton's latest lake science report
- d) Angela Sharples has resigned as one of the small block StAG members and Graham West will be the replacement.

ALL PRESENTATIONS FROM STAG MEETINGS MAY BE FOUND [HERE](#)

Item 4: Economic Modelling - Sandra Barns

Sandra introduced the session and the key role of economic analysis in understanding allocation options and its part in the wider Section 32 report.

a) Clarify StAG's advice from the 17 March 2015 workshop on preferred nitrogen allocation options - Simon Park Presentation

- i) Key features: 16-32 kgN/ha drystock range with 18% clawback; 19-52 kgN/ha with 31% clawback – see bar chart for detail.

- ii) Small blocks are not benchmarked but are represented in this allocation within a “combined” data point covering 4600 ha – all this land is assigned the average drystock benchmark and NDA values.

b) Economic Modelling results - Graeme Doole

Clarification: the pre-circulated report was draft and a final report will be available once the analysis is complete and peer reviewed.

- i) Appendices to report are data that Perrin Ag contributed to the project.
- ii) Modelling was based multiple catchment inputs, noting:
 - The relationship between profit (EBIT) and nitrogen leaching is developed for over 40 different dairy and drystock farm types / soil / rainfall combinations.
 - The presentation does not focus on trading but assumes 50% of those that could benefit from trading actually do trade N.
 - Clarification of the “recommendation from StAG” on pg. 26 of report: It was understood that StAG members were sceptical about very high levels of new forestry (up to 7000ha), despite incentives. Therefore 5000 ha was set as the maximum with modelling focused mostly on the “mid-point” of 2500 ha new forestry. This is a view point/assumption only.
 - All input costs were taken at current market input and output prices were typically five year averages, including the milk-solids payout of \$6.50/kgMS.
 - The average dairy farm has remained relatively stable over the last 15 years and are simpler to model than more diverse/variable drystock farms.
 - The model gives “per ha” economic impacts on different allocation scenarios.
 - Scenario S8 is closest to the recommendation from last StAG (March '15).

iii) Modelling outputs

- There were some gains to be had, notably in less N-efficient drystock farms.
- With theoretically “perfect” trading there was no net cost to farmers but this changed (negatively) when more realistic 50% efficiency trading was applied
- Trading here only refers to nitrogen trading, not carbon trading.

iv) Discussion/Questions

- Given that the assumptions on this modelling is based on free market trading, what about market friction?
 - Some work around the 2022 and 2032 price for N is still needed.
- How is current farm debt considered?
 - Farmer debt has not been taken into account within the model but some separate consideration of different debt levels will use DairyNZ and B&LNZ debt distribution data.
- How is the one-off selling or buying of NDA treated?
 - As an annualized value at the interest cost of capital
- Why does the model show change from dairy to dairy support while also showing large reductions in dairy area i.e. fewer cows requiring support

- Dedicated dairy support is largely unchanged in total area but mixed sheep and dairy support drops significantly. Additionally, the model does not restrict dairy grazing cows coming into the catchment
- The data contributed by Perrin Ag is at the farm level, but the model is at the catchment level and it simulates decisions based on relative profits.
- Dairy land use change is taken into account and it is assumed some dairy farmers will use the Incentive Fund.
- Does the whole system collapse if trading does not occur?
 - Trading is critical for reducing costs but it is up to farmers i.e. with trading they win, without trading they lose.
- It appears that dairy will be under a lot of stress. Does the model show transition costs, debt and capital value loss?
 - The model accounts for transition cost but not debt and capital value, although the latter is linked to profitability.
- Does the model take into account transitional cost for small block holders? It may be useful to build a simple phone app for small block holders so they can input their data.
 - There is no specific treatment of small blocks – they have been assessed as drystock like all other non-dairy farmers.
- The abatement curves do not change as the Incentives Fund buys NDA
- Caution was expressed on factoring in debt considerations as debt is a business decision. Also, debt consideration could weigh against conservatively managed Māori land with no debt.
- StAG members would like more time to review reports this large and request another session to discuss report.

c) Recap and next steps for economic analysis - Sandra Barns

- i) Recognise that there will be friction in the market (i.e. a resistance or reluctance to sell and buy) - it's not a perfect market
- ii) Farmers have 17 years to comply with the 2032 NDAs.
- iii) Farmer debt is not specifically included at this point.
- iv) Capital value change has not been considered yet, but will be in the Section 32.
- v) There may be scope for a simple nitrogen worksheet for small blocks, rather than building an app at this point.
- vi) The reduction in total revenue for industry sectors in the catchment is crucial to understanding downstream impacts and these will be inputs into the wider district modelling by Market Economics Ltd.

vii) Discussion/Questions

- Farmers and others need to see some model validation that the 100 tN “below the line” target can be achieved.
- Cashflow needs to be taken into account in land use change from pastoral to forestry as there will be no income for many years

- Request to put carbon trading into model.
- The report peer review time frame has not been set yet
- Need to clarify the purpose of the model – this includes:
 - Testing allocation methods and relative fairness, especially of the (tentatively) preferred allocation option
 - To help with economic s32 analysis, noting the model is just one part of the impact assessment.
 - To provide information to assist the decision-making
- The model has 43 farm types: 36 beef/sheep/dairy-support, and 7 dairy; only one farm for each geophysical area; these are then scaled to an average farm in catchment and spread across the 6 biophysical regions.
- The district economics analysis has started. It will build on the farm and catchment analysis and look specifically at how changes in one sector impacts other sectors. A draft will be available in 3-4 weeks. This piece of work is different from the work done in 2011 which was on a regional level now looking at district level with an input/output analysis.
 - Capital values not being looked at on a district level.
 - Land values being looked at in s32 analysis.
 - Labour impacts being looked at low, medium, high as scenarios.
 - Benefits side attempting to look at the benefits of clean lakes on residential house values. How much properties have improved to have a clean lake?
 - LWQS report has placed the lake water quality at a \$1billion value to community.

ACTION: Sandra Barns to liaise with economics project team to see if the model and/or report can: (i) validate the 100 tN fund target within the \$40m budget; (ii) quantify total impacts on profit if there is no trading; (iii) assess capital impacts on non-iwi landowners; (iv) provide a scenario option for carbon trading, and; (v) clearly state the purpose of the model.

ACTION: Sandra Barns to look at options for forestry income to be annualized.

Item 5: Nitrogen Trading – Sandra Barns

This item was deferred from 17 March. The session purpose is to get StAG advice on key options for N trading. The draft recommendations circulated with the agenda were:

- A. Support/oppose landowner trading of Nitrogen Discharge Allowances (NDAs)
- B. Support/oppose a moratorium on landowner NDA trading until 2022
- C. Support/oppose trading in short-term entitlements prior to 2032
- D. Support/oppose a provision for landowner leasing of NDAs

- a) Sandra's presentation is available [here](#). Note that:
- i) Note that Council's indicative position supports trading but there is a need to look at the costs and benefits.
 - ii) Clarification: short-term entitlements are above the line and long-term entitlements are below the line
- b) Discussion/Questions
- If 100 tN needs to come out of the catchment by 2022, is there any proof that trading will not be in competition with Incentive Fund?
 - BOPRC's intention is to meet 100t reduction with \$40 million – it is not known what will happen if that target is not reached.
 - The fund will run on “willing seller and willing buyer” basis.
 - In a free market scheme, whoever opts in at the best price will get more flexibility.
 - If farmers don't trade till 2022, what value impact does that have on farmers?
 - Why would a farmer trade now at \$400/kg if they thought that at 2022 the price may go down?
 - It's hard to see how target will be reached by 2022 if you cannot incentivise movement a more transparent open system that encourages movement.
 - No one would know how much the buyer needs. No farmer will sell to another farmer at less than \$400/kg if that's the Incentive Fund offer.
 - Which farmer is going to reduce N before 2022?
 - Te Taru White (Incentive Fund PD) - currently in conversations with four farmers who are interested in accessing the Fund.
 - Until 100 tN is bought up it's hard to see a competitive environment working.
 - Farmers want certainty – if buying N, they need to know they can keep it without the rules changing.
 - There will be caveats put on land after the N is bought
 - From the Taupō model we know to be wary of selling small amounts of N. We want to know what the minimums will be from the Incentives Board
- c) Recommendation/Discussion
- There is support for landowner to landowner trading of permanent NDA rights, but we need to consider the interaction with short term trading and any moratorium
 - Clarification that the Incentives Fund is a buyer only, not a trader.
 - 240 tons need to come out of catchment and a moratorium delays trading till 2022. But farmers do not need to buy N until close to 2032. Each time a farmer buys N from another farmer, the community does not benefit.
 - A moratorium provides the Incentives Fund a window to get its 100 tN
 - If incentives fund gets N out earlier, then possibly trading can begin earlier.
 - Some farmers may want to future proof their farms by buying N before it is needed, even though this reduces the Fund's potential N purchases.

- Short-term entitlements (STEs) are similar to a N lease until 2032.
 - Each step-down in STEs (e.g. 2022, 2027 & 2032) has to be defined for each property in the catchment.
 - Landowners already compliant with these “steps” will not need STEs
 - We haven’t discussed who pays for managing STEs.

StAG recommendations on trading:

- A. Landowner trading of NDAs: **Support 10**/oppose 1/ Abstain 2
- B. A moratorium on landowner NDA trading until 2022: Support 3/**Oppose 9**/ Abstain 1
- C. Delay NDA trading till 2022 but allow short-term entitlements trading 2017 to 2032
Support 8/Oppose 0/ Abstain 5:
- D. Provision for landowner leasing of NDAs: **Support 11** /oppose 0/ Abstain 2

NB: Recommendation C is amended from the draft version

ACTION: Te Taru White to advise on the Incentives Board’s minimum requirements (if any) when buying nitrogen.

Item 6: Rule framework and content - Stephen Lamb

a) NDAs for non-benchmarked land

- i) Start points for reductions on non-benchmarked land will be a derived benchmark using aerial photos to determine land use in 2001-2004
 - Collective members prefer the most accurate benchmark possible
 - Concern expressed on asking for information from 14 years ago, especially when IRD only requires information to be kept for 7 years.
- ii) Only where there is “evidence of substantial change” will the derived benchmark be changed.
 - Cr Neil Oppatt questioned who in Council has that role of determining “substantial change” and the need for an independent review (2-3 people).

ACTION: StAG to send comments on NDAs for non-benchmarked properties to Stephen Lamb within next 2 weeks.

ACTION: Stephen Lamb to look into who in Council has role of determining “substantial change” on derived benchmarks.

StAG Recommendation: StAG supports the preferred position for non-benchmarked land with an independent review on derived benchmarks

b) Science Review Wording

- i) RMA has a 5 year plan review requirements but not specific around science
- ii) 2017 review needs to begin prior to 2017
- iii) Some StAG members feel it was a mistake that the 435 tN is in the RPS.
- iv) StAG requests a schedule of dates for Science Reviews.

ACTION: StAG to send feedback on ToR Science Review to Stephen Lamb

ACTION: Stephen Lamb to provide a schedule of Science Review dates to StAG.

c) Intensive land use definition

- i) Staff preference is for a mix of option 1 and 3a.
- ii) Discussion
 - BOPRC is looking at stock levels needed to manage N leaching rather than grass management and maintaining pasture quality
 - If a landowners meetings the permitted activity criteria, why would it matter if the property is above 10 ha?
 - Cost of compliance and relative compliance risks
 - Given in OVERSEER® most leaching results from urine N deposited between Feb 1 and 31 August, can a farm have animals in excess of the listed stocking rates for the remainder of the year?

ACTION: Stephen Lamb to provide StAG with a draft consent.

ACTION: Stephen Lamb to look into whether a farm can have excess animals outside of the high risk period of the year.

Item 7: TDR Update- Warren Webber

- a) TDRs - RLC is considering an alternative proposition on incentivising land use change
- b) RLC was under the impression that StAG was not supportive of TDRs in principle.
Past minutes will show that StAG was supportive in principle but had questions on specific aspects of the proposal.,;
- c) TDRs are currently in an Environment Court mediation process, with the next hearing due 26 May 2015, and it is not appropriate to comment further.

StAG Recommendation: StAG supports TDRs in principle

Item 7: Updates – see updates [document](#).

Item 8: General Business

a) Farm Nutrient Plans and Nitrogen Management Plans

- i) The Integrated Framework deadline is December 2015 but farmers have not seen progress on this and request an updated schedule.
- ii) Collective members advised that the DairyNZ has prepared Sustainable Milk Plans for most dairy farmers and B&LNZ's Land and Environment Plans (LEPs) are also being developed.
 - Do farmers have to do additional paper work given that the NMP template is not completed and the NMP process hasn't started?
 - Farmers were under the impression that the NMPs (or FNPs) were to dovetail into industry farm plan templates already in existence.

ACTION: Stephen Lamb to talk to Rosemary Cross about the status of the NMPs/FNPs.

b) Lake science report from David Hamilton

Noted that the modelling report linked to the presentation at Ngongotaha Hall in December 2015 is still not available.

ACTION: Gloria Zamora to ask Andy Bruere when the science report will be released (NB – the report is now available [here](#)).

c) Change in StAG's small block members

Noted that Angela Sharples has resigned from StAG as a small block member and Graham West will be the replacement StAG member.

ACTION: Graham West to email Simon Park confirming he is replacing Angela Sharples as StAG small block holder member.

Cr Arapeta Tahana also confirmed his resignation from StAG.

d) Future of StAG

- i) Decisions are needed on whether StAG will go past June 2015, the need to replace Cr Tahana and the role of StAG (if any) post notification.
 - Chairman Kingi noted that a review of StAG's performance is needed
 - Items to consider in review from Cr Hunt include: challenges on membership turnover; under-estimation of time required; was adequate time given to understand complex concepts; the benefits of a combined stakeholder voice.
 - A much better estimate on the background work needed to have more effective StAG meetings needs to be considered.
 - Issue to advanced via Programme Steering Group

ACTION: Stephen Lamb to initiate review of StAG taking into account Chairman Kingi and Cr Hunt's recommendations.

e) StAG request for a re-run of the ROTAN model

ACTION: Andy Bruere to give StAG an update of the re-run of ROTAN.

Meeting Close 3:15 pm.