

Minutes for Lake Rotorua Catchment Stakeholders Advisory Group, 13 May 2013

Rotorua District Council – Council Chambers

1061 Haupapa Street, Rotorua, 1:10 p.m. start

Chair: Stuart Morrison (Collective representative)

Present:

- Māori Trustee: Arapeta Tahana
 - Te Arawa Lakes Trust: -
 - LWQS: Don Atkinson, Warren Webber (arrived 1:15 pm)
 - RDC: Cr Karen Hunt, plus staff: Liam Dagg (left 4:00 pm)
 - Māori landowners: Tina Ngatai (NWTL, left 2:50 pm); Hera Naera (also Collective, arrived 3:00 pm)
 - Collective reps: Joanne Carr, Wendy Roe
 - Small block holders:
 - BOPRC: Cr Neil Oppatt, plus staff: Anna Grayling, Sarah Omundsen, Jenny Clarke (Minutes Secretary), Lisa Power (left 4:05 pm), Karen Parcell (left 4:05 pm), Ian Morton (left 3:20 pm)
 - Others: Simon Park, StAG secretariat, Levente Tímár (Motu Economic and Public Policy Research, left 4:05 pm)
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Item 1: Karakia, Introductions

Item 2: Apologies, previous minutes

Apologies: Terry Tapsell, Warwick Murray, Hera Smith, Tanira Kingi, Colin Maunder, Arthur Warren, Warren Webber (lateness), Mark Rawson, Karl Weaver

Previous minutes (from 16 April 2013)

Corrections / Alterations noted:

- Item 4a, clarification of “Transparency” as an incentive principle – in this context, transparency is a general principle and not an incentive mechanism requirement
- Item 4a, sixth (final) bullet point, should read “Is phosphorus targeted? BOPRC: Yes, phosphorus can be addressed within the ‘rules and incentives’ package even though the package is primarily targeting nitrogen losses”

Matters arising from minutes:

- Comment was made that the tender process needs some work. Minutes refer to the principle of transparency (Item 4a.4), rather than an absolute process or mechanism
- The Chairman noted that StAG’s ToR did address phosphorus and the importance of phosphorus is highlighted in recent analysis by Tom Stephens from DairyNZ
- The Chairman recapped the figures provided by Lee Matheson at the previous StAG: \$88M in capitalised income loss, and about \$34M in asset value loss from drystock, or about \$120M in total. While this is subject to the various assumptions and

methodology in Lee's report, it is a substantial amount and well in excess of the proposed incentive funding "on the table". In terms of cost to catchment owners, what is the allocation for this? This report needs to be put onto the Lakes website.

- Council is well aware there is a gap between the potential economic cost to farmers and the likely incentive funding available – the challenge remains to address this gap fairly
- Noted that Lee's estimates are based on a survey with limited drystock and Maori farms
- Reminder to Chair and secretariat of the need for timely circulation of reports/minutes. It was noted that the report from Mōtū was not available prior to meeting but will be presented shortly. Minutes were not taken at the 16 April small group discussion, but a verbal report is provided in Item 3.

<p>Motion: Accept minutes as accurate: Moved Stuart / seconded Cr Oppatt / CARRIED</p>

Item 3: Small group discussion on 16 April 2013

- Discussion focused on the StAG schedule and preparing for an expert nutrient workshop on 21 May 2013. The latter will look at future potential N-loss rates using Farmax and OVERSEER models, with results reported to the June StAG.

Item 4: General business items to add

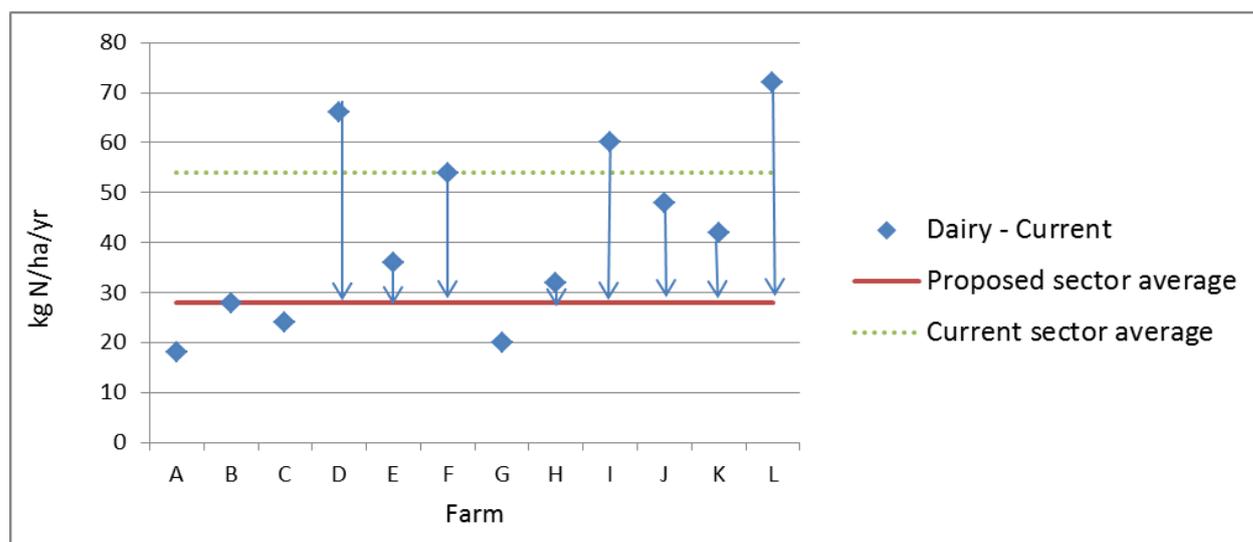
- Cr Hunt: Has tea been considered as an alternate crop?

Item 5: Nutrient allocation (main item):

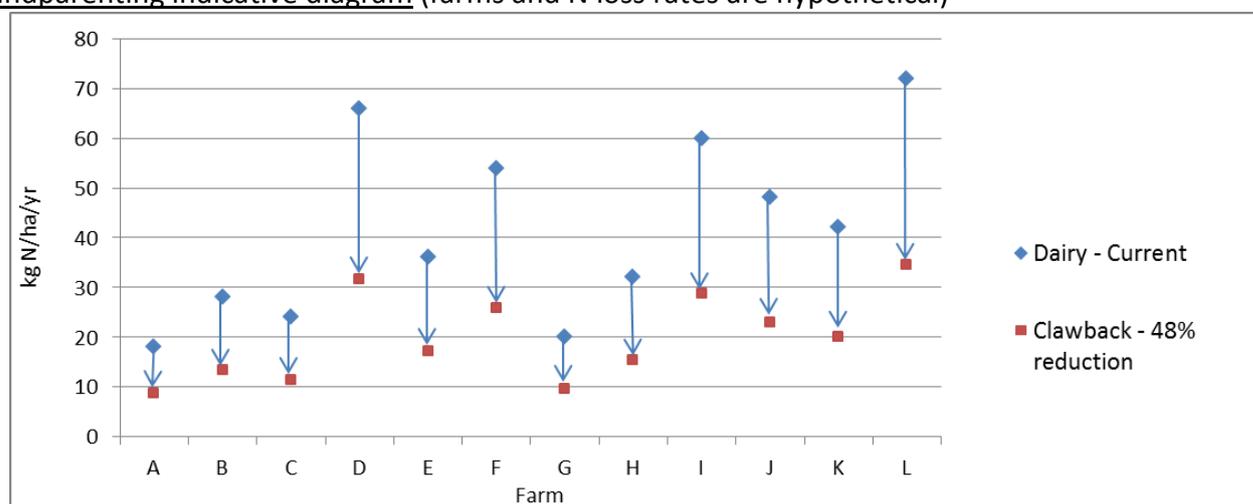
Sarah Omundsen – Introduction and recap of StAG consideration and advice to date:

- 3 Dec – confirmed requirement to reduce pastoral N from 526t/yr to 256t/yr
- 29 Jan – discussed different approaches to allocating the 256tN/yr
- 14 Feb – drafted allocation principles
- 19 Mar – assessment of allocation approaches; broad agreement to analyse sector-average allocation but compare against grandparenting
- 16 Apr – agreed to include Rule 11 data in allocation
- General costs and impacts of Sector average allocation *versus* Grandparenting illustrated as:

Sector averaging indicative diagram (farms and N loss rates are hypothetical)



Grandparenting indicative diagram (farms and N loss rates are hypothetical)



Draft allocation analysis by Motu (Levente Tímár)

Presentation by Leve – see Appendix 1

Discussion points:

- The profit function curve is assumed from BOPRC data and other research e.g. the lower-left start point in the curve is forestry N loss and profit. While different profit functions could be used, the same qualitative differences between sector averaging and grandparenting would remain
- The term “high N loss” could be substituted for “intensive
- It was generally agreed, that with either method, there will be winners and losers. The greatest challenge will be to make a fair decision from a principled approach.
- How can we combine the two methods (hybrid system) to reduce the extremes within the range? How to deal with the outliers and “even out” the equation somehow?

- The relative impact of choosing either allocation system diminishes over time and as trading takes place
- What is fair? Consider Council's rating system where similar tradeoffs need to be made and giving one person or group a discount means all others pay more
- Tension between the unfairness of "rewarding" high N loss farms (under grand parenting with clawback) Vs the RPS criteria on protecting historic investment
- Beware of making multiple special exceptions in the pursuit of fairness when complexity causes multiple problems and can lose political support
- Special exceptions also come at a cost – the trade off to giving someone a little bit more is that someone else gets a little bit less.
- Note Lee's sample farms were generally found to be using "best practice" and even some high N loss farms were still generating good profit per kg N leached
- Agreement that it mattered to individual farmers where they sat on the N loss curve
- Need to address outliers under any allocation system i.e. high and low N loss farms
- Wariness about relying on 2001-2004 benchmarks, when some farms were pushing production hard, and/or provided higher values to get a high benchmark when we cannot validate this – hence an attraction of sector averaging is to break this direct link with benchmarking
- Analysis to date has been mainly on dairy farm systems, but little on dry-stock farming – we need to redress this imbalance. Drystock farmers are generally struggling even without the Rule 11 benchmark constraint
- All parts of the community are paying, or will pay, for nutrient reductions, including urban residents through rates / sewage upgrade costs

Advice Process from here

- Note the Motu model is still in a draft state; a final report will be provided when completed
- It will form a key piece of advice to BOPRC and StAG
- It will help inform principle based advice rather than quantitative analysis
- Wider economic modelling is still needed so farmers can understand the impacts – this will reduce the risk and cost of ending up in the Environment Court again
- Sector N loss information still unclear – Alastair's summary at last StAG was OK but more detail is desirable.

Action: Simon to ask for a more detailed sector N loss information

Item 6: Incentives advice update (Anna Grayling)

- There will be a workshop with regional councillors tomorrow (14 May) on rules and incentives scheme. This will also discuss the possibility of an interim funding option, while the rules are being developed (note about \$1.7m is allocated in Annual Plan), although Council has previously expressed caution about funding N reduction in advance of the "full package"
- Circulated hand-out "Principles of Incentive Scheme"

- Update given on meeting with MfE
- An “Innovations competition” will go live in June, with \$5,000 in prize money
- A caution about language – incentives will pay for N loss reductions and are not “compensation”
- The timeline for any interim funding will depend on Council feedback, with a draft to go back to StAG for advice
- Debate on a fixed incentive rate (e.g. the previously suggested \$227.50/kgN = 200tN divided by \$45.5M) – points raised:
 - It is simpler, and tailored to achieve the task
 - It will cost some farmers less, and some more to mitigate per kg of N
 - Need to enable some pastoral farmers to move first
 - The incentive fund is to assist progress towards the target – the expectation is that rules will be the primary driver to achieve the target

Action: Anna to circulate paper on Incentives advice meeting

Item 7: StAG advice schedule

Recap StAG meeting schedule: 18 June, 16 July, and 13 August

The first draft of staff allocation advice goes to StAG for its 18 June meeting; second draft for its 16 July meeting. StAG’s advice will go to BOPRC’s Strategy Planning and Policy Committee on 6 August so the final text needs to be in Council’s system by 31 July,

Proposed meetings date for StAG subcommittee 28 May, 18 June and 2 July

Action: Simon to liaise with Sarah to prepare more detailed StAG schedule

Item 8: General business

Has tea been considered as an alternate crop? (Cr Hunt)

- Tea grown in Hamilton. Has modelling been done on climate suitability in Rotorua? (camellias grow well); also discussed hemp and truffles
- General agreement that we needed to entertain left field solutions, or at least the rules and incentives should allow for such solutions

Meeting finished at 4:12 pm

Next meeting is Tuesday 18 June, 9:00 am - 12:00 pm

Appendix 1 (separate pdf document)

Powerpoint presentation by Levente Tímár (Motu) titled “Allowance allocation in nutrient markets with heterogeneous farmers. The Lake Rotorua catchment” (A1606337)

Appendix 2 (separate pdf document)

“Principles of Incentive Scheme”, as circulated at StAG meeting by Anna Grayling (A1606241)