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CLIMATE CHANGE RESPONSE (ZERO CARBON) AMENDMENT BILL

Submission from Rabobank New Zealand July 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 principle, Rabobank New Zealand supports the Climate Change Response (Zero Carbon) Amendment Bill's stated purpose of providing a framework for New Zealand to develop and implement clear and stable climate change policies that contribute to global efforts under the Paris Agreement. Creating some certainty in this area, through oversight by an independent Climate Change Commission, is a positive step forward.

As the Bill's general policy statement confirms, the Bill seeks to strike a balance between flexibility and prescription in New Zealand's transition to a lower carbon economy, as well as building in considerations for how the impacts are distributed.

Rabobank believes achieving an appropriate, fair and workable balance in those respects will be critical to the Bill's success. The Bill's stated aims need to be tested against the real, practical implications they will have on New Zealand food producers and exporters. Our submission addresses some of those practical implications for the food and agribusiness sector, alongside the very real challenges the Bill's proposals will impose on producers and exporters.

Rabobank New Zealand believes the proposed framework set out in this bill cannot be considered in isolation. This needs to occur alongside a range of other measures and proposals that would affect the food and agribusiness sector currently or in the future.

For example:

- How will agriculture be absorbed into the Emissions Trading Scheme and what shape will the future marketplace for trading carbon units take?
- What will be the Government's response to the yet-to-be-published Interim Climate Change Committee report and what will this mean for the monetary value of carbon units?
- And what support and other tools will be available to assist food and agricultural producers make the transition to a lower carbon economy?

Consideration of these and other inter-related issues should help to inform consideration of proposals in this Bill.

The Zero Carbon Bill's challenging targets

Achieving the Bill's proposed methane targets by 2050 will be a significant challenge for the New Zealand livestock sector and will require substantial change to future farming practices. The Bill proposes reducing gross methane emissions by 10 per cent from 2017 levels by 2030, and by 24 to 47 per cent by 2050.

While good management practices are currently available to help reduce on-farm methane emissions, modelling commissioned by the Biological Emissions Reference Group (BERG) indicates that implementation of these practices will have only modest effects on total methane reductions (in the range of 2 to 10 per cent).

Dependence on technological innovations

As identified in the Prime Minister's Chief Science Advisor's report of July 2018¹, apart from substantial land use change, reducing livestock numbers and afforestation, the main opportunities to reduce emissions significantly will depend on technological innovations, such as development of a methanogen-inhibiting vaccine.

While such innovations provide theoretical promise, no proof-of-concept in animals yet exists and therefore it is unclear when (if at all) New Zealand farmers will be able to utilise these innovations to significantly reduce their methane emissions.

Because the methane emission targets proposed in this Bill are gross rather than net, farmers will not have the ability to utilise carbon sequestered within their farming systems – for example through the planting of trees – to directly offset on-farm methane emissions. This does limit the methods by which New Zealand's livestock sector can meet the proposed targets and places greater reliance on the other methods described above.

Rabobank New Zealand believes it is important the Bill puts in place a framework that ensures farmers can progressively implement appropriate methane reducing practices/tools as they become available. This should happen without imposing significant unnecessary costs and/or production restrictions on New Zealand's livestock sector due to a lack of available methods to meet the prescribed methane emission reduction targets.

¹ "Mitigating agricultural greenhouse gas emissions: Strategies for meeting New Zealand's goals"

Taking account of other proposals

As stated in our introduction, Rabobank New Zealand also believes it is important that the impact of the Bill on New Zealand's livestock sector is considered alongside other proposals and measures affecting the sector including:

- Freshwater reform regulating farm management practices in relation to water quality and imposing nutrient limits that restrict production potential.
- 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 cumulative impact of these reforms, in association with the implementation of proposals in this Bill, has the potential to significantly influence New Zealand's future land use and farming systems.

New Zealand's contribution to global food security

Rabobank New Zealand believes a thriving livestock sector is vital for both New Zealand's national economy and the wellbeing of the rural communities in which livestock farms are located. Therefore, we encourage the Government to ensure that the implementation of this Bill and other reforms does not lead to a significant land use shift away from livestock farming and into non-food producing forms of land use such as forestry.

Instructively, the Paris Agreement specifically recognises in its preamble: *The fundamental priority of safeguarding food security and ending hunger, and the particular vulnerabilities of food production systems to the adverse impacts of climate change.*

Given that New Zealand is a significant net exporter of food and agricultural products, Rabobank urges policy makers considering this Bill to recognise and protect the role New Zealand plays in contributing to global food security.

Conclusion

Rabobank New Zealand in principle welcomes the stated aims of this Bill. However, as we have set out in this submission, they should not be considered in isolation from other current and proposed measures that will have real (and in some cases significant) impacts on New Zealand's food and agribusiness sector.

We have provided examples of the significant practical challenges the current proposals would create for food producers. For the measures in this Bill to endure in the long-term, these issues need to be worked through carefully and addressed constructively. Furthermore, this is essential if the Bill is to achieve its overarching purpose of balancing the guiding principles agreed to by Cabinet; leadership at home and abroad; a productive, sustainable and climate-resilient economy; and a just and inclusive society.

Appendix 1:

Rabobank and climate change

As one of the world's largest food and agribusiness banks, Rabobank is acutely aware of the potential impacts of climate change on our business and on the clients and communities we serve. Worldwide climate change could affect land and food production in several ways that may adversely impact Rabobank and our clients.

For example if, as a result of climate change, significant land held either by clients or otherwise taken by Rabobank as security for loans becomes less valuable, this could adversely affect clients' borrowing capacity. Climate change could also increase the incidence of plant and animal diseases, which could also affect creditworthiness.

Despite considerable uncertainty about the extent of future climate change and the effects it will have on Rabobank both globally and locally, climate change and its impact on sustainable food production is a key element of Rabobank New Zealand's 2025 Strategy. In particular, 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 is committed to the goals of the Paris Agreement and considers it a shared responsibility to take action. We can play a facilitating role by providing banking solutions to clients, which make their businesses more sustainable.

Working with our customers on environmental sustainability

In New Zealand and 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.

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 the 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.

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 business, so we can better help them meet emerging regulatory requirements and the demands of modern markets.