

Reclaiming Choice: Making Informed Decisions about our Natural Resources

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Mystery Creek, Hamilton

11 June 2015

Hello, it's a pleasure to be here with so many people who help our primary sector to thrive.

We live in a remarkable country, one that's rich in natural beauty and wealthy in natural resources. New Zealand has plentiful, fresh water; clean air; fertile soil and a climate well-suited to growing things. We have long coastlines and significant aquaculture resources; sizeable mineral and petroleum reserves; and extraordinary bio-diversity. The World Bank estimates that New Zealand ranks eighth out of 120 countries and second out of the 34 OECD countries in natural capital per capita, which helps explain why three-quarters of our merchandise exports are from the primary sector. While primary sector exports may have dipped over the past year, steady growth is expected in the four years ahead.

Of course a big part of those exports come from the dairy industry, and I know there's concern about the direction dairy prices have been heading recently. The Treasury's base forecast in last month's Budget is for dairy prices to recover towards the long-term levels forecast by the OECD-FAO of around US\$3,900 per metric ton towards the end of 2016 as supply and demand become more balanced. But like dairy farmers everywhere in New Zealand the Treasury is closely watching the fortnightly auctions and monitoring developments.

We are fortunate to make our living off the land in a land worth living in. But we cannot be complacent if we want things to stay that way. We're not pristine, and we can do better.

New Zealanders have to make well-informed choices about how we conserve, use and manage our natural resources for the greatest overall benefit to society now and into the future.

Today I want to talk about choice.

I want to challenge some false 'choices'; expose a few choices that we are denied by the systems we have created; and highlight the fact that more informed public debate can deliver us a system with more choice in it.

For a long time discussions over natural resources have been dominated by false dichotomies.

A key example is the supposed 'choice' between sustainability and prosperity. It's nonsense to believe you have to pick one or the other and can't achieve both.

A more prosperous economy creates higher incomes and jobs for New Zealanders. Higher incomes are linked to better outcomes across a range of economic, social, and indeed environmental measures that matter for living standards. And the Treasury knows that economic performance is not just about prosperity today; it's also about prosperity tomorrow and the future prosperity of our children. Sustainable growth depends upon good management of our environment and natural resources, and the productivity with which we use these resources.

Sustainability and prosperity are interconnected in the Treasury's wider view of wellbeing and are encapsulated in our Living Standards Framework.

This identifies five 'dimensions' which we seek to advance when developing policy: sustainability; equity; social infrastructure; risk management; and of course economic growth. When wellbeing is understood in this broader sense, the assumption that there's immutable conflict between prosperity and sustainability just doesn't stack up.

Norway is a good example of a country that has grown wealthy from its natural resources – in its case oil and gas – while playing a pioneering role in environmental protection and sustainable development. As the OECD notes, the Norwegians have simplified their regulatory procedures related to environmental permits and reduced the administrative burdens people face. Enforcement is risk based and better targeted.

Closer to home, many Māori-led businesses are demonstrating how prosperity and sustainability work together by embracing the concept of kaitiakitanga. They take a very long-term view and manage their assets in a way that meets their aspirations for people, the land, rivers and the sea. Last year a group from the Treasury visited Parininihi ki Waitotara or PKW, a company based in Taranaki who run a number of businesses in the primary sector. PKW are combining successful dairy farming with sustainable practices: protecting waterways, carefully managing nutrients, and even using solar energy to power their cowsheds.

The falseness of the 'choice' between prosperity and sustainability is being shown up not just by countries and companies, but by consumers too.

The premium on ethical, sustainably produced, healthy goods continues to rise. Interest in working practices and supply chains means that companies have to be able to clearly demonstrate their sustainability credentials.

It's also clear that productivity and sustainability are converging in ways not seen before.

For example, in recent years we have seen irrigation infrastructure, originally installed to boost farming productivity, helping to alleviate further pressure on struggling river and stream ecosystems.

Central Plains Water scheme in central Canterbury is currently under construction, and will from September this year relieve climatic and allocation pressures on groundwater and lowland streams around environmentally and culturally important Lake Ellesmere Te Waihora.

The Opuha dam was able to keep streams flowing in South Canterbury during this year's drought, which would otherwise have stranded fish.

The small Eiffelton scheme in mid-Canterbury pumps groundwater into ecologically important streams that would also have stopped flowing last summer without it. This leads me to the second false 'choice' I want to shed light on – between high technology and our primary industries.

Through companies specialising in precision agriculture, such as Varigate, Agrobotics and others, New Zealand's world-leading tech is both increasing productivity and serving environmental outcomes.

By mapping soil characteristics, tailoring the use of irrigation, fertiliser and other inputs to match, and ensuring accurate spatial delivery, the use of inputs can be reduced. This results in savings of energy, time and inputs, while pasture and crop yields increase and less nutrients are lost to the environment, leading to better water quality in our rivers and groundwater.

Progress in GIS technology and nutrient management data is enabling farmers to understand their farms in new ways. This is delivering environmental improvements and driving the best increases in productivity in the whole economy.

Another false 'choice' is between protection and use of natural resources.

As a country, we protect around a third of our land area for conservation, but the mountains and forests making up most of this area are used as a playground by our people. They're also a workplace for some of the 166,000 people employed in tourism industry; an industry that relies on us continuing to protect our outstanding natural beauty.

Instead of accepting these false 'choices' we have an opportunity to focus on ensuring our system gives us the freedom to make the choices we actually want.

One example is in the space of bio-technology.

I am not going to get into the question of genetic modification specifically.

What I will say is that when new technologies come along - both GM and non-GM – our current system denies us the choice over whether we want them. Meanwhile, our international competitors do have this option.

There is, for example, a new variety of high-yielding eucalyptus tree which has just been approved for cultivation in Brazil. Using this variety, growers can get a 15 percent increase in wood for the same area, processors can get a 20 percent reduction in the cost of wood production, and the environment benefits from a 12 percent increase in the amount of carbon dioxide stored per hectare.

High-yielding wood is at the core of our pulp and paper industry.

However our current regime for regulating new organisms is highly restrictive in practice, which means we do not have the flexibility to choose whether this is something we would want in New Zealand.

I've heard it said that our current regulatory regime would deny us the choice to adopt many new plants and species that today offer us huge advantages: kiwifruit, rye grass, and even the ubiquitous *pinus radiata*.

Another example of a choice we are currently denied is found in our approach to risk.

This is particularly important when we consider the potential to sustainably use the resources contained in our precious marine environments.

I am not going to stand here and tell you that New Zealand does not take enough risk. That is for the country, through elected representatives, to decide.

The point I want to make is that we often deny ourselves the choice over how much risk we want to take. When systems adopt rigid approaches to risk, for example, rather than genuinely enabling adaptive management approaches, we limit our ability to explore and assess the potential risks of our actions.

Another restriction on our choice comes when we have inefficient systems. In these instances we deny ourselves the chance to decide, clearly and efficiently, how we want to manage our resources.

From an economist's point of view, a resource management system like ours is intended to reduce the costs of allocating resources, account for factors which market forces don't value, and manage collective action problems - including intergenerational fairness.

Our current system could be better on all of these fronts.

As we saw with the establishment of the Kaikoura marine protected areas, the transaction costs of making decisions on how to manage our resources can be extremely high.

Many of our resource management systems come in for regular criticism, although it's often directed at how the decisions are made rather than the decisions themselves.

And our limited framework for valuing natural capital and ecosystem services often prevents us from understanding how much they are really worth to us. It also means weighing public benefits against the gains to be made from resource use is hard for decision makers.

But it's not all doom and gloom.

We are starting to reclaim some of these choices.

A number of Government departments are working together to assess the feasibility and benefits of more systemically gathering natural capital information to feed into decision-making. Appropriately considering the impacts on natural capital, such as clean water, soil or habitat for threatened species, will allow us to make better, more balanced decisions.

The Government's resource management reforms aim to provide greater certainty for communities to plan for, and meet, their area's needs in a way that reduces costs and delays, while maintaining the environmental standards that are important to them.

Freshwater policy is another area where we are reclaiming choice.

Here, communities are able to debate the value of public goods; public discussion is exposing and trading-off risks; and collaboration through the Land and Water Forum continues to help create a management system which is responsive to the goals of users.

But there is a price for moves to systems such as this, which give us the choices we really want.

The quality of information and the level of public debate must be raised. This is something for which all parties must share responsibility.

Government doubtless has a role here. The work to develop a Māori Land service is one example.

Here the Crown is providing the information and support that Māori landowners need to assess the different choices available to them from their land. This in turn exposes the true value to Māori of systems which allow us to choose how our resources are managed.

However, businesses and industry sectors must also play a part in setting the conditions for a more informed debate.

On the issue of climate change, for example, the agriculture sector has the opportunity to contribute to the public debate about New Zealand's future emissions targets, and options for meeting these targets.

It is important that we focus on what the science tells us.

As the IPCC told us last year, carbon dioxide emissions fundamentally drive long-term global warming. Methane has a larger impact initially, but its effect is only short lived. This clearly has little impact on most other developed countries whose emissions consist mainly of carbon dioxide, but it makes a huge difference for New Zealand because of our high agricultural emissions.

New Zealand has invested heavily in finding ways to mitigate the effects of biological emissions, though commercialisation is still some way away.

So science clearly plays an important role in helping us work out how we can have the greatest impact in reducing emissions. And it has an important part to play in informing the public, in helping us avoid false dichotomies and giving us greater choices to enable living standards to continue to rise for generations to come. And as part of this, the business community has the opportunity to explain how its actions contribute to increases in all areas of wellbeing.

I, for one, look forward to working together to make these challenging, but ultimately vital, choices about the future of our natural resources, the prosperity of our country and the living standards of New Zealanders.