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OF NEW ZEALAND

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Dr Don Brash
Chairman
2025 Taskforce
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Dear Don,

It was good to meet with you on 1 September to discuss the work of the 2025 Taskforce. Federated Farmers believes that the Taskforce has a critical role to play in advocating for policies that will help grow the economy so that per capita incomes catch up with Australia by 2025.

This is a hugely ambitious goal which Federated Farmers wholeheartedly supports and it requires a total focus on productivity (and productive capacity) and competitiveness, both domestically and internationally. This in turn requires a step change in approach by the Government, businesses and indeed society as a whole.

Federated Farmers observes that over the past decade or so productivity in the agricultural sector has been twice that of the general economy. If the general economy was as productive as agriculture then the task would be considerably easier. However, what it also shows is that a supportive policy environment that helps rather than hinders agriculture will pay particularly big dividends.

This is not to say that farmers want subsidies or protection – what farmers want is to be left to get on with the job without unnecessary regulation and compliance holding us back. That is why regulatory reform is so important and we are pleased that the Government is pursuing such an agenda and strongly support the work of the Taskforce that has been working on a high quality Regulatory Responsibility Bill.

The RMA is a particular bugbear for farmers and although we support many of the changes contained in 'phase 1' reforms we are very disappointed that 'phase 2' does not at this stage address the key concerns we have, particularly around lack of any (let alone full) compensation for takings. We think the 2025 Taskforce could make a very useful contribution in this respect.

The high exchange rate is also causing considerable concern among many farmers, as it is with many exporters in the wider economy. We certainly think it would be useful for the Taskforce to think about the impact of the exchange rate on the productive sector, but although we agree that relative interest rates do have an impact, to some extent exchange rate volatility must be treated as an exogenous factor that would be best mitigated by ensuring that businesses have a favourable environment in which to operate, so meaning they can cope better even if the exchange rate is high and bounces about. This requires all

government policy and actions to be aligned consistently with competitiveness and productivity, so making the Reserve Bank's job easier in controlling inflation without having to resort to aggressive monetary policy responses. Until this happens though we will continue to have problems with the exchange rate.

In this and in other respects what farmers want will largely be common to the views of all businesses, large and small. However, there are three particular issues that I raised with you of particular importance to farmers that I will expand upon in this letter.

Emissions Trading Scheme (ETS)
Federated Farmers is strongly opposed to the ETS. The current emissions trading scheme is fundamentally flawed and will result in great harm to New Zealand's primary sector and the economy as a whole.

In essence the ETS should not proceed. This is based on a much better understanding of the destructive impact of the scheme on the domestic economy especially key sectors within the economy. We think any ETS will further enhance a severe domestic recession.

We also think there is changing International sentiment to Kyoto and any future global climate change treaty.

There is a need to broadly consider alternative options such as:

- Government taking more responsibility for developing mitigation techniques
- Encouraging investment and employment opportunities. For example, investing in crops like new and extensive forestry plantings;
- Low level carbon charge;
- Purchasing cheap Kyoto emissions units;
- Non compliance , akin to the Canadian approach; and
- Consideration of an international system where-by each country allocates a percentage of its GDP towards low carbon emissions initiatives.

If New Zealand must have an ETS then the legislation must be substantially amended so that:

- Transition to any ETS must be with least regret to New Zealand's businesses.
- Transition to any ETS must be with least regret to New Zealand's standard of living.
- Agriculture and food production is removed from the current legislation and any future hybrid ETS.

If New Zealand must have an ETS which includes agriculture then there should be no legislated date of entry until food producers have economically sustainable mitigation options other than that of reducing production outputs.

New Zealand farmers operate in an unsubsidised environment and are viewed internationally as highly efficient. Currently available mitigation measures are simply de-stocking. The local economic and social impact of a de-stocking strategy is ably demonstrated by the impacts of recent droughts. A lose, lose situation for New Zealand. Environmentally it simply does not make sense to introduce a regime for New Zealand agriculture that forces production to less efficient jurisdictions- again a lose, lose situation for New Zealand and for the global environment.

Farmer opposition to government efforts on climate change policy has been consistent over the years. At the heart of such opposition is an understanding of the farming sector being expected to shoulder a burden that neither makes sense nor leaves this sector and the

country as a whole, economically-viable. This is why Federated Farmers of New Zealand has consistently opposed the government's decision to ratify the Kyoto Protocol in 2002, the proposal to introduce a levy on livestock to fund agricultural emissions research in 2003, the proposal to introduce a carbon tax in 2005, and more recently the introduction of the emissions trading scheme in 2008.

It is abundantly clear to the Federation that the current emissions trading scheme is unsustainable for New Zealand and on this basis it should not proceed. Over the last twelve months the federation has gained greater knowledge about the economic effect of such a scheme on the farming sector and our country. This organisation is also acutely aware of the severe global economic recession and the subsequent impact this will have on global trade, both now and in the future.

Should the emissions trading scheme be retained, the Federation submits that agriculture should be excluded from the scheme as it is not in the best interests of New Zealand or the global climate. At an absolute minimum, any date for entry of agriculture should be removed from the legislation. This is so that New Zealand has the opportunity to develop economically-sustainable mitigation technologies that actually make a difference, and also to align with the actions and policies taken by our trading competitors and partners, particularly Australia.

Federated Farmers takes seriously its responsibilities as New Zealand citizens. We know it is vital to use resources efficiently and wisely but we want to ensure that the New Zealand economy continues to prosper and look forward to working with the Government on this review.

Broadband

While Federated Farmers supports the Governments plan to roll out "super fast broadband" to 75% of the population in the next 10 years, we are concerned about the apparent lack of focus on the remaining 25% - the 'rural' sector. The vast majority of farming businesses will be in the 25% rather than the 75% - meaning that without further intervention they are set to miss out.

As a general rule the Federation considers that any government intervention should be focused on addressing public policy problems that the market is unable to address. Thanks to high population densities, broadband roll-out is likely to be commercially viable in our largest urban areas while the costs of roll-out to more sparsely populated geographically isolated areas make 'rural' broadband much less likely to receive sufficient private sector investment. Given the importance of agriculture to the economy, this makes inadequate investment in rural broadband the larger public policy problem.

While we understand that rural broadband will be addressed through a separate $48 million fund, this needs to be put into context. For example:

- $48 million is a mere 3.2% of the $1.5 billion promised to urban New Zealand. The remaining 25% of the population is getting only 3.2% of what the other 75% is getting.
- Per head of population, 'urban' New Zealand is getting $481 per person for high speed broadband provision, while 'rural' New Zealand gets around $46 per person – on a per capita basis less than 10% of the 'urban' investment.

When one considers that rolling out broadband to rural populations will be costlier than for the urbanised, Federated Farmers submits that the rural population should be getting *more* per head for broadband provision, not an order of magnitude less.

Compounding the problem is the fact that there are finite funds that the private sector can afford to put towards investment in broadband infrastructure. Favouring private sector investment away from rural broadband into instead investing in more densely-populated areas will have a negative impact on the degree of investment in rural broadband. These factors make it difficult to draw any conclusion other than that ***rural New Zealand is being short changed.***

In fact, the reality is that the state of the existing telecommunications network in many rural areas is already poor. For some, even basic voice service is not readily available/affordable, let alone high speed internet connections. The Federation fears that the proposed broadband investment initiative will widen this inequality further.

Unfortunately, large swathes of the country will remain devoid of fibre under the current proposal. The plan will only cover New Zealand's 25 largest centres of population. 17 of the 25 are in the North Island and only 8 in the geographically larger and agriculturally dominated South Island. The West Coast and Tasman regional council areas miss out completely. Also, much of the South Island, large parts of Northland and a large area in the central North Island are neglected. These gaps in coverage may make extending the reach of rural broadband more difficult and costly in the long term.

The primary sector is New Zealand's economic engine room, responsible for 64% of everything we export and contributing around 17% of GDP once downstream processing is accounted for. People in remote and rural areas arguably stand to benefit most from the roll-out of more affordable and accessible voice and data services with broadband technologies – and these benefits will be felt in urban New Zealand. As such rural broadband provision should be given much higher priority.

Farming in the new millennium is a highly technological business for which fast and reliable data transfer is essential. Central government, local government, banks and other service and supply businesses rely on electronic means to deal with farm businesses.

To illustrate the importance of internet access to agriculture and what farm businesses use the technology for, consider this information from the United States Department of Agriculture:

In rural areas, farms have been in the vanguard of Internet use in the workplace. [1] *Farms using the Internet reported implementing the technology for a number of different reasons:*

- *price tracking 82%*
- *agricultural information services 56%*
- *accessing USDA information 33%*
- *communicating with other farmers 31%*
- *communicating with crop advisers 28%*
- *online record keeping and data transmission to clients and service providers 31%*

Three percent of all farms used the Internet to help manage some facet of their business finances.

- *online banking, 10 percent of Internet users*
- *paying bills, 7 percent*
- *obtaining loans, 2 percent.*[2]

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[1] http://www.ers.usda.gov/AmberWaves/February06/Findings/findings_ra2.htm
[2] http://www.ers.usda.gov/Briefing/Telecom/

As these USDA statistics show, there are *real* productive uses for the internet in agriculture and *real* productivity gains to be had from increasing the quantity and quality of provision. In fact, in the modern environment, fast and reliable broadband access is *necessary* if agricultural businesses are to reach their productive potential and realise their opportunities in the global marketplace. There can be little doubt that businesses and communities who do not have appropriate access to these technologies will suffer.

This prospect has serious implications for the nation's economy, given that it has rural New Zealand as its engine-room. We are concerned that the Government's agenda for economic growth will struggle without a well-connected primary sector. Access to fast and reliable data transfer for the rural sector is therefore an issue of national concern.

We understand that due to our lobbying the Government is now reconsidering the funding of rural broadband.

Water Storage

The development of water storage and irrigation has large economic, community and environmental benefits which have been clearly demonstrated by the Opuha dam and the flow-on irrigation developments in South Canterbury (Ministry of Agriculture and Forestry 2004; Aoraki Development Trust 2006). Based on an *ex post* economic study, irrigation from the Opuha dam was estimated (2006 figures) to have increased farm output by $124,000,000 per year and to have created 480 full-time jobs (Aoraki Development Trust 2006). The author of the study estimates that those figures would have since increased by about 20%.

It has been estimated that unreliable (run-of-river) irrigation can enable a doubling of gross farm income (over dryland farming) by enabling greater productivity from existing farming systems, and that reliable irrigation (supported by water storage) can enable a further doubling of gross farm income (over unreliable irrigation) by enabling change to more productive land uses. The economic benefits of irrigation to both farmers and the wider community are substantial and, as discussed below, can be achieved along with environmentally favourable outcomes.

In addition to the economic benefits, there are also substantial environmental benefits. Vigorous support is received from recreational users during the summer period and from Central South Island Fish and Game Council who see the substantial benefits that the Opuha Lake and Opihi River system provides to both locals and to guided fishermen (P. Scott, pers. comm.). The storage of water in Lake Opuha provides the ability to manage river flows throughout the year and ensures that the mouth of the Opihi River is open consistently for the passage of introduced species and mahinga kai. Lake Opuha is also used extensively for fishing, canoeing, boating and rowing for much of the year.

Benefits from the release of water from the Opuha Dam are shared by irrigators, the community and the environment. Priorities for water releases from the dam are firstly environmental flows in the Opuha and Opihi Rivers, secondly domestic and stock water use, thirdly irrigation and fourthly electricity generation.

In addition to providing substantial economic and social benefits, water storage and irrigation development will enable proactive responses to climate change. For example, the climate change scenario developed by Environment Canterbury predicts more rain on the West Coast of the South Island and in the main divide, less rain in the East, and more (though possibly less reliable) water in Canterbury's alpine rivers (O'Donnell 2007; J.C. Bright, pers. comm.). The Canterbury Region is well placed to safeguard itself against the effects of climate change by developing a suite of water augmentation and storage options, using

water from the alpine rivers, as identified by the Canterbury Strategic Water Study (Morgan et al. 2002; Whitehouse et al. 2008).

There is great potential to increase the area of land under irrigation in New Zealand, with flow-on economic benefits and favourable environmental and recreational benefits (Ministry of Agriculture and Forestry 2004; Aoraki Development Trust 2006). For example, In Canterbury, it is estimated that approximately one million ha of land could be irrigated, compared with the 640,000 ha (approx.) which is consented currently (Morgan et al. 2002). However, without the development of significant water storage, irrigation development in Canterbury can be expected to fall well short of that potential irrigated area (Morgan et al. 2002). Further, much of the 640,000 ha currently consented is not irrigated, for a variety of reasons, including inadequate reliability of the currently consented water takes (J.C. Bright pers. comm.). The view of water resource analysts is that further increases in irrigation development in Canterbury are dependent of the storage of alpine water resources (T. Heiler, pers. comm.).

The development of water storage has huge potential to benefit the New Zealand economy. It is estimated that new water storage projects currently under consideration in Canterbury (Whitehouse, Pearce & McFadden 2008), Otago, Hawkes Bay, Wairarapa and Marlborough/Nelson would, if developed, increase the area of irrigated land in New Zealand by over 400,000 ha. This is 25 times the area of the Opuha scheme discussed above. The factors leading to the benefits which flow from the Opuha scheme are not unique to that scheme, such as the potential for increased productivity and the ability to better manage water to achieve favourable environmental and recreational outcomes. Therefore, it is reasonable to believe that similar benefits would flow from water storage projects elsewhere in New Zealand.

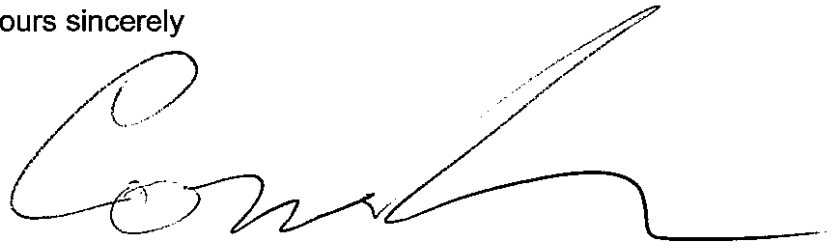
However, a major constraint to the development of large water storage projects is the initial funding of these projects and the preservation of inter-generational equity. These projects provide very good financial returns in the medium and long term (as demonstrated by the economic study on the Opuha dam) but the initial capital cost is generally too great to be borne by one generation of farmers.

In the past, major rural water infrastructure projects have been financed by Central Government or in conjunction with a major equity partner (in the case of the Opuha Dam). During the 1970's, central government led and financed irrigation schemes in a context of subsidised agriculture. The schemes faced cost overruns and, when farm subsidies ended, government sponsored irrigation schemes were effectively given away to contain costs. However, historic difficulties should not be allowed to impede the current and future development of water infrastructure because it is central to New Zealand's economic wellbeing. There is now a completely different economic climate. Given the very large and very clear social and economic benefits, there is a compelling case for a private-public partnership approach to funding water infrastructure projects, to ensure that they proceed in a way that delivers maximum benefit to New Zealanders.

Conclusion
As well as these specific three issues, I have also attached a copy of the Federation's 2008 Manifesto which provides more information on other issues of importance.

I would be very happy to discuss any other issues with you or other members of the Taskforce.

Yours sincerely



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