PO Box 9078, Hamilton
Ph 07 839 2683
Fax 07 839 2686
www.agfirst.co.nz

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Submission to the Hearing Committee re: Waikato Regional Council Regional Plan Change 1 Waikato And Waipā River Catchments

Phil Journeaux
Agricultural Economist
On behalf of AgFirst Waikato (2016) ltd

Topic: Nutrient Trading Scheme

Decision Sought: For Waikato Regional Council to develop and implement a nitrogen trading scheme covering each of the river Freshwater Management Units within the Waikato and Waipa catchments

Submission

1. The advent of PC1 will impose some constraint on farming activities, especially regarding nitrogen losses from farms. This is particularly so given the need for all farms to register a Nitrogen Reference Point, for the highest nitrogen leaching pastoral farms to reduce to the level as set by the dairying75th percentile within each FMU, and the restriction on land use change to more intensive activities.

2. We live in a market economy, where trading of goods is a commonplace occurrence, and there is no reason not to extend this to nutrients, given the restrictions being imposed via PC1. Trading helps to achieve a more optimum economic outcome by enabling the nutrient in question (nitrogen) to move to a more efficient use.

3. While a "cap and trade" is often regarded as a constraint all in one, it is important to note that it is the cap which imposed the constraint, and achieves the environmental objective, whereas trading offers a degree of flexibility. While it could be expected

that nutrient trading markets will be (at least initially) both thin and sticky (i.e. relatively few traders and some reluctance to trade), at the very least trading provides an opportunity for that flexibility. This is important regardless of any initial allocation system.

4. In the face of constraints on nitrogen leaching, a trading system, whereby land owners could sell or lease nitrogen, greatly aids in the flexibility and efficiency of the use of the nutrient and can reduce the cost of compliance.

5. The only trading system for diffuse discharge of nitrogen, anywhere in the world, is in the Lake Taupo catchment, under the auspices of Variation 5 to the Waikato Regional Plan. It is understood that the Bay of Plenty Regional Council intends to introduce the same system of nitrogen trading for the Rotorua Lakes catchment, under their Plan Change 10.

6. Analysis of the trading within the Lake Taupo catchment shows that it has been quite successful:
    - Trading started in 2009, and by June 2014 35 trades had been recorded; 23 to the Lake Taupo Protection Trust and 12 between farmers within the catchment.
    - The Lake Taupo Protection Trust achieved its goal of removing 170.3 tonnes of nitrogen by June 2015
    - Since then there has been a number of trades between farmers
    - Leasing of nitrogen between farms is increasingly popular, driven in part as farmers attempt to counter the imposition on farming flexibility the Variation 5 rules impose.
    - Trading in nitrogen has resulted the intensification of farming systems on some farms, allowed for land use change, and increased the flexibility of farming on others – i.e. allowed them to move to their highest and best use, while still remaining within the nitrogen cap imposed. Exactly what the theory postulated.

- At recent farmer meetings the majority of farmers recognised the benefits of trading, and strongly supported it.

7. The implementation of the Taupo trading regime also means that Waikato Regional Council is au fait with a trading system.

8. For the Waikato/Waipa river catchments, the most obvious boundaries for trading systems would be within each river Freshwater Management Unit, as they offer a defined boundary to work to, and would minimise any potential distortions, in the sense of a sale from the lower end of a FMU and transfer to the upper end. Potentially trading could take place across the whole catchment, but further work is required to determine what impacts (on nutrient loading) due to transfers around the catchment may have.

9. Summary:
    - A trading regime demonstrably improves the efficiency of use of nitrogen under a capped regime.
    - Nitrogen trading in the Taupo catchment has been very successful in adding in the flexibility of farming systems and allowing some to move to more intensive and profitable systems.
    - There is no reason not to extend trading to other catchments.

Ends