A FARMER'S PERSPECTIVE

Stuart Morrison

Stuart's family came to farm in the Rotorua area in 1965. After a time away, including pursuing a career in industry, he returned. He has been dairy farming in the Lake Rotorua catchment for more than 30 years. He has been interested in, and part of the discussions about the lake and its catchment for a lot of that time, more particularly in recent years.

I have been asked to give a farmer's perspective on Transferable Development Rights. I have talked to only a few about this so the comments I give are largely what I think about it.

The idea has been around for a while as others have mentioned. I remember it being promoted by Nigel Wharton from the District Council back when we were on the Land Use Futures Board. As a farmer I do appreciate the efforts of LakesWater Quality Society in supporting and encouraging a better understanding of the concept and how it might be used.

The cost of change and why Rotorua needs TDRs

What are the drivers for change and where do TDRs fit in? The target set by the Regional Council requires a reduction of the loss of nitrogen from pastoral land of 256 tonnes or around 50% of what nitrogen losses have been, a pretty big target. Land management change to best practice, good environmental practice you might say, will go some way towards meeting this target. But we are looking at significant land use change.

The Rotorua Primary Producers' Collective (an association of most of the catchment farmers), with the support of the Regional Council, undertook a study called the Farmers Solution Project which identified the capital cost to farmers derived from the loss of earnings and further losses to sheep and beef farmers, in capital value to be in excess of $130 million to meet that target. An incentive fund proposed of $45.5 million could offset this. But the difference, $80 to $90 million, is the damage to farmers' balance sheets.

There have been other estimates but the order of magnitude is not too different. Some of that cost is about moving with the future. Moving to a way of farming where we are looking at reducing our loss of nutrients. But the remainder for farmers in the Rotorua catchment is still a big ask and a direct cost to them.

There are some emerging trends and challenges. The lake is currently meeting its TLI target. There is discussion about why this is so and what this has to do with the long term health of the lake and its future management. That discussion will continue, but for now nitrogen is the issue and I think at some level nitrogen will continue to be the issue. The District Council is asking for permission, through the resource consenting process, to increase their discharges of nitrogen to the lake by 21 tonnes or 70%, so this is another challenge.

Back to farming - change to farm management practices that minimise nutrient losses will cost money and investment here for the future of farming. But the only significant way to limit losses to the extent that the target asks is ultimately to reduce the productive capacity of the land. This is what we call land use change. It generally means reduction in land values.

There are going to be new ways of doing things, but we are facing this now. Pastoral farmers face a significant challenge in terms of cash flow and losses in capital on their balance sheets. What it comes down to is the more tools we can find to ease the process of change then the more financial resilience there will be in the rural sector and the greater the chance of a vital economic contribution in the future. That is what we want, and this is where Transferable Development Rights will play a part.

I believe that TDRs are a good idea. They are another way to incentivise change. They are another tool in the tool box. They could allow farmers to retain capital or claw back some of the losses forced by the process of land use change.

The question for farmers is – **What is the value proposition?** A wider question is – **How much difference could TDRs play as an agent for change?** These questions are obviously linked. The better the value, the greater the influence on change. **What could be their impact for the catchment?**

I am no expert in the possible dynamics of the TDR market, but I will speculate on what I see as some of the major influencing factors and leave it to others to inform us as to their relative importance:

- How big is the market, how deep?
- What number of rights on offer at any particular time?
- What is the ability of the market to absorb those on offer?
- The potential for farmers hinges on their value and that depends on the market. What is the value to the purchaser?
- What will increase the value of TDRs?

The approach proposed by the Council is too restricting in regard to the recipient areas. I believe that to get the best out of TDRs we may need to loosen the restrictions that constrain or diminish their value and therefore constrain their contribution to solving the problem. The more demand from buyers with higher value propositions the better. The answer could be to open the recipient area to include the whole catchment and perhaps further to other lake side areas to tap into that higher value. Of course the District Council will do what they need to do to constrain any inappropriate development in that regard.

The other side of the equation is supply, the ability of the market to absorb the number generated. Factors influencing this include Rotorua's growth rate and the underlying demand for small blocks. The rule changes around nitrogen losses allowed will further influence this market. I do not have the answers here but when it comes to supply if those that generate TDRs can hang on to them, that is the

donors, as part of their right to subdivide, then perhaps the supply issue will work itself out over the long term.

There is a strong argument for making the whole catchment a donor area. It has merit as a qualifying loss such as 500 kilograms being proposed will be of value to the community wherever it is achieved in the catchment. On the other hand that increases potential supply and suppresses the value of each. However if the farmer can hold that right over the long term perhaps this effect can be managed.

One idea put forward is that subdivision should be restricted to manage supply. Keep the numbers down, keep the value up. I do not believe that constraining supply by limiting existing subdivision rights is necessarily the right thing to do, but there may be some answers in there. Subdivision under existing rules will continue to be a valuable way for land owners and the community to meet their multiple objectives. Land use change to lower nutrient loss will be another subdivision objective, albeit one that moves higher in the order of priority. In this context then TDRs will have to stand on their own merits to some degree.

What difference will they make? I think it is a bit hard to say. Opening up the recipient area will create a better market and better value. Opening up the donor area will be a more even handed approach, but create more supply. Restricting supply throws up other problems.

Finally, the bottom line for the community is to have a contributing rural economy. The more wealth sustaining activity we can keep and foster while maintaining and improving those environmental and other qualities that we all value, the better. TDRs are another tool that will assist in this and it deserves our support.