



The Opportunities Party Environmental Policy

Polluters Pay

ECONOMIC GROWTH MUST NOT COME AT THE EXPENSE OF THE ENVIRONMENT

New Zealand's natural environment is our #1 asset. Tourism is now our biggest export earner, and almost half of all visitors come here for our nature. We also attract and keep talent from around the world because of our landscapes, wildlife and Kiwi way of life.

Our 100% Pure brand not only attracts tourists and the skilled migrants our economy needs, but has also been used by some exporters to charge a premium. Any business owner knows that you should invest in core assets – failing to do so carries massive risks.

Yet recently that's what we've been doing; we are pursuing economic growth at any cost (tourism – numbers not value; dairy – volume not value; immigration – numbers not skills), and our environment is suffering as a consequence. Growth that comes at the expense of our fresh water, oceans, soils or unique native wildlife is dirty, dubious and downright dumb. We can and must get smarter.

TOP will protect and enhance our natural environment, not just because we love it, but because it makes good business sense. TOP wants true prosperity – growth that improves our well-being including our environment, our social harmony and our health.

This is what vets and doctors are starting to refer to as “One Health”; encompassing what is good for humans, animals and the ecosystem in the long run. Our environment has grown more important to us over time and will continue to do so. To achieve harmony between economic growth and environmental protection and enhancement, polluters must pay the true costs of the environmental degradation they inflict.

Polluters should pay to clean up their mess, rather than leaving it to taxpayers to pick up the tab.

Most environmental issues facing our nation come down to how we use our land and water. In terms of water quality the worst damage is often concentrated in urban areas, but in terms of sheer scale, farming (livestock, cereals, horticulture or forestry) has a greater impact – by far.¹ In the past, clearing the high country for sheep and beef has created massive erosion problems, clogging our rivers with sediment and E. Coli. In recent years the growth of intensive farming (particularly dairy) has added extra nutrients, increasing the risk of algal blooms.²

¹ MFE (2015) *Environment Aotearoa 2015*.

² Morgan Foundation (2014) *The Government's Fresh Water Policy Revisited*

MAP OF NEW ZEALAND FRESHWATER ECOLOGY

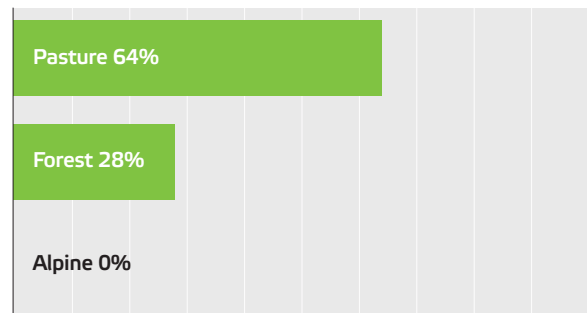
MCI

- Improving
- Worsening
- Indeterminate

Source: PCE, NIWA and MfE



% POLLUTED LAKES BY LAND USE (EUTROPHIC OR WORSE)



Source: NIWA

THE CURRENT APPROACH

For the last 30 years New Zealand has grown in two ways; by producing a greater volume of commodities, and from receiving higher prices for our commodity produce. We can't expect either of these drivers to go on forever.

We are hitting the limits for how much we can produce on our land. We have been using more fertilizer, more water and importing more palm kernel to feed ever more cows. That is why we have seen such a great decline in the quality of our rivers and lakes in areas of intensive agriculture.

We can't hope to continue increasing the volume of our agricultural output without continually degrading our environment.

Converting tussock land on the foothills of the Alps to irrigated dairy is a sure sign of a desperate push for volume. It is not good for the land, the water, wildlife, or even the cows (given the lack of shelter). Looking at the buildup of debt and risk, it is questionable if it has even been good for the farmers.

The only reason it is viable is because the industry is not paying for the environmental damage it's imparting. TOP will ensure that polluters do pay for the damage they cause. Yet the Government seems intent on enacting more and more supporting regulatory and financial protection to drive this pursuit of greater volumes. Over the past few decades the environmental consequences of chasing volume growth have been substantial. Taxpayers have not only subsidised the expansion of intensive farming, they are also footing the clean-up bill.

The Government has committed to **doubling agricultural exports** in real terms by 2025. To reach this goal they have committed \$400m to irrigation projects, with the target to increase the **irrigated land area by one million hectares**. At the same time the Government has already committed \$450m to clean up fresh water (although some of this fund may also be used for irrigation projects!) – and the bill is growing.

Using taxpayer money like this to subsidise private profit while the costs are public liabilities is simple, but dumb. Business should stand on its own two feet otherwise we're just back to the Muldoon disease of having taxpayers fund the profit of some.

Businesses that are major polluters must pay for their polluting ways, otherwise it's just a farce, another intergenerational rip-off.



Cows grazing in the Mangaoporo River, Gisborne.

The quest for volume is ultimately self-defeating. We can't hope to compete with American feedlots and their subsidised grain-fed meat and milk. We have to be different; our competitive advantage remains our ability to produce primarily pasture-fed meat and milk. So why are we still selling only at the world price? What is it about these industries that prevents them from raising their profit margins? We will cover this in our economic policy wrap up.

Our industries face the risk of technological change; particularly from synthetic milk and meat. We may laugh off these threats as Frankenfood, but it is worth remembering the devastation that synthetic fibres caused our wool industry in the 1960s. If ours is a simple volume strategy we increase our exposure to this type of substitution. On the other hand, Chinese consumers are increasingly turning to fresh milk for example – and will pay a premium for it. In short, we face a changing international marketplace and our producers must be sufficiently fleet of foot to respond. If we shelter them behind a raft of effective subsidies, they will miss the bus and be victims of changing price signals, not beneficiaries.

Ensuring they pay the full price of their pollution is one way to ensure these businesses are resilient and not dependent upon quite false price signals. Our need to decouple exports and growth from the degradation of our natural resources is urgent – not just for environmental reasons but for economic resilience reasons as well.

We know that it is possible because many small, innovative Kiwi companies and farmers are leading the way. Companies like Lewis Road, Synlait and Tatua are finding higher value niches using the best quality milk.

Landcorp is exploring new land uses that are profitable and less damaging to the environment. Consumers are increasingly demanding food that doesn't stuff the environment. And many farmers are showing that they can substantially improve their environmental outcomes without hurting their bottom line.

Research into farming practices has become captured by agribusiness that profits from sales of fertiliser, seed, sprays and hormones. The extensification we advocate will enhance farm profitability but not that of the processor who wants volume. Herein lies the significant conflict between processor versus farmer profitability. Ensuring that polluters pay will drive the industry to a more sustained profit position. Fonterra and other processors will need to play their role by focusing more on the profitability of their downstream operations rather than being hostage to a volume über alles strategy.

New Zealand could be the world leader in producing high quality, sustainable food.

Many farmers care about their environmental impact and are trying to do the right thing, but the way that we are regulating environmental impacts is not helping. The grandparenting of pollution rights by many Regional Councils is a big problem here; it legalises the right to pollute, penalises the best farmers (who haven't been polluting so much) and rewards the dirtiest (who have a legacy of pollution).

Again this is just dumb, and reflects only an unwillingness by the regulators to confront the status quo. Certainly it is not in the interest of the environment. If we want smarter land use, reward the best farmers and penalise the worst.

We don't want to turn our farms into facsimiles of American feedlots. We can make products that showcase the reality that our milk is better than their milk. TOP believes we can do better; our dairy and agribusiness companies and those who design their business environment need to work together to ensure this happens.

And it's not just an opportunity for milk. All our land-based activities need to recognise that greater productivity includes making better quality products from the same or fewer inputs. Getting better prices for our "backbone" agricultural industries is much better for New Zealand than a simple expansion of scale.

To push innovation in this direction, land-owners need to know that New Zealanders will no longer tolerate scale expansion that imparts more damage on our natural environment. Indeed TOP wants to make the cost of doing that a real cost for any polluter.

TOP'S VISION: CLEAN AND CLEVER GROWTH

TOP's ultimate goal is a sustainable future for our society, and fulfilling lives for our citizens. Business plays a key role in achieving this, but is one of several means to this ultimate end. From the perspective of business, investors and their employees, business is all about income creation. But for society what matters is that businesses don't just generate income, but also improve the lives of everyone. The former is a mere – but important – subset of the latter. TOP's goal is to ensure business makes us all better off.

This is why environmental damage from business is so contentious. Keeping the profit for shareholders while handing over the costs of pollution to taxpayers, not surprisingly, is wearing thin with voters. At times businesses are not aware of the damage they are doing. It is the role of government to ensure business owners do not profit at the expense of public benefit.

Making a profit at the expense of the environment or society is unacceptable.

From an economist's perspective, reconciling private benefits and public costs isn't that difficult. Businesses simply need to pay the true cost of doing business, including the costs that they impose on the rest of society. If it's still profitable, production continues and the business is sustainable.

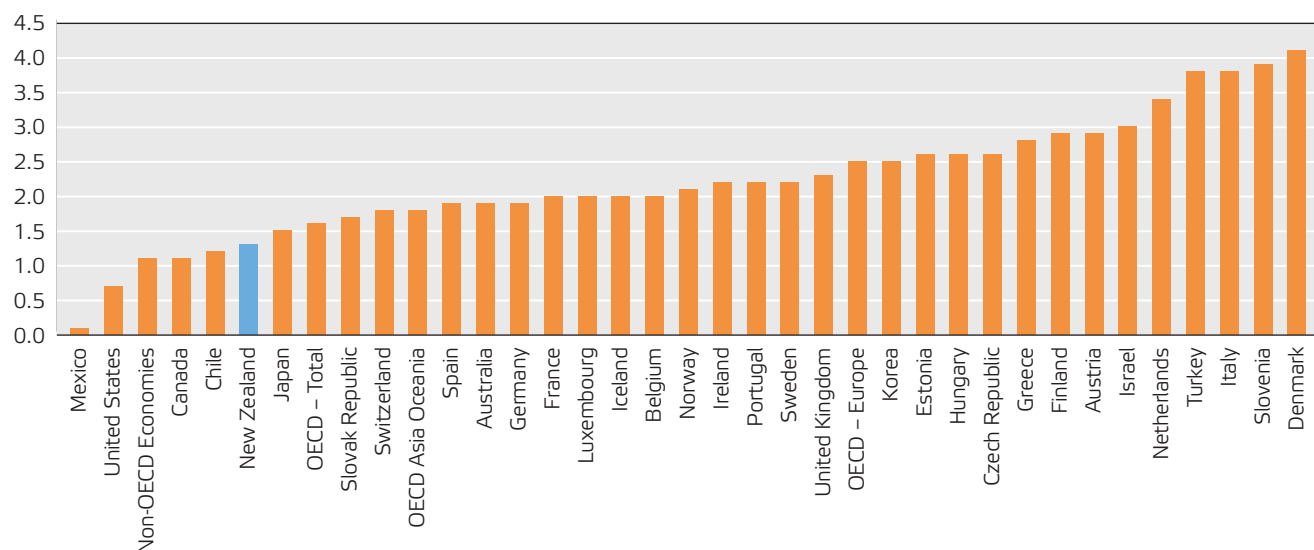
On the other hand if these extra costs overwhelm the business and it shuts down, jobs and profits are foregone. We must also acknowledge that without business and investment we don't eat, let alone build a better society. And investment requires people to take risks, to have the confidence to do that. So they must have a reasonable chance to profit, and with high-risk endeavours have the chance to profit well. Business confidence is fragile, it must be nurtured. People who start businesses, put it all on the line, are heroes – without them none of us would have income. An enterprise culture is necessary for a resilient economy.

How then might we deliver a business climate that engenders confidence but is also in harmony with the needs of society?

With smart regulation and corrective taxes we can have flourishing businesses and a healthy environment.

OECD research has found that environmental regulation, when done well, doesn't have to come at the expense of growth. There are a number of reasons why this is the case. For starters, our natural environment is an asset to the country – not only for tourism, but also for our brand and in attracting talent. For that reason it makes economic sense to protect and enhance that asset. Secondly, environmental limits should deter efforts in increasing volume and shift them toward adding value. It's a matter of making those constraints be revealed to business decision-makers so they react. Thirdly, smart environmental regulation normally impacts on poorly performing businesses, improving productivity overall. There is nothing wrong with poor performing businesses closing, in fact it is a part of a healthy economy. Finally, regulation can become a source of competitive advantage in the long term as new, environment protecting or enhancing businesses and industries are created.

ENVIRONMENTALLY RELATED TAX REVENUE % OF GDP 2015



The OECD also **recommends wider use of environmental taxes** as a way to reduce income taxes and invest more in restoring the environment. Environmental taxes are relatively low in New Zealand.

TOP would ensure any revenue from corrective taxes was used to reduce income tax, restore the environment and to help industry transition from being free-loaders on pollution, to being pollution-free.

Herein lies TOP's strategy.

We intend to set bottom lines of expected environmental performance, and demand continuous improvement.

Top performing businesses should be no worse off, and ideally should prosper.

Pollution will not be illegal, but any businesses that cannot meet performance standards should pay for the additional pollution that they generate. If they cannot afford to pay the true costs of their activity, they will go out of business.

TOP's goal is to reconcile profits and wages with a sustainable environment and thriving society. A degraded environment is a loss to our children and grandchildren, while a healthy and educated population with nobody left behind is a goal that benefits us all.

OUR PLAN FOR MAKING GROWTH CLEAN AND CLEVER

The overarching issue is governance. Local authorities are making variable progress and no one is holding them to account, not even the Ministry for the Environment. We need to boost the resources for ongoing independent oversight of local authority performance on water, oceans and resource management. At the moment if local authorities are not doing their job the only option for people is to take them to court. There must be a simpler way to hold them to account.

1. Swimmable rivers and lakes, sustainable farming

- TOP's default goal is for *swimmable* rivers, unless local communities decide otherwise and deliver specific instructions to their councils to forgo that objective.
- Regions already have a mandate for maintaining or improving water quality. TOP will ensure this is implemented with a moratorium on intensification of land use until catchments have a plan.

- c. TOP wants water consents to be granted as a percentage of flow above the ecological and social minimum; TOP will impose a resource rental on all commercial users of fresh water, including hydro generators. The rental will vary to reflect the quality of the consent (water quality and reliability of supply). In exchange for this rental they will get the right to trade their allocation.
- d. TOP opposes handing out the right to pollute based on past pollution levels (known as grand-parenting). If allocating pollution rights is the best way forward, the natural capital approach should be used as per the Environment Court decision. Rights should be tradeable, with any spare capacity auctioned off to raise revenue for clean up.
- e. Revenue raised through resource rentals and auctioning of pollution rights will be used to create regional Nature Investment Funds (NIF). At least half of the revenue will stay within the region, with up to half distributed around other regions. NIFs will allow Regional Councils to invest in:
 - i. monitoring of our fresh water, reducing the burden on ratepayers
 - ii. management of municipal stormwater and sewage where local authorities cannot afford necessary improvements
 - iii. research into improving the accuracy of OVERSEER (the environmental management tool for farming) for management purposes
 - iv. research into alternative land uses or land use practices that can improve environmental outcomes with minimal financial impact
 - v. afforestation, particularly on erosion prone land and around waterways. The resulting carbon credits are another potential source of funding for the regional NIFs
 - vi. funding activities in catchments that will reduce net greenhouse emissions, prevent erosion and improve water quality. This will reduce the need for taxpayer funds to go into this area; and
 - vii. resolving Māori Treaty claims over fresh water.
- f. TOP will advocate for a cohesive government vision on how we transition to sustainable land use, bringing together the issues of soil, water quality and climate change.

- g. TOP will set a target of having all our erosion prone land planted by 2030.

2. Protect and restore our oceans

- a. TOP will clarify responsibility for the ocean environment between government agencies and local government.
- b. TOP will create a spatial plan (or series of plans) like the Hauraki Gulf Sea Change process to ensure all ocean users have fair access to the resources in our Exclusive Economic Zone. This spatial plan would also ensure that at least 10% of all ecosystems is set aside as no-take reserves, with compensation for existing users where appropriate. This process would be funded by a resource rental on all commercial ocean resource users.

3. Enhancing our natural assets

- a. TOP will impose a \$20 levy on all tourists entering the country. This revenue will be used to improve local infrastructure and placed in an independently managed fund that can be invested with partners to get the best biodiversity return (which may include the Regional Council NIFs).

4. Resource Management – Less paperwork, more protection

- a. TOP will undertake a review of the Resource Management system with the aim of ensuring no net loss of natural capital while providing speedy resolution for developers.
- b. TOP will ensure that biodiversity offsets are evidence based and quality assured so that developers can easily compensate for any damage caused by their development within their region; this could be another source of revenue for the NIFs.
- c. As a matter of principle, all fines under the RMA (after court costs) should be used to offset or restore the damage caused by the breach.
- d. TOP will push to complete the outstanding National Policy Statements (such as biodiversity) to ensure environmental bottom lines exist for all major environmental issues.