

**BEFORE THE HEARINGS COMMISSIONERS FOR THE WAIKATO DISTRICT
COUNCIL**

UNDER the Resource Management Act 1991

AND

IN THE MATTER of hearing submissions and further submissions
on the Proposed Waikato District Plan

PARTIES REPRESENTED **MIDDLEMISS FARM HOLDINGS LTD**

BUCKLAND LANDOWNERS GROUP

RURAL TOPIC – HEARING 18

**STATEMENT OF EVIDENCE FROM STEVE McCOWAN AS A DIRECTOR OF
MIDDLEMISS FARM HOLDINGS LIMITED AND FOR
THE BUCKLAND LANDOWNERS GROUP**

9 September 2020

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MAY IT PLEASE THE PANEL

Introduction

1. My name is Stephen Hal Wright McCowan, and I have an extensive background in the Rural Sector, having gained a Bachelor of Agriculture (Valuation Major) and a postgraduate Diploma of Business and Administration from Massey University. I have spent time as a practicing Rural Valuer and Rural Banker before becoming a private Farm Management Consultant which involved all aspects of pastoral and cropping farming including advocacy and mediation roles. Throughout this time I have farmed on our own account, owning farms in the Waikato/Auckland/Australia ranging in size from 200-1500 cows and 2000 bulls. Over the last 20 years I have advised on, as well as completed on our own behalf, a number of wetland, bush, and riparian planting enhancement programs.
2. Recent environmental events such as fresh water pollution, “blue babies”, Covid-19, Mycoplasma Bovis, PSA, fresh water shortages and the recent droughts, are suggesting that our world is out of balance.
3. After many decades of “Government Pressure” to increase NZ’s export income, the rural sector has run into a brick wall. Recent and Proposed Environmental Laws have been written by a new government with little regard as to how their policies can be achieved from a financial perspective.
4. Unfortunately, instead of a “soft” approach (e.g. research/ education/ incentives) to change NZ’s agri production systems, to be more Environmentally Friendly as well as Economically Feasible, Wellington policy makers have used the “hard” approach. To add more heat to the fire the Dairy industry has suffered huge financial distress for the last 6 years due to extremely low payouts, poor decision-making, poor seasons, and excessive debt.
5. The net result is that our major farming sectors are suffering from a multitude of issues;

- a) New Environmental Laws (nitrates, phosphate, carbon, methane, nitrous oxide, coliforms, silt)
 - b) Financial (low incomes, very weak balance sheets, unable to fund change)
 - c) Aging farming fraternity (Average age of 60 plus so don't have the disposition to change)
 - d) Skilled & Competent Employees are difficult to find as they often move on to greener pasture
 - e) Outside Capital to help fund production system changes is non-existent due to the fact the banks have largely "walked away" from the sector as they can't see how the industry is going to fund the capital cost of the farmers "License to Farm".
6. On top of this **Covid-19** is likely to change the way we all have to live. This can be seen where people are desperately looking to move from dense urban living to "Safe" Isolated Country Living;
<https://www.interest.co.nz/property/106784/lifestyle-block-sales-july-were-43-compared-july-last-year>
 7. Added to this demand Working from Home is now very real and allows people a better lifestyle as well as reducing city traffic congestion and Green House Gases. There is also a huge change in population increase as expat's race to return home to NZ. In the first six months of Covid 19 there has been a record total of 79,000 expats return home and they are still arriving at the rate of 11,500 per month.
 8. These factors alone mean that local and regional councils need to take these issues into account when drafting long term strategic plans as these changes will have a significant effect on local communities and councils' economic well-being.
 9. Clearly the new "normal" is probably going to look very different to the world we knew in 2019. Councils need to draft their District and Regional Plans based on being flexible enough to allow for this change so that their land-owners (rate payers) can adapt quickly and help NZ survive.

10. From my 40 years' experience as a farm worker, valuer, banker, landowner, consultant and farmer, I've learnt about the environment and the best and worst ways to farm land, as well as how to adapt to survive. I know what it is like to not have any viable options with a farm and how negative this situation can be.
11. I agree that there is an environmental cost of farming and that lowering the farm intensity (stock numbers and inputs) will lower the environmental impact. However, this process will have unintended consequences as it will also lower the profitability of farms, and the export earning ability of the local area and NZ, and therefore the ability to fund environment improvements. Additional capital sources need to be found to fund new farm systems, that include re-fencing waterways with Riparian Native Plantings, Cow-homes, Bio-digesters, upgraded effluent systems etc. Adapting to more sustainable farming systems will require significant investment and, from my farming perspective, Wellington policy makers, and councils, have not been focused enough on how the transition they are requiring by regulation will be funded?
12. In my view there must be a fair balance between the changes called for and the loss in farm income. At this stage almost all of the cost of change is on the farmers back, and this is unfair when preceding governments over the last 100 years have encouraged, and at times put in place, incentives to help fund farm production increases, and in turn New Zealand's first world status. The publicly available funds for projects, such as riparian stream protection, are minor compared to the scale of farm restoration work required in the whole of the Waikato District.
13. What are these unintended consequences?
 - a) loss of production (volume)
 - b) loss of income (\$)
 - c) loss of capital value due to loss of productive land to stream or drain water-body exclusion areas (1-3m from the edge and wider).
 - d) loss of business viability as a direct result e.g. uneconomic due to loss of scale
 - e) loss of jobs due to smaller scale and lower profitability

14. Presently Councils are focused on “up not out” to stop the cities expanding outwards, in order to “protect” our prime soils. I generally agree with protecting prime soils for future generations. However, I believe that there is a growing need for “lifestyle blocks” which can be produced on uneconomic prime soils (e.g. too small or irregular shaped due to boundaries/streams/trees) as well as on lesser quality class soils. Well-designed subdivisions in appropriate locations can support New Zealanders that want/need this type of property, as well as providing a new workforce to rural communities. This will in time encourage land-owners to intensify their production systems as the industry also reduces reliance on fossil fuels and migrant labour (this vulnerability has been exposed by Covid 19). A pragmatic and grass roots realistic approach needs to be applied.
15. National Policy Statements are focused on natural flora, fauna, and water quality. This is appropriate, but what isn't fair is that farmers are expected to pay for all of the costs of this change as “the cost of the license to continue to farm”. The farmer isn't the only person that benefits from the production and sale of produce, and indirectly, it is the whole country.
16. There is also a limit in the ability of farmers to increase the price of their products to “internalize environmental externalities” (such as riparian protection) because of consumer resistance to higher supermarket prices, and competition from cheap imports e.g. imported frozen potato chips are currently eroding margins for local potato growers in the district.
17. It is a fact that for the last 150 years NZ farmers have been encouraged (via incentives) by the governments of the day to drain the swamps and clear native bush to farm the land. This was done to increase the standard of living of NZ's residents by allowing NZ overall to produce a positive Balance of Payments i.e. we earn more in export income than import costs. Our main comparative advantage in international trade has been in primary products.
18. In hindsight, from an environmental point of view, this intensification went too far. Now large areas of farm-land need to be returned to the original state in order to act as a buffer or absorption area for the excess nutrients that farming and urban activities produce.

19. In the past 40 years in my experience Farms were largely operated by the best practice of the day, and they were encouraged to intensify by Government Agencies e.g. MAF Consultants, Dairy NZ & Rural Bank Advisers. Farmers borrowed and spent based on what the advisors and bankers advised to do at the time. Now the government of the day wants to reverse some of this change requiring farmers to find new ways to farm and wanting them to pay for this change.
20. Farmers are caught between a rock and a hard place. Most of us would love to fence off our gullies and replant with native plants and trees. We would love to have comfortable Cow Homes to get our cows off our precious pastures over the winter. We would love to catch and store effluent, that disappears into the environment over winter, and then feed this to our pastures in the spring when we know it won't damage the environment. We'd also love to not apply fertilizer, but NZ soils are young soils compared to the rest of the world and as a result haven't had the time to mineralize and thus produce sufficient nutrients and so we have limited options to maintain fertility. We'd love to fence off every gully, that has a small creek, so our cattle or sheep don't get stuck and die or pick up Liver Fluke from drinking the natural water. However, the reality is that few are financially able to spend the money to install a proper reticulated water supply as well as the huge cost of fencing.
21. The simple fact is that we (farmers and NZ) can't afford for this new change to happen without some sort of financial help or other incentivized options, to raise capital to do the now expected environmental work.
22. I need to make it clear though, that notwithstanding the financial predicament farmers are in, we are not asking the council for handouts! A simple solution is for our local and regional councils to understand the "big picture" and become part of the solution. How?

"Encourage landowners to covenant and restore wetlands, riparian margins, bush enhancement and uneconomic areas of their properties to native bush and wetlands. In return allow landowners to produce 1-2ha "lifestyle titles" that can either be produced on uneconomic areas of their land or to produce Transferrable Title Right's (TTR) which can be sold and transferred to a property owner in an appropriately zoned growth area".

23. Why? Due to NZ's unique land types and topography most farms have streams/gullies/steep areas/swamps that can be restored back to natives which will produce positive environmental benefits such as nitrate retention, carbon sequestering, E.coli and silt retention & phosphate retention. The allocation of new lifestyle titles gives a landowner an economic incentive to spend the money to restore their drain margins and uneconomic areas into native bush and get their money back through the sale of the new lifestyle titles or TTR. This in turn will give the banks comfort to help finance this change.
24. This action alone will have a hugely positive effect on the environment and will lower the environmental cost of farming. Without this very few landowners will be able to afford to fence off and replant their gullies and waterways. Without incentives, the biodiversity and ecology of the Waikato will not be restored at the scale required to properly address water quality degradation, adaption to climate change, mana whenua expectations etc.
25. The costs of replanting and fencing off native bush/wetlands is approximately \$40-45,000/ha. This is totally prohibitive for most farmers today unless there is a financial incentive to do so. The incentives in the legacy Franklin DP is the reason that I undertook the restoration project at 95 Jericho Road, as described in the Middlemiss submission and evidence of Mr Pryor.
26. It may be suggested that restoration and carbon sequestration can be undertaken with pine trees rather than native bush. This is partly correct, but I don't support the planting of pines in small lots as it is simply uneconomic and not as environmentally friendly (harvesting/weeds/erosion) as natives. Pines can also be an invasive tree causing weed problems around the country. Pines also don't attract the native birds which are an integral part of NZ's lost heritage.
27. It may also be argued that Pines are far better at Carbon Sequestering – after 25 years Natives produce 210 ton carbon/ha v's pines at 670 ton/ha. However Pines are usually then harvested (which uses carbon) and the bulk of the timber exported I understand is used for pallets and form-work which is then burnt (which releases carbon back into the atmosphere) whereas the Native Trees continue to sequester carbon for another 25-75 years.

28. Due to a lack of alternative financially viable landuse options, I am aware that large hill country farms in NZ are now being planted in pines with no intention of harvesting, for the purpose of earning carbon credits. The very negative impact of this landuse on rural communities is currently very topical and is another reason supporting the Middlemiss relief. Enhancement subdivision will provide a more environmentally and socially beneficial enhancement opportunity for farmers to take up, that maintains and enhances struggling rural communities.
29. We own and farm Drumlea Farm (340ha) at Nghinapouri, Hamilton. We farm Dairy Cows (System 2) as well as all our replacements on this farm. We have 18ha of zoned Significant Natural Area that council (Waipa DC) wants us to plant into natives (there are no natives in this area as is often the case in the Waikato basin).
30. The cost of fencing this area off, clearing the exotic's and planting it in natives is \$6-700,000. In return council has said we may get one lifestyle title, which would be worth about \$400,000 gross, but that they would make this decision 4-5 years after we had planted the natives.
31. As you can imagine there is no way we will entertain such a deal, so this area will stay as it is.
32. I am fortunate in that I have travelled and operated in other parts of the world, and have recently completed a tour of Germany's Dairy Industry, which is one of the most heavily Environmentally Regulated countries in the world but similar to were NZ is heading over the next ten years (due to regulation).
33. Germany basically produces enough milk for its own population (as do most countries in the world due to a desire for food security and limited land for export level production). Their dairy production systems are based on cut and cart feed systems to the cows that are housed permanently in cow homes. The cows are housed because of the hard winters and the environmental issues of nitrates (non-point source water pollution). The effluent from the cows is collected from the cow homes and pumped to a Bio-digester where the methane (which in a NZ farm system ends up in the atmosphere) is collected and burnt to produce electricity which in turn is fed into the national grid and the farmers are paid a market price.

34. The effluent is returned to storage ponds from which it is spread in the spring via huge honey wagons and direct drilled into areas to be cropped for maize/lucerne/rape for the cows. Under NZ's new and proposed environmental rules we are likely to end up having to copy this type of system to be compliant and profitable in the future.
35. Most of their cows are milked by robots and robots clean the cow homes. Staff did not generally live on the farms but instead lived locally in their own homes in local villages or on rural lifestyle lots. This is an important overseas trend, because NZ farm staff are historically very transient, and one of the main reasons is that they don't have many opportunities to own their own home close to the farm they work on. Making more lifestyle lots available in rural areas will bring more potential workers closer to their place of work as well as giving them the independence/long term security of owning their own home. This is important for both the agriculture and horticulture (arguably more reliant on labour) sectors, as they try and create a better career path and greater work continuity/stability, to be more attractive to NZ employees. This is not just a current Covid issue, with limits on tourist and migrant workers, but a recognition that as a country we should be firstly prioritizing job opportunities for our unemployed.
36. On my trip late last year I saw 7-8000 cows and can say that they were generally in better condition than most cows I see in NZ. They on average produce double the annual production of NZ cows and are productive for a similar number of years. All are fed a Totally Managed Ration which includes a high portion of grains that reduce the cows' methane output.
37. These cows (the same can be said for most of Europe and the USA) produce milk at a similar Carbon Level of NZ cows. However, their Environmental losses/pollution is substantially lower than NZ systems.
38. I asked every farm owner I meet in Germany how they have managed to make their production system work financially. All said they had incentives to build cow-homes and install milking robots and bio digester's via Tax Allowances (e.g. very high depreciation rates) and they were paid a "special rate" for the power they sold from their biodigesters.

39. There are no financial incentives in NZ's tax system for this type of development. We pride ourselves as being a free market, but NZ farmers are still expected to perform environmentally and financially as well as the rest of the world's farmers. Given the new environmental laws in NZ we are now having to compete against countries that have huge government assistance that subsidises their farmer's costs of climate change.
40. Given the recent and pending NZ environmental rules regarding nitrates and methane, Drumlea, for example, has three options to continue Dairy Farming;
- a) Change the farm production system to Low Intensity Farming by dropping cow numbers, reducing nitrogen use, which would result in lower production and income for Drumlea, the local economy and NZ Inc, or
 - b) Replicate the German/USA dairy system (\$8-10m in new capital by my estimate), which results in Drumlea meeting the expectations of the planned Environmental Rules, higher production and more money spent in the local economy and higher export income for NZ Inc, or
 - c) Local and Regional Council District Plans are redrawn to encourage landowners to Fence off and revegetate (with native trees), the riparian margins of the streams/swamps/drains, gullies/steep areas on the farm which will help stop nitrates/silt/E.coli/phosphate moving into the waterways and in return the landowner is able to create new lifestyle titles or TTR's as detailed above. This would help farmers to fund this development work and replace the lost value of farm-land converted to native bush and run similar production numbers to what they've achieved and possibly encourage to change/grow their production system into more productive consumer and environmentally friendly systems similar or better than the rest of the world. This option would also allow NZ to retain its "clean green image" and "grass fed milk" market".
41. My wife and I have recently planted some 180,000 native trees on Class 3-4 land in Rodney, this was done under Native Enhancement Planting rules of the Auckland Unitary Plan. The changes to the environment we've witnessed are outstanding;

- a) kikuya killed out and replaced with native trees
 - b) native birds returning in vast numbers
 - c) beehives established and earning as much as livestock used to
 - d) huge reduction in soil erosion due to stock pugging, erosion, slips resulting in a huge reduction in silt entering the Hauraki Gulf.
 - e) native trees providing shelter for the whole ecosystem
 - f) production of several lifestyle blocks that helped pay for the revegetation work.
 - g) no environmental issues re nitrates, nitrous oxide, phosphate, E.coli, silt.
 - h) carbon Sequestering – after 25 years 210 ton/ha v's pines at 670 ton/ha but another 75 years of permanent sequestering left to go.
 - i) several additional families now living closer to nature in a stable environment and operating as part of a local community.
42. In my opinion, and based on my farming experience, and from the benefits I have seen from restoration work, the relief we are seeking in the Middlemiss submission is a “win win” for both people and the environment.

Middlemiss Farm Holdings Ltd
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