

Tax Working Group Public Submissions Information Release

Release Document

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Submission to the Tax Working Group

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1 Pāmu background

- 1.1 Pāmu Farms of New Zealand (Pāmu) is the brand name for Landcorp.
- 1.2 Pāmu stands for best practice in sustainable and safe farming, and for the unique provenance of New Zealand foods, nutrition products and fibre on global markets.
- 1.3 Pāmu strives to be a leader in New Zealand agriculture, carefully creating natural products of high quality and helping transform pastoral-based industries.
- 1.4 Pāmu is highly experienced in large scale farming operations and we will continue to utilise our skills and brand to target premium, niche markets around the world.
- 1.5 Pāmu is a diversified national agri-business operating primarily in the dairy, dry-stock and forestry sectors. Its perspective may therefore vary from that of smaller scale farmers operating in a single sector and/or region.

2 This submission

- 2.1 Pāmu’s submission provides an opportunity for the company to articulate its position and vision i.e. the outcomes it seeks for its business and more broadly for New Zealand farming.
- 2.2 Pāmu’s submission takes a commercial view and looks to the mid-term future (10-20 years, rather than 5-10 years).
- 2.3 Pāmu believes that there is customer demand for an environmentally friendly source of supply and this submission sets out practical measures to address that desire.
- 2.4 One of the points of reference that Pāmu has used when formulating this submission is the “Living Standards Framework” published by Treasury which seeks to promote intergenerational well-being through ensuring through the growth, distribution and sustainability of “The Four Capitals” – Natural Capital, Human Capital, Social Capital and Financial/Physical Capital.
- 2.5 Pāmu recognises the importance of the following tax reform principles:
 - a) The tax system must raise sufficient revenue to fund the operations of government;
 - b) Taxes should be raised in a way that is least detrimental to inclusive and sustainable growth;
 - c) Changes to the tax framework must have broad community support and buy-in;
 - d) The tax system needs to be robust, but able to adapt to social, economic, and technological trends and developments; and
 - e) The tax system and its reforms should be consistent, coherent, administratively efficient and transparent to ensure that the amount of tax due can be predicted and calculated with certainty by tax payers.
- 2.6 In the next section of this submission Pāmu sets out its high-level recommendations in an Executive Summary.
- 2.7 In the final sections of this submission we focus specifically on issues related to Environmental Taxation where we feel we have particular expertise and insight due to our unique position in the New Zealand agricultural sector.
- 2.8 Pāmu would welcome to opportunity to engage with the Tax Working Group on any of the matters addressed in this document.

3 Executive summary

- 3.1 Pāmu practices sustainable management, which requires a balance to be found between managing use and development of natural and physical resources, while also ensuring those resources are protected.
- 3.2 Pāmu believes that the achievement of good business outcomes and good environmental outcomes can be facilitated by tax reform in the medium term, thereby ensuring that “The Four Capitals” are increased over time.
- 3.3 Pāmu believes that Environmental taxes need to be designed so as to strongly influence behaviour at the individual farm level, rather than imposed on the industry at a unitary rate regardless of past or present behaviour. In principle therefore Pāmu supports the introduction of well-designed and targeted environmental levies to address issues such as nitrate run-off and water quality.
- 3.4 Pāmu recognises the desirability of being able to monitor nitrate leaching and its effect on waterways using an independent and auditable tool such as “OVERSEER¹”. We welcome the announcement of extra government funding for “OVERSEER” in the 2018 Budget. We believe that such a tool is extremely useful when assessing and monitoring environmental risks at a farm level or in areas where there is a high risk of adverse environmental impacts. We would however caution against the use of such a system as a regulatory tool due to the significant effort, expense and expertise required to implement and operate it across the New Zealand agricultural sector.
- 3.5 Pāmu believes that placing a levy at source on fertiliser products containing nitrogen represents the best available mechanism to target excessive use of nitrogen in agriculture. While there is not a direct correlation between the use of these products and nitrogen leaching, we would contend that usage is a suitable proxy which correlates well with intensive farming on high risk soils. We feel this is certainly a more workable proxy than say “cow numbers per hectare”. In addition, since there are alternatives to using nitrogen we believe that a levy will tend to drive behaviour towards using mitigations that are already available. When considering how best to address the nitrogen issue it is important to note that the key things that influence nitrogen leaching in OVERSEER are rainfall, the presence of irrigation and “leaky soils”. These factors compound regional differences. In contrast, a levy has the attractions of being relatively quick to implement, easy to administer, predictable, and able to provide appropriate incentives to users to limit and optimise the use of nitrogen fertiliser products on farm. These modified behaviours are in turn likely to have a beneficial impact in reducing leaching.

¹ Overseer is a New Zealand tool used by a range of primary industries and regional councils that helps measure nutrient use and greenhouse gas emissions

- 3.6 Pāmu believes that creating an enhanced ETS will assist in ensuring “best use” of land including the planting of trees (“ETS”).
- 3.7 In our view, inclusion of agriculture into the **current** ETS is not the best way to incentivise the full range of behaviours needed to reduce emissions. Simply put, the ETS is a “blunt instrument”. We believe the ETS should be one of a suite of consistent and coherent regulatory tools to drive desirable behaviours and outcomes.
- 3.8 For example, Methane is relatively short-lived in the atmosphere compared to say carbon or nitrogen. The scheme does not currently distinguish between types of greenhouse gases. Making such distinctions could be useful by enabling emissions charges to be specified and varied in relation to the severity of the harm being caused in each case (see point 4 (d) below).
- 3.9 To maintain and enhance New Zealand’s natural capitals Pāmu recommends that the Tax Working Group consider the issue of water usage. It is generally accepted that in some geographical regions the drawing of water for irrigation purposes has reduced river flows, and thereby contributed to a degradation of water quality. There may be opportunities to address this water quality issue and promote a more efficient allocation of water via an agreed national allocation methodology.
- 3.10 Pāmu believes that in pursuit of environmental benefits the Tax Working Group should consider the merits of offering tax credits or incentives for setting up and maintaining wetlands and eco systems that benefit the environment. Such incentives could help to address issues such as loss of indigenous biodiversity and indigenous species as well as water quality.
- 3.11 Pāmu is not opposed in principle to a well-designed Capital Gains Tax (“CGT”). Such a tax would need to take account of various practical considerations including (inter alia) the cost of compliance, ensuring that cash tax is only payable when gains are crystallised, ensuring a fair and equitable basis for the valuation of farm land, taking due account of inflation, consideration of “rollover relief” for capital recycling and specifying appropriate rules for the application of CGT payable to farmhouses (which are often family homes).
- 3.12 Pāmu opposes the idea of a land tax. Pāmu believes that a land tax would not incentivise any beneficial behaviour and would simply increase the tax burden on Pāmu. Land taxes are sometimes cited as a vehicle that will assist in freeing up land for housing development. Pāmu believes that sufficient commercial incentives to undertake such developments already exist.

4 Environmental levies – General principles

- 4.1 Above in section 2.5 we have set out some general principles that we believe should apply when implementing levies. In this section we propose further principles that we feel should be considered when considering the promulgation of environmental levies.
- a) An environmental levy framework should influence the behaviour of farmers and create incentives for those at production level to invest in mitigation i.e. in simple terms the tax must be “worth avoiding”;
 - b) Environmental levies should be targeted to the pollutant or polluting behaviour, with few exceptions;
 - c) The scope of an environmental levy should match the scope of the environmental damage;
 - d) The rate of an environmental levy should be commensurate with the environmental damage;
 - e) The levy must be credible and its rate predictable in order to motivate environmental improvements;
 - f) It may be possible to introduce environmental levies that can be applied differently around New Zealand based on geographical areas. Furthermore, exemptions to a nitrogen levy could be applied in the case of locally grown and purchased fruit and vegetables or essential foods (for local consumption) if clear criteria can be established.
 - g) Levies may have unforeseen impacts and these should be carefully researched prior to implementation. For example, feed pads help control effluent discharge to waterways but have a higher carbon profile.
- 4.2 In broad terms Pāmu believes that revenue from environmental levies should go towards corrective measures such as cleaning-up waterways, subsidising nitrogen fertiliser alternatives, funding riparian planting schemes, fencing waterways projects or increasing the sustainable farming fund.

5 Environmental levies – “A price on nitrogen”

- 5.1 Pāmu believes that consideration should be given to applying a levy on fertiliser products containing nitrogen. This could be levied at source and collected by manufacturers/importers of fertiliser products containing nitrogen.
- 5.2 Pāmu believes that applying such a levy prior to sale represents the simplest method of ensuring that all of the nitrogen being applied to agricultural land is subject to the levy.
- 5.3 The imposition of a levy will in theory merely increase input costs for users of the product. These users will however be naturally incentivised to (a) minimise use, (b) substitute other fertiliser compounds that are less environmentally harmful and (c) ensure optimum product placement in the most cost effective locations both from an efficiency perspective and, if appropriate, in order to minimise spill-over and consequent exposure to any applicable water quality regulations in nearby waterways.

Depending on location and climate there may be other strategies which a farmer may employ in order to mitigate use of nitrogen. For example, ryegrass is suitable in some areas as a pasture grass and one of its benefits is that it aids in helping to break up hard soils, thereby allowing roots to absorb nitrogen. Herbs (e.g. plantain, chicory) and legumes are also examples of alternative feed sources that can provide grazing and winter feed without the need to apply such large quantities of nitrogen fertiliser. Education and training for farmers wishing to make changes to their farming systems could be funded from any levy so that farmers have access to advice on issues that may arise as changes are made e.g. the perceived negatives (for example bloat) from legumes are fully able to be mitigated. Pāmu is currently able to show an increase of 70% in terms of feed production despite a complete withdrawal of nitrogen fertiliser on some of our farms.

- 5.4 The quantum of any levy should be set so as to provide sufficient incentive to mitigate its impact through actions such as those listed above. The aim should be to achieve rapid change. Nevertheless we would encourage the Tax Working Group to also give consideration to mitigating the effects of such a levy, at least initially, through say increased tax depreciation rates on farm assets such as dairy sheds, land development costs etc.
- 5.5 Pāmu would advocate for the levy to be revenue neutral to central government with proceeds being applied to various activities such as farmer education (mentioned above), improvements to monitoring systems, administration of the tax and research into alternative fertiliser products, all of which have the aim of mitigating the effects of nitrogen products.
- 5.6 If the levy is intended to only target the area of most concern with regard to nitrogen leaching i.e. Dairy Farming (as opposed to dry stock farming or cropping), the design of the tax may be such as to ensure that it does not unfairly affect all consumers of the product.

6 Environmental levies – “Water allocation”

- 6.1 Pāmu believes that the introduction of a price on water usage has the potential to incentivise behaviours to ensure this valuable natural resource is consumed in such a way as to promote economic efficiency and environmental improvement over time.
- 6.2 Pāmu does not underestimate the political sensitivity in respect of ownership of water rights.
- 6.3 This suggestion is based on the premise that all stakeholders regard water as one of the country’s “Natural Capitals” within the Treasury’s “Living Standards Framework” and would therefore wish to see action taken to ensure a continuous and sustained improvement to water quality as time passes.
- 6.4 The regulation of water usage in Australia has been in place since the turn of the century. We recommend that the Tax Working Group undertake a full review of the Australian approach to water management over the last 25 years. Whilst there are undoubtedly aspects that could be improved upon, we feel that the overall approach has achieved the objective of placing a value on water for both environmental purposes and best use.

For more information please contact:

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