

# Rolling with the



Agribusiness  
Gill South

**T**he Dutch multinational Rabobank, a global leader in food and agriculture financing, sees climate change regulations affecting the agricultural sector in New Zealand as part of what is happening across the board worldwide.

New Zealand agriculture has gone through a period of transformational change and should be looking holistically at what this means for the future of agriculture, says Blake Holgate, Rabobank's head of research and analysis of New Zealand's animal proteins sector.

It will be the agriculture sectors that stay ahead of the curve and are involved in influencing the regulations rather than reacting to directives, who do well, he says.

He has seen some frustration from New Zealand farmers, their concern that there will be government intervention they have doubts about.

But the Rabobank research analyst argues that adhering to robust production standards will help position NZ as a credible and reliable source of ethical and sustainable red meat products in the eyes of major food buyers, food retailers and foodservice providers.

This raising of standards will also complement other aspects of NZ's production systems, such as being pasture-raised, that underpin our red meat country of origin brand.

## More than one master to please

Holgate warns that New Zealand farmers have two different groups to appease – the Government and local community, and then international consumers, food service and food retail businesses in export markets, calling for more sustainably-conscious production standards including animal welfare.

Global food retailers and food service companies such as Tesco and Sainsbury's in the UK and Walmart and Whole Foods Market in the US are responding to changing consumer behaviour by progressively introducing a range of tougher production standards that suppliers are required to meet if they want continued access to these markets.

Unfortunately, at this stage, consumers are not interested in paying a premium on products which are adhering to these standards but in time, it is hoped more niche markets will emerge where consumers are willing to pay a premium for ethical and sustainably produced food.

While the New Zealand Government's main concern for farmers improved sustainability has been on freshwater, with close attention to leaching of contaminants into freshwater resources, consumers and retailers from overseas are more likely to want answers on animal welfare and greenhouse gas emissions. Although New Zealand has a good record for animal welfare, it has the highest proportion of greenhouse gas emissions from agriculture in the developed world, with a target to reduce net emissions to 50 per cent of 1990 levels by 2050 (see graph on facing page).

If New Zealand is unable to meet the non-regulatory production standards prescribed by major food retailers and food service providers such as McDonalds and Tesco, it will increasingly find itself excluded from these sales channels and unable to access these markets, says a report authored by Holgate.

The report notes that in terms of animal welfare, NZ and the UK are



Financier Rabobank is urging farmers to have their say on climate change legislation



**G**overnment requirements will ebb and flow but if you have a good understanding of land use and systems and your parcel of land can sustain you, you will be in the best position to adapt to any change in the future.

Blake Holgate

two of only four countries globally, along with Switzerland and Austria, to receive an A ranking under the World Animal Protection's Animal protection index.

Rabobank, with its New Zealand farmer customers, is increasingly looking at incorporating non-financial indicators around environ-

## Emissions should not be looked at in isolation

With growing concerns around feeding the growing world population, Rabobank stresses that concerns and regulations around issues such as greenhouse gas emissions must not be addressed in isolation. Having a decent global food supply is also crucially important.

"New Zealand is a significant net exporter, exporting 80 per cent to 90 per cent of our food, enough for 50 million people. We have a 5 million population, so we make a proportionately important contribution to the food security picture," says Holgate.

On top of this, some of New Zealand's farming systems and tech have an important role to play globally, local farmers' knowledge and practices can be passed on to other countries to efficiently produce good amounts of food. "We stack up really well, we are as efficient or more efficient than others," says Holgate.

Rabobank global banking has four pillars for its vision on global food security and strategy.

The first revolves around the availability of food and how to ensure the world is producing enough without degrading the environment. The second, is on having good access to food and making sure the right food is getting to the right people. Waste is important, it should be made sure that communities are not throwing out too much food, so the right infrastructure is in place and there are cold chains to ensure minimal perishing and degradation.

The third pillar is on making sure what is being produced is healthy, that it is the right food, it's not fat and sugar, for instance. The food being produced should also be the right balance, for instance ensuring that there is a strong plant-based element in our diet but equally protein in the form of red meat. Making sure that there is robust knowledge of what a balanced diet looks like is part of this and there should be specialisation in producing what you are good at. So for instance, New Zealand specialises in red meat and milk production.

Horticulture in New Zealand is playing an increasing role which is good for principles of healthy land diversity, says Holgate.

Lastly, the fourth pillar, is making sure that there is stability of food chains, that there is not massive pricing for short term gains.

mental issues, such as animal welfare standards and freshwater resources, when making its lending decisions, says Holgate.

The bank wants clients to understand the risks and the opportunities around investment decisions, to make sure they are well set up for the future.

"It can depend where you are in New Zealand," says Holgate. "If you are in Canterbury, Rabobank is going to want to know your nitrogen leaching profile. It could be a major risk."

In Canterbury we would want to know what the leaching number is and be assured that it is well within requirements," he says.

Rabobank is also looking for a long-term outlook from its farming clients and it is happy to help them with this.

"We will be helping clients understand the natural capital of their land

and what it's best suited for long term to be viably sustainable," says Holgate.

"Government requirements will ebb and flow but if you have a good understanding of land use and systems and your parcel of land can sustain you, you will be in the best position to adapt to any change in the future," he says.

"If you are continually getting up to scratch, the risk is that you'll be reactionary versus proactive."

Rabobank also wants to see the thinking behind farmers' land use decisions, for instance, running a mixture of sheep and beef production along with horticulture and forestry on the property and having a strategy behind that.

## Understanding future risk

Red meat farmers who invest in the

production aspects of their farming operation and are able to show they have assessed any potential production risks and dealt with them, are going to be in a stronger position when seeking capital in the future, says the Rabobank analyst.

Future risk primarily comes in the form of reputational damage – and the flow-on effect that damage could have on market value and access.

Future-proofing can bring related benefits. A good reputation for improving standards will help attract "high quality human capital" into the red meat sector, says Holgate in his report on the New Zealand red meat market, *Realising the Sustainable Advantage*. Ensuring the red meat sector is perceived by younger generations as an appealing sector to be a part of is part of future-proofing these agricultural businesses.

## More forestry ahead

Research from Rabobank this year has forecast the Government's policy agenda relating to climate change and forestry will make forestry a more appealing land use option than it has been for some landowners. Strong planting incentives from government are likely to see farmers in some regions taking land out of food production and switching to planting trees, says Holgate.

Carbon farming means post-1989 forest land-owners who register as an Emissions Trading Scheme (ETS) participant are entitled to receive one New Zealand Unit (NZU) for each tonne of carbon dioxide stored in their forests. Land-owners have to assess whether planting trees on a part of their property benefits the overall farming business or if there is greater benefit with its existing use, says Holgate.

For farmers operating high-value land uses such as dairying, there may be little or no net benefit to planting trees on their existing property, while for those with a wide range of land classes it may benefit a small per cent of land that is not very productive, without a meaningful impact on the existing farm system. For other land-owners, forestry could provide an

# climate changes

opportunity to generate income from large areas of land which have previously generated very little.

It all depends on the specific characteristics of the property, the farm system and the land-owner, says Holgate – and which land uses will provide the highest returns in the long term.

There has been limited incentive for carbon farming to date, says Holgate. Though forestry has been included in the ETS since 2008, weak carbon price signals and climate change policy uncertainty has made landowners hesitant about registering post-1989 forest land or planting new forest land with the intention of registering as an ETS participant.

There has also been a strong disincentive for many landowners as the current ETS requires that landowners have to surrender NZUs equal to the amount of carbon dioxide that is deemed to be released when any forest land is harvested.

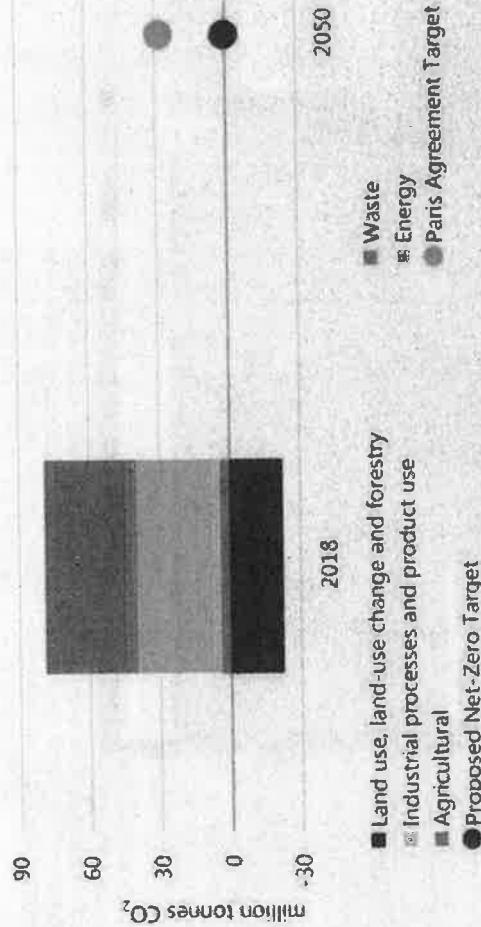
For ETS participants who sell their NZUs prior to harvesting, this creates a liability that can't be valued until harvest time, when NZUs must be purchased and surrendered at the spot market price.

## Action on emissions

In July, the Government announced its Action on Agricultural Emissions plan which essentially put a price on agricultural emissions at farm level from 2025.

It also put a price on emissions at processor level, processors including Fonterra and Silver Fern Farms, potentially paying a levy from next year.

NZ has the highest proportion of GHG emissions from agriculture in the developed world, with just under half of NZ's agricultural emissions coming from the sheep and beef sector



Source: New Zealand Productivity Commission – 'Low-emissions economy' August 2018

The Ministry for the Environment

(MfE) has put out a discussion document – <https://www.mfe.govt.nz/node/25305> with submissions closing on August 13 at 5pm.

Primary sector leaders including Dairy New Zealand, Beef + Lamb New Zealand, the Meat Industry Association, Federated Farmers and others came forward with the Primary Sector Climate Change Commitment and have recommended a joint action plan to establish a farm-based system

for reducing emissions.

This framework will address climate change within a whole farm systems framework, recognising that farmers' efforts to reduce emissions sit alongside water quality, biosecurity, biodiversity, animal welfare, and financial sustainability.

Though the processors will take the brunt of the proposed changes in the first instance, change in regulation can hit farming families hard. And the bulk of farmers in New Zealand are

husband and wife partnerships, they are not huge organisations and do not have a sustainability manager, according to Holgate.

They will need to make sure they have access to the right information channels to help them understand the changes.

Although the timeframe is slender, Rabobank and others in the farming community are urging New Zealand farmers to step up and give their feedback on the regulation being

proposed, to have a say in their future.

"Though future regulation of NZ agriculture is inevitable, they have a right to protest if it is ineffective or just plain wrong."

Farmers should be pushing to get the framework right, make sure the government is incentivising the right behaviour to continue to be a prosperous food-producing country.

These land-owners are not the naysayers they are made out to be, he says. They are amenable to making changes but they want to make sure they will truly make a difference and they don't want to see a new government coming in a year or four years' time changing everything.

The Government therefore, has its own responsibility to provide the farming community with clarity and certainty and ideally it will gain bipartisan support on action taken on climate change so these are steps known to be made for the long term.

If the government can provide them with clarity and certainty, then they will develop solutions.

Farmers, meanwhile, will have to have earned the trust of the nation in being seen to have acted responsibly and to have shown long term strategies for future generations.

It is a matter of having a social licence, says Holgate. Part of that is communicating how and why things are done as they are.

And where change is required and they have to lift their game, they should get on with it, make the necessary changes and be transparent about it.