



Cumulative impact of Government policy on New Zealand sheep and beef farms

Summary report

Based on research commissioned by B+LNZ
and completed by BakerAg - August 2023

The report outlines illustrative case studies to
quantify the cumulative effects of the Government's
policy reform agenda on farms and provides
recommendations.

Key findings

- A raft of new and proposed regulations has been extremely challenging and created significant administrative burden, and financial and personal impacts – without demonstrable benefits for the environment, farmers or communities.
- Policies have failed to give farmers a clear illustration of benefit. In many cases policies have not created the outcomes the Government intended – and in some cases have even created perverse outcomes.
- Farmers are facing increasing costs for consents in order to undertake on-farm activities – annual consenting costs across the four farms were as high as \$30,000 while one farm faced one-off resource consent costs of \$220,000.
- One case study farm in the report faced one-off direct costs of \$75,000 and annual direct costs of around \$88,000. B+LNZ analysis shows the average Farm Profit Before Tax for that region/type for 2022/23 is \$174,800. This impact is despite the farm's engaged and proactive environmental stewardship.
- The report illustrates the barriers created by these policies that jeopardise environmental stewardship, livelihoods, community sustainability and intergenerational legacies.
- The impacts outlined apply to a wide range of rural communities and will have lasting impacts on the wider economy. The red meat sector plays a vital role in the country's economic health as an important source of income and employment and contributor to New Zealand's gross domestic product.
- The Government needs to pause, review, reassess and simplify its approach to policies. It should take a more holistic view (for example looking at the impact of other policies in relation to agricultural emissions pricing), commit to pragmatic implementation that achieves environmental outcomes and focus on working within farm systems.
- The Government should urgently undertake its own comprehensive analysis of the cumulative impact of its policies on New Zealand sheep and beef farming and the wider flow-on effects.
- Once this is done, the Government should reassess individual regulations and undertake holistic assessment across different environments, policies and farm types to ensure the desired environmental outcomes are achieved efficiently.

Background

Based on farmer and industry feedback and its own analysis, B+LNZ has long been concerned about the impact the Government's reform agenda is having on sheep and beef farms. The high volume and frequency of hurried and fragmented policy has resulted in impractical and unworkable regulations.

Over the past six years more than 20 new regulations, laws and reforms have been introduced, or will be in the coming years, by central and local government that directly affect agriculture – primarily in the areas of climate change, freshwater, biodiversity, highly productive land, and their regional and district interpretation to implement regulations.

The Government does not appear to have considered how these policies relate to each other, nor undertaken consistent analysis of the economic impact of each (through work such as Regulatory Impact Statements) – see end of this summary report for a list of policies and individual impacts and costs – or comprehensive analysis of the cumulative impact of all these rules together.

Farmers feel overwhelmed by the volume of proposed new rules that they have tried to engage with and provide feedback on, then not felt listened to when they have tried to highlight where rules may have needed amending. Farmers often feel they are acting as good environmental stewards but that policies are getting in the way of this activity instead of supporting it.





B+LNZ commissioned BakerAg to undertake this research as an illustrative exercise, looking at the capital and opportunity costs of regulatory policies over the past six years.



Case study farms

This study looked at four separate farms spread across the country to better understand the impacts policy has had on on-farm operations. Farms were chosen for their differing geographic location and regional councils as well as a variety of farm production systems.

Table 1 (BakerAg report): high level summary of the four case study farms – farm policies, area and landuse, location, climate and soil types.

Farm 1	Farm 2	Farm 3	Farm 4
			
2,370 ha farm area 2,000 ha eff. 800 ha cropped p.a. 370 ha forestry Irrigated	3,300 ha farm area 1,750 ha eff. 451 ha manuka scrub 40 ha poplars 160 ha permanent pine 80 ha 3rd rotation pine	486 ha farm area 430 ha eff. 50ha QEII bush 14 ha winter crop	3,600 ha farm area 500 ha cropped p.a. 500 ha irrigated
Lower North Island Finishing	Eastern Wairarapa Hill Country	Southland Finishing	Waitaki, North Otago High Country
12.9°C average temp 1,086 mm rainfall	10.8°C average temp 660 mm rainfall	9.5°C average temp 1250 mm rainfall	8.2°C average temp 650 mm rainfall
Deep, poorly drained sands silt. Shallow well-drained soils	Poorly drained silt loams over clay. Mudstone hill soils	Fertile lays and silt loam soils	Loams and gravelly loam soils

How do these rules impact on the case study farms?

Each farm is unique in the policies that impact it, as every farm – however similar in location or production system – has unique personal drivers, environment and history, and therefore costs it incurs as a result are unique.

The farms were not meant to be representative of the sector as a whole and the findings are not intended to be simply extrapolated out to the whole sector or economy. However, the effects shown on these farms will be felt across the sector.

The report documents a range of proactive management and investment on **Farm 1** to ensure the farm's activities go beyond simply complying with regulations. One member of their business spends up to 70 percent of their time on activities away from the production side, engaged in industry good activities relating to legislation, catchment groups and industry representation.

However, despite their engaged and proactive involvement on- and off-farm on environmental issues, they still find it difficult to keep abreast of the regulations and remain ahead on good environmental practices due to the volume, complexity and cost of new and established regulations, highlighted in the ongoing direct costs and time allocated associated with consenting (Table 2).

A lot of concern and anxiety for **Farm 2** stems from the various policies relating to freshwater. This farm has demonstrated proactive management of wetlands and working with their regional council, yet policies do not enable good practice and have generated significant uncertainty. Farm 2 provides clear demonstration of difficulties created by a lack of clarity, definition, and ability to provide input, particularly for the low-slope mapping for stock exclusion (Figure 1) and wetlands.

Amendments released in September 2023 may have resolved the specific component highlighted in Figure 1, however the uncertainty and strain created throughout the policy development and release process remains. The lack of clarity persists in regard to potential future changes.

Figure 1: Low slope map and corresponding photo of location on farm. Area highlighted in blue (left photo) has been identified as low slope, but as per photo on right, it is not a 'low slope' but rather a steep gully with sheer sides and meandering waterway at the bottom.



Farm 3 provides a clear example of farmer frustration at policy not recognising the proactive work of generations of farmers, but rather turning environmental stewardship into a liability (including financially and in terms of production). The National Policy Statement for Indigenous Biodiversity, particularly regarding Significant Natural Areas, will have a considerable effect as to whether significant areas can continue to be farmed due to having 50ha of QEII covenant.

The inter-generational stewardship continued into their approach on incorporating new activities on-farm. However, their stewardship and precautionary approach combined with implementation of rules that “grandparent” current production practices, mean their ability to continue adopting new methods responsibly is removed. Additionally, the “grandparenting” constraints have written off significant land value and lost opportunity to diversify production compared to farms that have previously performed these newly regulated activities.

Farm 4 provides an example where policy has been used to enable development but other policies have restricted development or restricted accessing the land’s true value, while elevating negative environmental risks.

The farm went through the tenure review process to protect the land with ‘significant inherent values’ of environment, scientific and culture. Land identified through this process went to government management under the Department of Conservation and the balance of the remainder becoming freehold with the proviso that farmers could invest in the land.

Farm 4 invested in irrigation to utilise the higher capability soils, though their share of \$1 million of investment was stranded due a resource consent being denied. Development of pastures and fencing infrastructure was not justifiable without irrigation. The area has become prone to wilding pines, an issue which would have been limited if development had gone ahead.

Another piece of land suitable for lifestyle subdivision on Farm 4 is likely to be difficult and costly to convert due to Environment Canterbury and District Council development restrictions. This land has significantly limited production value without irrigation and is vulnerable to wilding pines due to proximity to infested Crown land nearby. Development into lifestyle blocks would generate significant value and restrict wilding pines on limited production value land, however this high value opportunity could be lost.

What are the costs each farm will incur?

The report demonstrates uncertainty about benefit gained for costs. These financial impacts comprise **direct costs** from policies that impact on current activities or investments, whereas **opportunity costs** are derived from potential activities and land value that has been eliminated.

The headline financial impacts of the policies on the case study farms are as follows – see a breakdown of costs by policy, and accumulated by farm, at the end of this report.

The average Farm Profit Before Tax (FPBT) for farms of similar production systems, in their respective regions, from B+LNZ’s Sheep & Beef Farm Survey is given to provide some context to these costs and reflect the farm’s capability to respond to these impositions. The FPBT is profit before tax is paid, any debts are paid down or living expenses are drawn.

Note these costs only address the policies already set out of where modelling has been released - there will be significant additional costs to implement freshwater rules and biodiversity initiatives.

Farm 1:

- Faced with one-off costs of \$75,000 and annual costs of around \$88,000, all of which are direct costs.
- Average FPBT for Western North Island finishing farms \$174,800, 2022-23 (provisional).

Farm 2:

- Primarily impacted by opportunity costs around stock exclusion rules with one-off costs totalling \$1.26 million.
- Annual direct costs total around \$16,000.
- Average FPBT for Eastern North Island hard-hill country farms \$112,000, 2022-23 (provisional).

Farm 3:

- Primarily impacted by a potential loss in land value with a one-off opportunity cost of \$2.9 million.
- Annual costs total \$34,000 in opportunity costs and around \$11,000 in direct costs.
- Average FPBT for South Island finishing farms \$84,400, 2022-23 (provisional).

Farm 4:

- Primarily impacted by local and regional council rules that are tougher than national rules.
- Faced with one-off direct costs of \$255,000. Also faces a one-off opportunity cost of \$35 million if sections cannot be subdivided (noting this opportunity cost is likely limited to only a few farms whereas other costs are likely to be felt more widely).
- Annual costs faced are around \$350,000 loss of income opportunity (for limitations to land use) and around \$27,000 direct costs.
- Average FPBT for South Island high-country farms \$210,500, 2022-23 (provisional).

Discussion

The raft of policies implemented in the last six years has had significant implications for farms, both from a personal and financial perspective. A lack of pragmatism in how policy is applied, a lack of clarity around what is required and how policies combine behind the farm-gate creates hesitancy and uncertainty and risks disengagement.

Compliance with increasingly stringent regulations has required or will require significant capital investment. Farmers are compelled to upgrade their infrastructure, implement new technologies, and adopt costly and time-consuming practices to meet regulatory standards, elevating risks to sustainability when at times the benefits are uncertain or undermined by other policies.

For example, efforts to comply with water quality regulations involve costly fencing and staffing time to move stock around that may not achieve any environmental objectives. These financial obligations strain the resources of farmers, particularly smaller operations with limited budgets, and hinder their overall profitability.

Policies have also limited land use and necessitated changes in farm management practices – often jeopardising inter-generational stewardship of the land and environment, and at the expense of optimising production, diversifying operations and responding to market demands.

Farmer uncertainty and anxiety is driven by the pace and volume of policies and the lack of involvement which has led to impractical and at times conflicting rules, and to unintended outcomes.

The cumulative impact of policies has predominantly resulted in capital and lost opportunity costs. The financial burden of compliance, administrative complexities, limitations on land use, and reduced competitiveness have presented significant challenges for farmers.

The fact that more policies already legislated but not yet implemented will be coming through in the coming years means more planning, costs, risks and uncertainty.

If the policies were having the desired impacts, changes may have been viewed as a worthwhile transition by farmers. However, the policies seem to have been designed without in-depth knowledge of farming systems, so farmers face the cost of implementation despite not seeing outcomes being realised.

While they have done and want to do the right thing, many farmers feel overwhelmed and unsupported. There is often confusion about what is actually required of farmers.

“It is huge. So much that farmers are having to deal with in a short period... Farmers lose more sleep over government policy than they do over farming.”

B+LNZ will continue advocating to Government that it needs to undertake its own comprehensive analysis. This work should happen regardless of which political party wins the 2023 General Election.

Opportunities

Farmers do not reject the objectives of the policies wholesale. There are policies or objectives that would have support within the sector if the Government had taken the time to ensure they were practical and workable, and considered in relation to other policies. The report provides many examples of the sector's commitment to environmental stewardship and the willingness to continue in this role.

While there were a wide range of challenges and concerns outlined, some opportunities were also identified.

Freshwater farm plans could be a practical way to navigate a range of policies. However, the plans need to be practical and outcomes-based to ensure solutions are fit-for-purpose to individual farms and farmers. It was also acknowledged that farmers may require access to qualified advisors to support their uptake.

The Government's willingness to consider changes to the low-slope map for stock exclusion was also noted. Replacing the inaccurate national-level map could save farmers from unnecessarily being forced to spend many thousands of dollars on fencing to exclude stock from waterways, though the report provides an example of continuing shortfalls of the policy when implemented.



Policies and high-level impacts include:

Policy	Impact	Potential indicative costs
Climate change		
Emissions Trading Scheme	Widespread conversion of farms to forestry, increased rates, elevated land value relative to production value, and economic effects on communities.	
Agricultural emissions pricing	Farmer uncertainty, direct costs	Costs dependent on final emissions system and pricing, however depending on the cost the impact on sheep and beef farmers (particularly extensive farmers) could be significant and threaten some farms' financial viability, as demonstrated by the MPI modelling released in October 2022.
Te Mana O Te Wai – Freshwater		
National Policy Statement on Freshwater Management	<p><i>Water quality</i></p> <ul style="list-style-type: none"> Increased cost and administration from ongoing and new consenting requirements More regulations and consents likely to be required <p><i>Water use</i></p> <ul style="list-style-type: none"> Consents required <p><i>Wetlands</i></p> <ul style="list-style-type: none"> Consents required and land use likely to be restricted 	<p>Nitrogen consents \$10,000 to \$20,000 if consent required. Unlikely large consenting requirement in sheep and beef sector under this rule.</p> <p>Cost unknown. Will depend on infrastructure and whether this needs to be upgraded.</p>
National Environment Standards - Freshwater	<p><i>Intensification of land use</i></p> <ul style="list-style-type: none"> Limitations on land use and conversion (temporary until 2025), likely impact on land values Limitations on land use and resource consents required (or Freshwater Farm Plans if available) <p><i>Feedlots and stockholding area consents</i></p> <ul style="list-style-type: none"> Limitations on animal age, weight and distance from water, consent required if not <p><i>Culverts</i></p> <ul style="list-style-type: none"> Direct cost of larger culverts than previously required 	<p>Various depending on consenting requirements</p> <p>Intensive Winter Grazing \$10,000 to \$15,000 for consent (many farmers will require under this legislation)</p> <p>Stockholding \$10,000 to \$15,000 if consent required.</p>
Stock exclusion regulations	Cost of fencing, limitations on land use	Fencing and bridging/culverting costs will vary by farm. Costs will be significant (hundreds of thousands) and out of proportion with any benefit in some situations. Note that farmers generally agree with stock exclusion from waterways, however seek sensible rules that provide variance for areas/situations where cost is significant for negligible environmental benefit.
Freshwater Farm Plans	<ul style="list-style-type: none"> Costs of consultants required to build plans, certification required Water reporting regulations Recording and monitoring of water use at larger scale 	\$10,000 to \$20,000 for initial plan setup and certification (depending on consultant use). Ongoing costs of approx. \$5000 every 3-5 years depending on audit and recertification requirements. Note – costs don't include on the ground actions taken.
Three waters – drinking water	Source Water Risk Management plans required and potential UV treatment for drinking water	

Policy	Impact	Potential indicative costs
Biodiversity		
National Policy Statement for Indigenous Biodiversity (including Significant Natural Areas)	Land use limitation	There are likely to be costs to farmers where a potential SNA is identified on their land as they may need to enter planning process and engage experts to present case (possibly tens of thousands of dollars). In some regions like the West Coast and Northland, significant tracts of the farm are likely to be identified as an SNA. On average about 30 percent of sheep and beef farmers have native biodiversity on them. Resulting rules may require on the ground costs (i.e. fencing), lost opportunity costs from new restrictions or consenting costs for previously permitted activities.
Highly productive land	Land use limitation	
RMA reform		Costs unknown – will be dependent on planning processes and new plans developed, but could lead to years of uncertainty.
Regional and district regulations	Every council is interpreting the above laws differently and implementing at different times	New rules may result, that require further consents by farmers. This could take many years and costs could include engaging experts in planning processes.

Note for both the following tables, costs shown are only a subset of potential costs - costs shown only address the policies already set out of where modelling has been released and there will be significant additional costs to implement freshwater rules and biodiversity initiatives. Note also the estimated costs for GHGs are indicative only - they are based on modelled prices during consultation and potential new payments for sequestration using the B+LNZ GHG Calculator. The current Government has indicated that prices on emissions may be lower. However estimated sequestration payments are also likely to be significantly lower, in part because the B+LNZ GHG Calculator estimates the full sequestration rate for pre-1990 native vegetation, while indications from the Government are that only “additional” sequestration will be recognised.

Table 4 (BakerAg report): Summary of **one-off** opportunity and real (direct) costs of central and local government policies, proposals and initiatives on case study farms. See full report for explanations of costs.

	Farm 1		Farm 2		Farm 3		Farm 4	
	Opportunity Costs	Real Costs	Opportunity Costs	Real Costs	Opportunity Costs	Real Costs	Opportunity Costs	Real Costs
Resource Consents		\$60,000						\$220,000
Land value impact					\$2,900,000		\$35,000,000	
Water Monitoring								\$20,000
Stock Exclusion			\$1,262,500					
Freshwater Farm Plan		\$15,000		\$15,000		\$15,000		\$15,000
Total	\$0	\$75,000	\$1,262,500	\$15,000	\$2,900,000	\$15,000	\$35,000,000	\$255,000

Table 5 (BakerAg report): Summary of **annual** opportunity and real (direct) costs of central and local government policies, proposals and initiatives on case study farms. See full report for explanations of costs.

	Farm 1		Farm 2		Farm 3		Farm 4	
	Opportunity Costs	Real Costs	Opportunity Costs	Real Costs	Opportunity Costs	Real Costs	Opportunity Costs	Real Costs
GHG Tax (HWEN)		\$56,219		\$14,055		\$9,477		\$0
Consenting Costs		\$30,000			\$4,000			\$25,000
FWFP updates & audits		\$1,667		\$1,667		\$1,667		\$1,667
Loss of Income					\$30,000		\$350,000	
Total		\$87,886		\$15,722	\$34,000	\$11,144	\$350,000	\$26,667