

Tax Working Group Public Submissions Information Release

Release Document

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

2018 Tax Working Group submission

Background

“Ladies and gentlemen: it is my belief that New Zealand has ample supplies of water.”

[Hon Jim Sutton MP, address at launch of NZ Irrigation Association, 21 Sept 2001]

“Agriculture uses 77% of abstracted water in New Zealand”

[Hon Jim Sutton MP, speech to Dairy Farmers of NZ meeting, 17 June 2002]

“New Zealand’s waters are a limited, fragile resource coming under increasing pressure from farming activities, both in terms of the effects on water quality and the increasing demand for water. Although pollution of rivers from point sources ... has declined over the last 20 to 30 years, pollution from non-point sources is a major and increasing problem. Farming has been identified as the main source of pressure on water quality in New Zealand.”

[Parliamentary Commissioner for the Environment, Growing for Good, 2004]

" ... the most significant issues are freshwater consumption and land use intensification in some regions, water quality in many catchments, and greenhouse gas emissions. The trends indicate that, if we do not change current paths, we risk hitting environmental limits or effects that are irreversible or very costly to remedy."

[Ministry for the Environment, Briefing to the Incoming Government 2008: Environmental Sustainability]

“The Prime Minister has always said that his government would not put environmental requirements ahead of our economy.”

[Hon David Carter, Minister of Agriculture, speech to Federated Farmers conference, 2009]

"The reality is that the present intensive dairy farming modus operandi is not sustainable. We are really just mining the environment."

[Dr Mike Joy, Squandered: the Degradation of New Zealand's Freshwaters, 2015]

The need for a water resource rental

Every politician understands that the government's revenue take is a finite amount. Yet most fail to understand – or deliberately ignore – the fact that natural resources like water are equally limited; if too much is taken there will be huge problems. The imposition of a water resource rental levy offers a potential solution.

Irrigators' free lunch

Water is the last major New Zealand resource to be turned to profit. The first two were gold and native timber, both worked out long ago. Despite the lessons from the past, successive governments have provided business with a subsidy by allowing the environment to be exploited without charge.

Although New Zealand rural water users pay infrastructure and some administrative costs, they do not pay rent for the water they take from the public estate. One commentator notes:

"The exemption from paying rent for water applies generally, ... but the major beneficiaries of this policy are irrigators. Accordingly, the major practical consequence of maintaining a 'free water' policy is to encourage land use intensification with its associated (largely unregulated) environmental impacts."

[Guy Salmon, *Governance of the Rural Environment - Are Existing Approaches Working?*, Environmental Defence Society conference paper 2008]

The McLeod Tax Committee Report noted the increasing pressure on NZ water resources in 2001. The committee noted freeriders who have benefited financially by taking public resources without any direct cost will always attempt to preserve their privileged positions:

"4.4 ... new measures to mitigate adverse environmental impacts are never easy to implement, since they require existing users to forgo or restrict activities previously taken for granted. These groups will often vigorously resist the introduction of environmentally superior solutions."

Before the 2017 election, farmers deliberately tried to confuse the water royalty debate by alleging Labour's proposed charge would not improve water quality.

But if NZ farmers owned the nation's water resources, would they allow the government to use that water without paying for it? The answer is obvious, which is why no-one from the rural sector can offer a tenable response.

Submission: The rural sector should pay a reasonable rental for use of water rather than being allowed to stealthily privatize a finite public resource. The impost would not be a tax but a resource rental levy (a tax requires a person to give up a portion of their property or money. By comparison, farmers and irrigators do not own the water they take; they merely receive a licence to use it).

Reasons are as follows:

1. New Zealand's environment is the nation's natural capital. As such, it must be preserved and enhanced for the benefit of future generations. A resource rental for those rural businesses which

seek to use water (subject to environmental constraints) would advance the idea of trusteeship of an important national asset.

2. A minerals resource rental has successfully been applied in Australia; minerals of course also being finite in nature.

3. Equity considerations require the New Zealand public obtain a fair return when private enterprise seeks to profit from use of a public asset.

4. A resource rental levy would help counter the current distortion in rural land investment patterns, which sees investments motivated by capital appreciation instead of operating returns.

G Henderson

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